FORM 10-K

AES CORP - AES

Filed: February 26, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2008

-OR-

☐ **TRANSITION REPORT FILED PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER 1-12291

The AES Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**54 1163725** (I.R.S. Employer Identification No.)
4300 Wilson Boulevard Arlington, Virginia (Address of principal executive offices)	**22203** (Zip Code)

Registrant's telephone number, including area code: **(703) 522-1315**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange
AES Trust III, $3.375 Trust Convertible Preferred Securities	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2008, the last business day of the Registrant's most recently completed second fiscal quarter (based on the closing sale price of $19.21 of the Registrant's Common Stock, as reported by the New York Stock Exchange on such date) was approximately $12.920 billion.

The number of shares outstanding of the Registrant's Common Stock, par value $0.01 per share, on February 24, 2009, was 666,216,009.

DOCUMENTS INCORPORATED BY REFERENCE

(a) Portions of the 2009 Proxy Statement are incorporated by reference in Part III

THE AES CORPORATION

FISCAL YEAR 2008 FORM 10-K

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PART I

In this Annual Report the terms "AES", "the Company", "us", or "we" refer to The AES Corporation and all of its subsidiaries and affiliates, collectively. The term "The AES Corporation" refers only to the parent, publicly-held holding company, The AES Corporation, excluding its subsidiaries and affiliates.

FORWARD-LOOKING INFORMATION

In this filing we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot assure you that they will prove to be correct.

Forward-looking statements involve a number of risks and uncertainties, and there are factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. Some of those factors (in addition to others described elsewhere in this report and in subsequent securities filings) include:

- the economic climate, particularly the state of the economy in the areas in which we operate, including the fact that the global economy has recently been in decline and faces considerable uncertainty for the foreseeable future which further increases many of the risks discussed in this Form 10-K;
- our ability to achieve expected rate increases in our Utility businesses;
- our ability to manage our operation and maintenance costs;
- the performance and reliability of our generating plants, including our ability to reduce unscheduled down-times;
- changes in the price of electricity at which our Generation businesses sell into the wholesale market and our Utility businesses purchase to distribute to their customers, and our ability to hedge our exposure to such market price risk;
- changes in the prices and availability of coal, gas and other fuels and our ability to hedge our exposure to such market price risk, and our ability to meet credit support requirements for fuel and power supply contracts;
- changes in and access to the financial markets, particularly those affecting the availability and cost of capital in order to refinance existing debt and finance capital expenditures, acquisitions, investments and other corporate purposes;
- changes in our or any of our subsidiaries' corporate credit ratings or the ratings of our or any of our subsidiaries' debt securities or preferred stock, and changes in the rating agencies' ratings criteria;
- changes in inflation, interest rates and foreign currency exchange rates;
- our ability to purchase and sell assets at attractive prices and on other attractive terms;
- our ability to locate and acquire attractive "greenfield" projects and our ability to finance, construct and begin operating our "greenfield" projects on schedule and within budget;
- the expropriation or nationalization of our businesses or assets by foreign governments, whether with or without adequate compensation;

- changes in laws, rules and regulations affecting our business, including, but not limited to, deregulation of wholesale power markets and its effects on competition, the ability to recover net utility assets and other potential stranded costs by our utilities, the establishment of a regional transmission organization ("RTO") that includes our utility service territory, the application of market power criteria by the Federal Energy Regulatory Commission ("FERC"), changes in law resulting from new federal energy legislation, including the effects of the repeal of Public Utility Holding Company Act of 1935 ("PUHCA 1935"), and changes in political or regulatory oversight or incentives affecting our wind business, our solar joint venture, our other renewables projects and our initiatives in greenhouse gas ("GHG") reductions and energy storage including tax incentives;

- changes in environmental, tax and other laws, including requirements for reduced emissions of sulfur, nitrogen, carbon, mercury, and other substances;

- the economic climate, particularly the state of the economy in the areas in which we operate, including the fact that the global economy has recently been in decline and faces considerable uncertainty for the foreseeable future;

- variations in weather, especially mild winters and cooler summers in the areas in which we operate, and the occurrence of difficult hydrological conditions, hurricanes and other storms and disasters;

- our ability to meet our expectations in the development, construction, operation and performance of our wind businesses, which rely, in part, on actual wind volumes in areas affecting our existing and planned wind farms performing consistently with our expectations, and actual wind turbine performance operating consistently with our expectations;

- the success of our initiatives in other renewable energy projects, as well as climate solutions and energy storage projects, and the attractiveness of market prices for carbon offsets under markets governed by the Kyoto Protocol of the United Nations Framework Convention on Climate Change ("the Kyoto Protocol"), and consistent and orderly regulatory procedures governing the application, regulation, issuance of Certified Emission Reduction ("CER") credits and the extension of such regulations beyond 2012;

- our ability to keep up with advances in technology;

- the potential effects of threatened or actual acts of terrorism and war;

- changes in tax laws and the effects of our strategies to reduce tax payments;

- the effects of litigation and government investigations;

- decreases in the value of pension plan assets, increases in pension plan expenses and our ability to fund defined benefit pension and other post-retirement plans at our subsidiaries;

- changes in accounting standards, corporate governance and securities law requirements;

- our ability to remediate and compensate for the material weaknesses in our internal controls over financial reporting; and

- our ability to attract and retain talented directors, management and other personnel, including, but not limited to, financial personnel in our foreign businesses that have extensive knowledge of accounting principles generally accepted in the United States ("GAAP").

These factors in addition to others described elsewhere in this Form 10-K and in subsequent securities filings, should not be construed as a comprehensive listing of factors that could cause results to vary from our forward looking information.

Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 1. BUSINESS

Overview

We are a global power company. We own a portfolio of electricity generation and distribution businesses on five continents in 29 countries, with generation capacity totaling approximately 43,000 Megawatts ("MW") and distribution networks serving over 11 million people as of December 31, 2008. In addition, we have more than 3,000 MW under construction in ten countries. Our global workforce of 25,000 people provides electricity to people in diverse markets ranging from urban centers in the United States to remote villages in India. We were incorporated in Delaware in 1981 and for almost three decades we have been committed to providing safe and reliable energy.

We own and operate two primary types of businesses. The first is our Generation business, where we own and/or operate power plants to generate and sell power to wholesale customers such as utilities and other intermediaries. The second is our Utilities business, where we own and/or operate utilities to distribute, transmit and sell electricity to end-user customers in the residential, commercial, industrial and governmental sectors in a defined service area.

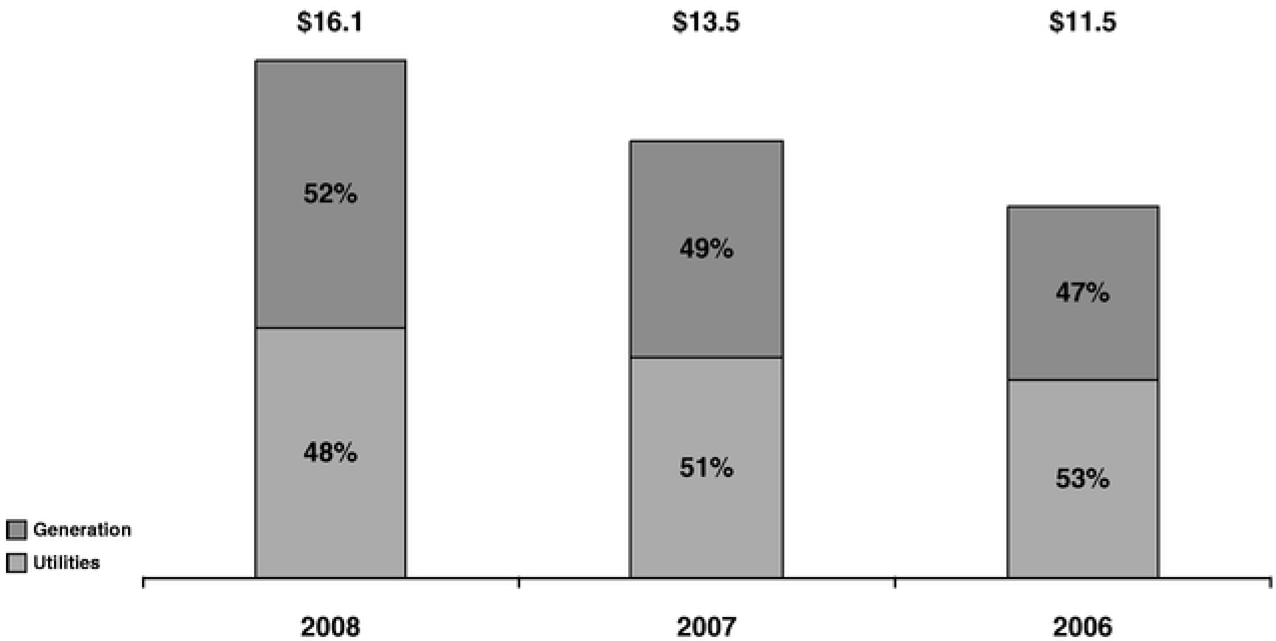
Our assets are diverse with respect to fuel source and type of market, which helps reduce certain types of operating risk. Our portfolio employs a broad range of fuels, including coal, gas, fuel oil, biomass and renewable sources such as hydroelectric power, wind and solar, which reduces the risks associated with dependence on any one fuel source. Our presence in mature markets helps reduce the volatility associated with our businesses in faster-growing emerging markets. In addition, our Generation portfolio is largely contracted, which reduces the risk related to the market prices of electricity and fuel. We also attempt to limit risk by hedging much of our currency and commodity risk, and by matching the currency of most of our subsidiary debt to the revenue of the business that issued that debt. However, our business is still subject to these and other risks, which are further disclosed in Item 1A. Risk Factors of this Form 10-K.

Our goal is to maximize value for our shareholders through continued focus on increasing the profitability of our existing portfolio and increasing free cash flow while managing our risk and employing rigorous capital allocation. We will continue to seek prudent expansion of our traditional Generation and Utilities lines of business, along with new investments in wind, solar, climate solutions and energy storage. Portfolio management has become an increased area of focus through which we have sold and will continue to sell or monetize a portion of certain businesses or assets when market values appear attractive. Furthermore, we will continue to focus on improving our business operations and management processes, including our internal controls over financial reporting.

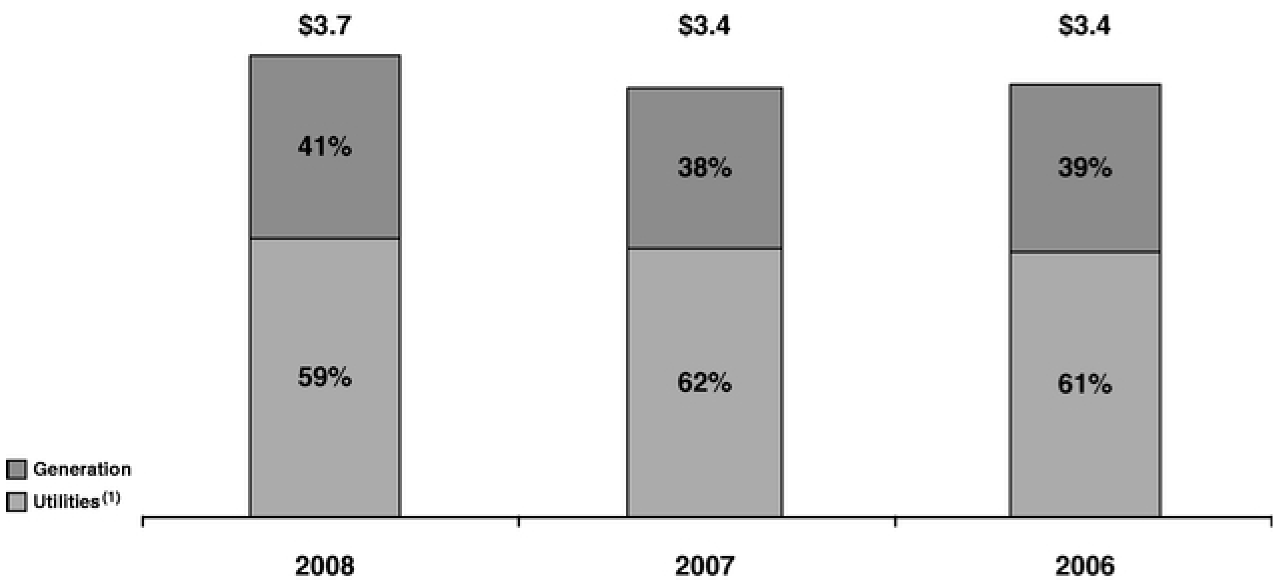
Key Lines of Business

AES's primary sources of revenue and gross margin today are from Generation and Utilities. These businesses are distinguished by the nature of the customers, operational differences, cost structure, regulatory environment and risk exposure. The breakout of revenue and gross margin between Generation and Utilities for the years ended December 31, 2008, 2007 and 2006, respectively is shown below.

Revenue
($ in billions)



Gross Margin
($ in billions)



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(1) Utilities gross margin includes the margin from generation businesses owned by the Company and from whom the utility purchases energy.

Generation

We currently own or operate a portfolio of approximately 38,000 MW, consisting of 93 Generation facilities in 26 countries on five continents at our generation businesses. We also have approximately 2,900 MW of capacity currently under construction in six countries. We are a major power source in many countries, such as Panama where we are the largest generator of electricity, and Chile, where AES Gener ("Gener") is the second largest electricity generation company in terms of capacity. Our Generation business uses a wide range of technologies and fuel types including coal, combined-cycle gas turbines, hydroelectric power and biomass. Generation revenues were $8.3 billion, $6.6 billion and $5.4 billion for the years ended December 31, 2008, 2007 and 2006, respectively.

Performance drivers for our Generation businesses include, among other factors, plant reliability, fuel costs and fixed-cost management. Growth in the Generation business is largely tied to securing new power purchase agreements ("PPAs"), expanding capacity in our existing facilities and building new power plants.

The majority of the electricity produced by our Generation businesses is sold under long-term contracts, or PPAs, to wholesale customers. In 2008, approximately 61% of the revenues from our Generation business was from plants that operate under PPAs of five years or longer for 75% or more of their output capacity. These businesses often reduce their exposure to fuel supply risks by entering into long-term fuel supply contracts or fuel tolling contracts where the customer assumes full responsibility for purchasing and supplying the fuel to the power plant. These long-term contractual agreements result in relatively predictable cash flow and earnings and reduce exposure to volatility in the market price for electricity and fuel; however, the amount of earnings and cash flow predictability varies from business to business based on the degree to which its exposure is limited by the contracts it has negotiated.

Our Generation businesses with long-term contracts face most of their competition from other utilities and independent power producers ("IPPs") prior to the execution of a power sales agreement during the development phase of a project or upon expiration of an existing agreement. Once a project is operational, we traditionally have faced limited competition due to the long-term nature of the generation contracts. However, as our existing contracts expire, the introduction of new competitive power markets has increased competition to attract new customers and maintain our current customer base.

The balance of our Generation business sells power through competitive markets under short-term contracts or directly in the spot market. As a result, the cash flows and earnings associated with these businesses are more sensitive to fluctuations in the market price for electricity, natural gas, coal and other fuels. However, for a number of these facilities, including our plants in New York, which include a fleet of coal fired plants, we have hedged the majority of our exposure to fuel, energy and emissions pricing for 2009. Competitive factors for these facilities include price, reliability, operational cost and third party credit requirements.

Utilities

AES utility businesses distribute power to over 11 million people in seven countries on five continents and consists primarily of 14 companies owned or operated under management agreements, each of which operate in defined service areas. These businesses also include 15 generation plants in two countries totaling approximately 4,400 MW. In addition, we have one generation plant under construction totaling 86 MW. These businesses have a variety of structures ranging from pure distribution businesses to fully integrated utilities, which generate, transmit and distribute power. Indianapolis Power & Light ("IPL"), has the exclusive right to provide retail services to approximately 470,000 customers in Indianapolis, Indiana. Eletropaulo Metropolitana Electricidad de São Paulo S.A ("AES Eletropaulo" or "Eletropaulo"), serving the São Paulo metropolitan region for over 100 years, has approximately six million customers and is the largest electricity distribution company in Brazil in terms of revenues and electricity distributed. In Cameroon, we are the primary generator and distributor of electricity and in El Salvador we provide distribution services to serve more than 80% of the country's electricity customers. Utilities revenues were $7.8 billion, $6.9 billion and $6.2 billion for the years ended December 31, 2008, 2007 and 2006, respectively.

Performance drivers for Utilities include, but are not limited to, reliability of service; management of working capital; negotiation of tariff adjustments; compliance with extensive regulatory requirements; and in developing countries, reduction of commercial and technical losses. The results of operations of our Utilities businesses are sensitive to changes in economic growth and regulation and abnormal weather conditions in the area in which they operate.

Utilities face relatively little direct competition due to significant barriers to entry which are present in these markets. Where we do face competition is in our efforts to acquire existing businesses and develop new ones. In this arena, we compete against a number of other market participants, some of which have greater financial resources, have been engaged in distribution related businesses for longer periods of time and/or have accumulated more significant portfolios. Relevant competitive factors for our power distribution businesses include financial resources, governmental assistance, regulatory restrictions and access to non-recourse financing. In certain locations, our distribution businesses face increased competition as a result of changes in laws and regulations which allow wholesale and retail services to be provided on a competitive basis.

Wind, Solar and Other Initiatives

In recent years, as demand for renewable sources of energy has grown, we have placed increasing emphasis on developing projects in wind, solar and the creation of greenhouse gas emission offset credits ("GHG credits"). We have also developed projects and/or made investments in climate solutions and energy storage. In 2005, we started a wind generation business ("AES Wind Generation"), which currently has 16 plants in operation in three countries totaling over 1,200 MW and is one of the largest producers of wind power in the U.S. In addition, over 400 MW are under construction in four countries outside the U.S. In March 2008, we formed AES Solar Energy LLC ("AES Solar"), a joint venture with Riverstone Holdings, LLC ("Riverstone"), a private equity firm, which has since commenced commercial operations of 8 plants totaling 24 MW of solar projects in Spain and has development potential in three other countries. In the area of climate solutions, we are developing and implementing projects to produce GHG credits and are currently developing projects in Asia, Europe and Latin America. In the U.S., we formed Greenhouse Gas Services, LLC as a joint venture with GE Energy Financial Services to create high quality verifiable emissions offsets for the voluntary U.S. market. We also formed a line of business to develop and implement utility scale energy storage systems (such as batteries), which store and release power when needed. While none of these initiatives are currently material to our operations, we believe that in the future, they may become a material contributor to our revenue and gross margin. However, there are risks associated with these initiatives, which are further disclosed in Item 1A—Risk Factors of this Form 10-K. As further described in "Our Organization and Segments" below, some of these projects will be managed within the region where they are located, while others are managed as business units.

Risks

We routinely encounter and address risks, some of which may cause our future results to be different, sometimes materially different, than we presently anticipate. The categories of risk we have identified in Item 1A—Risk Factors of this Form 10-K include the following:

- Risks associated with our operations in areas with extensive current and future governmental and environmental regulation;
- Risks associated with our exposure to material litigation and regulatory proceedings;
- Risks associated with our disclosure controls and internal controls over financial reporting;
- Risks associated with our high levels of debt;
- Risks associated with the operation of power plants;

- Risks associated with revenue and earnings volatility; and
- Risks associated with our ability to raise needed capital.

The categories of risk identified above are discussed and explained in greater detail in Item 1A—Risk Factors of this Form 10-K. These risk factors should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), and the Consolidated Financial Statements and related notes included elsewhere in this report.

Our Organization and Segments

We believe our broad geographic footprint allows us to focus development in targeted markets with opportunities for new investment, and provides stability through our presence in more developed regions. In addition, our presence in each region affords us important relationships and helps us identify local markets with attractive opportunities for new investment. As a result, we have structured our organization into geographic regions, and each region is led by a regional president responsible for managing existing businesses. The regional presidents report to our Chief Operating Officer ("COO"), who in turn reports to our Chief Executive Officer ("CEO"). Both our CEO and COO are based in Arlington, Virginia.

Through the end of 2008, we organized our operations along our two primary lines of business (Generation and Utilities) within four geographic regions: Latin America; North America; Europe & Africa; and Asia & the Middle East ("Asia"). Three regions, North America, Latin America and Europe & Africa, engaged in both Generation and Utility businesses. Our Asia region only had Generation. Accordingly, these businesses and regions accounted for seven segments:

- Latin America Generation;
- Latin America Utilities;
- North America Generation;
- North America Utilities;
- Europe & Africa Generation;
- Europe & Africa Utilities; and
- Asia Generation.

In 2008, AES Wind Generation, climate solutions, and certain other initiatives were managed by our alternative energy group. The associated revenue, development costs and operational costs were reported under "Corporate and Other" since the results were not material to the presentation of our operating segments. "Corporate and Other" also included corporate overhead costs which are not directly associated with the operations of our seven primary operating segments; interest income and expense; other intercompany charges such as management fees and self-insurance premiums which are fully eliminated in consolidation.

In early 2009, the Company began to implement certain organizational changes in an effort to streamline the organization. The new structure will continue to be organized along our two lines of business, but within three regions instead of four: (1) North America, (2) Latin America & Africa and (3) Europe, Middle East & Asia ("EMEA"). In addition, we will no longer have a separate alternative energy group. Instead, AES Wind Generation will be managed as part of our North America region while climate solutions projects will be managed in the region in which they are located. Management is currently evaluating the impact of the reorganization on the Company's externally reported segments in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS No. 131"). AES Solar is accounted for using the equity method and will continue to be reflected in Corporate and Other in 2009.

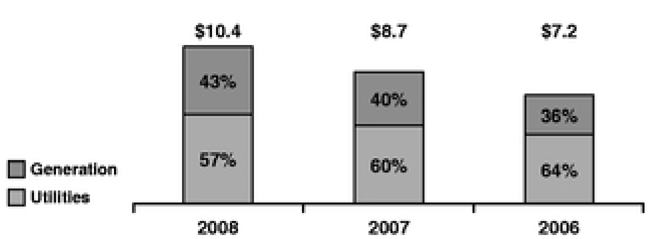
Latin America

Our Latin America operations accounted for 65%, 64% and 62% of consolidated AES revenues in 2008, 2007, and 2006, respectively. The following table provides highlights of our Latin America operations:

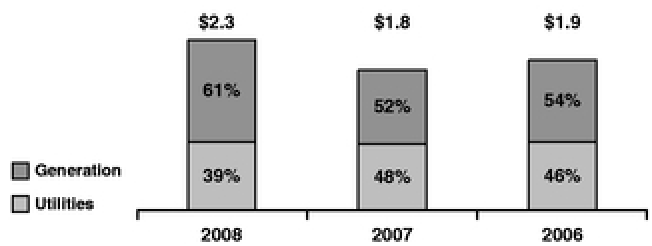
Countries	Argentina, Brazil, Chile, Colombia, Dominican Republic, El Salvador and Panama
Generation Capacity	11,054 Gross MW
Utilities Penetration	8.5 million customers (47,782 Gigawatt Hours ("GWh"))
Generation Facilities	53 (including 7 under construction)
Utilities Businesses	8
Key Generation Businesses	Gener, Tietê and Alicura
Key Utilities Businesses	Eletropaulo and Sul

The graph below shows the breakdown between our Latin America Generation and Utilities segments as a percentage of total Latin America revenue and gross margin for the years ended December 31, 2008, 2007, and 2006. See Note 15—Segment and Geographic Information in the Consolidated Financial Statements in Item 8 of this Form 10-K for information on revenue from external customers, gross margin and total assets by segment.

Revenue
($ in billions)



Gross Margin
($ in billions)



Latin America Generation. Our largest generation business in Latin America, AES Tietê ("Tietê"), located in Brazil, represents approximately 15% of the total generation capacity in the state of São Paulo and is the ninth largest generator in Brazil. AES holds a 24% economic interest in Tietê. In Argentina, we are one of the largest private power generators contributing 12% of the country's total power generation capacity. In Chile, we are the second largest generator of power. We currently have seven new generation plants under construction—five coal plants and one diesel plant in Chile and one hydro plant in Panama with a combined generation capacity of 1,715 MW.

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Set forth below is a list of our Latin America Generation facilities:

Generation

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Alicura	Argentina	Hydro	1,050	99%	2000
Central Dique	Argentina	Gas / Diesel	68	51%	1998
Gener—TermoAndes	Argentina	Gas/Diesel	643	71%	2000
Paraná-GT	Argentina	Gas	845	99%	2001
Quebrada de Ullum(1)	Argentina	Hydro	45	0%	2004
Rio Juramento—Cabra Corral	Argentina	Hydro	102	99%	1995
Rio Juramento—El Tunal	Argentina	Hydro	10	99%	1995
San Juan—Sarmiento	Argentina	Gas	33	99%	1996
San Juan—Ullum	Argentina	Hydro	45	99%	1996
San Nicolás	Argentina	Coal / Gas / Oil	675	99%	1993
Tietê(2)	Brazil	Hydro	2,651	24%	1999
Uruguaiana	Brazil	Gas	639	46%	2000
Gener—Electrica Santiago(3)	Chile	Gas / Diesel	479	64%	2000
Gener—Energía Verde (4)	Chile	Biomass / Diesel	49	71%	2000
Gener—Gener(5)	Chile	Hydro / Coal / Diesel	807	71%	2000
Gener—Guacolda	Chile	Coal / Pet Coke	304	35%	2000
Gener—Norgener	Chile	Coal / Pet Coke	277	71%	2000
Chivor	Colombia	Hydro	1,000	71%	2000
Andres	Dominican Republic	Gas	319	100%	2003
Itabo(6)	Dominican Republic	Coal	295	50%	2000
Los Mina	Dominican Republic	Gas	236	100%	1996
Bayano	Panama	Hydro	260	49%	1999
Chiriqui—Esti	Panama	Hydro	120	49%	2003
Chiriqui—La Estrella	Panama	Hydro	48	49%	1999
Chiriqui—Los Valles	Panama	Hydro	54	49%	1999
			11,054		

(1) AES operates this facility through management or operations and maintenance agreements and owns no equity interest in this facility

(2) Tietê plants: Água Vermelha, Bariri, Barra Bonita, Caconde, Euclides da Cunha, Ibitinga, Limoeiro, Mog-Guaçu, Nova Avanhandava and Promissão

(3) Gener—Electrica Santiago plants: Renca and Nueva Renca

(4) Gener—Energia Verde Plants: Constitución, Laja and San Francisco de Mostazal

(5) Gener—Gener plants: Ventanas, Laguna Verde, Laguna Verde Turbogas, Alfalfal, Maitenas, Queltehues, Volcán and Los Vientos

(6) Itabo plants: Itabo complex (two coal-fired steam turbines and one gas-fired steam turbine)

Generation under construction

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Expected Year of Commercial Operation
Angamos	Chile	Coal	518	71%	2011
Campiche	Chile	Coal	270	71%	2011
Guacolda 3	Chile	Coal	152	35%	2009
Guacolda 4	Chile	Coal	152	35%	2010
Santa Lidia	Chile	Diesel	130	71%	2009
Nueva Ventanas	Chile	Coal	270	71%	2010
Changuinola I	Panama	Hydro	223	83%	2011
			1,715		

Latin America Utilities. Each of our Utilities businesses in Latin America sells electricity under regulated tariff agreements and has transmission and distribution capabilities but none of them has generation capability. AES Eletropaulo, a consolidated subsidiary of which AES owns a 16% economic interest and which has served the São Paulo, Brazil area for over 100 years, has approximately six million customers and is the largest electricity distribution company in Brazil in terms of revenues and electricity distributed. Pursuant to its concession contract, AES Eletropaulo is entitled to distribute electricity in its service area until 2028. AES Eletropaulo's service territory consists of 24 municipalities in the greater São Paulo metropolitan area and adjacent regions that account for approximately 15% of Brazil's GDP and 44% of the population in the State of São Paulo, Brazil. AES Sul ("Sul"), a wholly owned subsidiary, serves over one million customers. In El Salvador, our Utilities businesses provide electricity to over 80% of the country, serving approximately one million customers.

Set forth below is a list of our Latin America Utilities facilities:

Distribution

Business	Location	Approximate Number of Customers Served as of 12/31/2008	GWh Sold in 2008	AES Equity Interest (Percent, Rounded)	Year Acquired
Edelap	Argentina	311,000	2,363	90%	1998
Edes	Argentina	163,000	721	90%	1997
Eletropaulo	Brazil	5,832,000	33,860	16%	1998
Sul	Brazil	1,128,000	7,574	100%	1997
CAESS	El Salvador	507,000	1,942	75%	2000
CLESA	El Salvador	292,000	793	64%	1998
DEUSEM	El Salvador	59,000	105	74%	2000
EEO	El Salvador	217,000	424	89%	2000
		8,509,000	47,782		

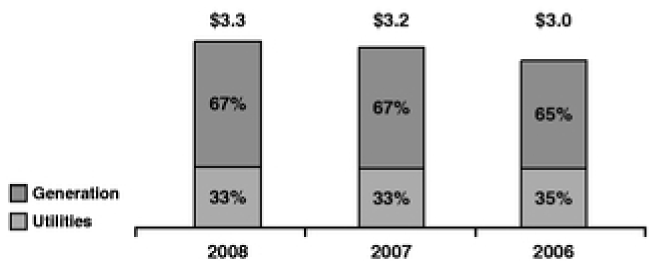
North America

Our North America operations accounted for 21%, 24% and 26% of consolidated revenues in 2008, 2007 and 2006, respectively. The following table provides highlights of our North America operations:

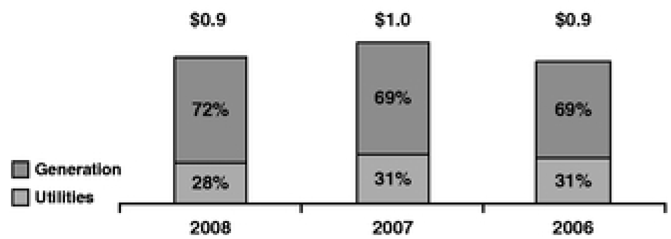
Countries	U.S., Puerto Rico and Mexico
Generation Capacity	13,368 Gross MW
Utilities Penetration	470,000 customers (16,192 GWh)
Generation Facilities	20
Utilities Businesses	1 Integrated Utility (includes 4 generation plants)
Key Generation Businesses	Eastern Energy (NY), Southland and TEG/TEP
Key Utilities Businesses	IPL

The graph below shows the breakdown between our North America Generation and Utilities segments as a percentage of total North America revenue and gross margin for the years ended December 31, 2008, 2007, and 2006. See Note 15—Segment and Geographic Information in the Consolidated Financial Statements in Item 8 of this Form 10-K for information on revenue from external customers, gross margin and total assets by segment.

Revenue
($ in billions)



Gross Margin
($ in billions)



North America Generation. Approximately 60% of the generation capacity sold to third parties is supported by long-term power purchase or tolling agreements. Our North America Generation businesses consist of seven gas-fired, ten coal-fired and three petroleum coke-fired plants in the United States, Puerto Rico and Mexico.

Four of our coal-fired plants, Cayuga, Greenridge, Somerset and Westover, representing capacity of 1,268 MW, operate together as one business, AES Eastern Energy. This business provides power to the Western New York power market under short-term contracts, as well as in the spot electricity market. We also operate three gas-fired plants, representing capacity of 4,327 MW, in the Los Angeles basin under a long-term tolling agreement. These plants are also operated as one business, AES Southland.

Set forth below is a list of our North America Generation facilities:

Generation

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Mérida III	Mexico	Gas	484	55%	2000
Termoelectrica del Golfo (TEG)	Mexico	Pet Coke	230	99%	2007
Termoelectrica del Peñoles (TEP)	Mexico	Pet Coke	230	99%	2007
Placerita	USA—CA	Gas	120	100%	1989
Southland—Alamitos	USA—CA	Gas	2,047	100%	1998
Southland—Huntington Beach	USA—CA	Gas	904	100%	1998
Southland—Redondo Beach	USA—CA	Gas	1,376	100%	1998
Thames	USA—CT	Coal	208	100%	1990
Hawaii	USA—HI	Coal	203	100%	1992
Warrior Run	USA—MD	Coal	205	100%	2000
Red Oak	USA—NJ	Gas	832	100%	2002
Cayuga	USA—NY	Coal	306	100%	1999
Greenidge	USA—NY	Coal	161	100%	1999
Somerset	USA—NY	Coal	675	100%	1999
Westover	USA—NY	Coal	126	100%	1999
Shady Point	USA—OK	Coal	320	100%	1991
Beaver Valley	USA—PA	Coal	125	100%	1985
Ironwood	USA—PA	Gas	710	100%	2001
Puerto Rico	USA—PR	Coal	454	100%	2002
Deepwater	USA—TX	Pet Coke	160	100%	1986
			9,876		

North America Utilities. AES has one integrated utility in North America, IPL, which it owns through IPALCO Enterprises Inc. ("IPALCO"), the parent holding company of IPL. IPL generates, transmits, distributes and sells electricity to approximately 470,000 customers in the city of Indianapolis and neighboring areas within the state of Indiana. IPL owns and operates four generation facilities that provide essentially all of the electricity it distributes. The two largest generation facilities are primarily coal-fired plants. The third facility has a combination of units that use coal (base load capacity) and natural gas and/or oil (peaking capacity). The fourth facility is a small peaking station that uses gas-fired combustion turbine technology. IPL's gross generation capability is 3,492 MW. More than half of IPL's coal is provided by one supplier with which IPL has long-term contracts. A key driver for the business is tariff recovery for environmental projects through the rate adjustment process. IPL's customers include residential, industrial, commercial and all other which made up 36%, 40%, 16% and 8%, respectively, of North America Utilities revenue for 2008.

IPL's generation facilities

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
IPL[(1)]	USA—IN	Coal/Gas/Oil	3,492	100%	2001

(1) IPL plants: Eagle Valley, Georgetown, Harding Street and Petersburg

Distribution

Business	Location	Approximate Number of Customers Served as of 12/31/2008	GWh Sold in 2008	AES Equity Interest (Percent, Rounded)	Year Acquired
IPL	USA—IN	470,000	16,192	100%	2001

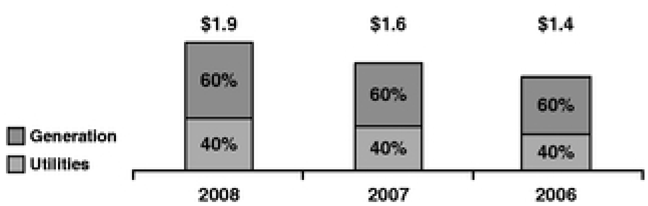
Europe & Africa

Our operations in Europe & Africa accounted for 12%, 12% and 12% of our consolidated revenues in 2008, 2007 and 2006, respectively. The following table provides highlights of our Europe & Africa operations:

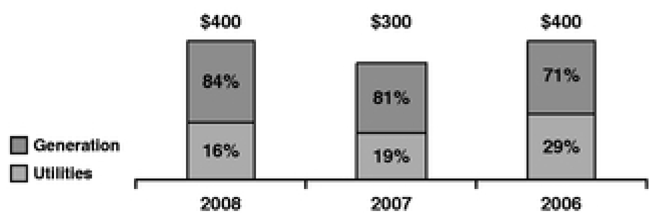
Countries	Cameroon, Czech Republic, Hungary, Kazakhstan, Netherlands, Spain, U.K., Turkey, Ukraine and Nigeria
Generation Capacity	11,416 Gross MW
Utilities Penetration	2.4 million customers (12,756 GWh)
Generation Facilities	21 (including 6 under construction)
Utilities Businesses	5 Utilities including one Integrated Utility (includes 11 generation plants)
Key Generation Businesses	Kilroot, Tisza II
Key Utilities Businesses	Sonel, Kyivoblenergo and Rivneenergo

The graph below shows the breakdown between our Europe & Africa Generation and Utilities segments as a percentage of total Europe & Africa revenue and gross margin for the years ended December 31, 2008, 2007, and 2006. See Note 15—Segment and Geographic Information in the Consolidated Financial Statements in Item 8 of this Form 10-K for information on revenue from external customers, gross margin and total assets by segment.

Revenue
($ in billions)



Gross Margin
($ in millions)



Europe & Africa Generation. In 2006, we began commercial operation of AES Cartagena ("Cartagena"), our first power plant in Spain, with 1,199 MW capacity. The results of operations for Cartagena, an unconsolidated entity, are included in the Equity in Earnings of Affiliates line item on the Consolidated Statements of Operations and therefore not reflected in these segment operating results. Today, AES operates five power plants in Kazakhstan which account for almost 30% of the country's total installed generation capacity. In 2008, we completed the sale of a generation plant and a coal mine in Kazakhstan, which we continue to operate under a management agreement through 2010. Key business drivers of this segment are: foreign currency exchange rates, new legislation and regulations including those related to the environment.

Set forth below is a list of our generation facilities in the Europe & Africa Generation segment:

Generation

Business(1)(3)	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Bohemia	Czech Republic	Coal/Biomass	50	100%	2001
Borsod	Hungary	Biomass/Coal	56	100%	1996
Tisza II	Hungary	Gas/Oil	900	100%	1996
Tiszapalkonya	Hungary	Coal/Biomass	116	100%	1996
Ekibastuz(2)(3)	Kazakhstan	Coal	4,000	0%	1996
Shulbinsk HPP(2)(4)	Kazakhstan	Hydro	702	0%	1997
Sogrinsk CHP	Kazakhstan	Coal	301	100%	1997
Ust—Kamenogorsk HPP(2)(4)	Kazakhstan	Hydro	331	0%	1997
Ust—Kamenogorsk CHP	Kazakhstan	Coal	1,354	100%	1997
Elsta	Netherlands	Gas	630	50%	1998
Ebute	Nigeria	Gas	304	95%	2001
Cartagena	Spain	Gas	1,199	71%	2006
Girlevik II-Mercan	Turkey	Hydro	12	51%	2007
Yukari-Mercan	Turkey	Hydro	14	51%	2007
Kilroot	United Kingdom	Coal / Oil	520	99%	1992
			10,489		

(1) AES additionally manages the Maikuben West coal mine in Kazakhstan, supplying coal to AES businesses and third parties.

(2) AES manages these facilities through management or O&M agreements and owns no equity interest in these businesses.

(3) AES completed the sale of its indirect wholly-owned subsidiaries, the Ekibastuz generation plant and the Maikuben West coal mine in May 2008. AES now operates the facilities under a management agreement through 2010.

(4) AES operates these facilities under concession agreements until 2017.

Generation under construction

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Expected Year of Commercial Operation
I.C. Energy(1)	Turkey	Hydro	62	51%	2010
Maritza East I	Bulgaria	Coal	670	100%	2010
Kilroot OCGT	United Kingdom	Diesel	80	99%	2009
Dibamba	Cameroon	Heavy Fuel Oil	86	56%	2009
			898		

(1) Joint Venture with I.C. Energy. I.C. Energy Plants: Damlapinar Konya, Kepezkaya Konya, and Kumkoy Samsun. The joint venture is an unconsolidated entity and accounted for under the equity method of accounting.

Europe & Africa Utilities. AES acquired a 56% interest in an integrated utility Société Nationale d'Electricité ("Sonel") in 2001. Sonel generates, transmits and distributes electricity to over half a million people and is the sole source of electricity in Cameroon. Our distribution businesses in Cameroon, the Ukraine and Kazakhstan together serve approximately 2.4 million customers.

Set forth below is a list of the generation facilities and distribution businesses in our Europe & Africa Utilities segment:

Sonel's generation facilities

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Sonel(1)	Cameroon	Hydro/Diesel/Heavy Fuel Oil	927	56%	2001

(1) Sonel plants: Bafoussam, Bassa, Djamboutou, Edéa, Lagdo, Logbaba I, Limbé, Mefou, Oyomabang I, Oyomabang II and Song Loulou, and other small remote network units

Distribution

Business	Location	Approximate Number of Customers Served as of 12/31/2008	GWh Sold in 2008	AES Equity Interest (Percent, Rounded)	Year Acquired
Sonel	Cameroon	571,000	3,360	56%	2001
Kievoblenergo	Ukraine	835,000	4,161	89%	2001
Rivneenergo	Ukraine	405,000	1,791	81%	2001
Eastern Kazakhstan REC(1)(2)	Kazakhstan	459,000	3,444	0%	
Ust-Kamenogorsk Heat Nets(1)(3)	Kazakhstan	96,000	—	0%	
		2,366,000	12,756		

(1) AES operates these facilities through management agreements and owns no equity interest in these businesses.

(2) Shygys Energo Trade, a retail electricity company, is 100% owned by Eastern Kazakhstan REC ("EK REC") and purchases distribution service from EK REC and electricity in the wholesale electricity market and resells to the distributions customers of EK REC.

(3) Ust-Kamenogorsk Heat Nets provide transmission and distribution of heat with a total heat generating capacity of 224 Gcal.

Asia

Our Asia operations accounted for 8%, 6% and 6% of consolidated revenues in 2008, 2007 and 2006, respectively. Asia's Generation business operates 13 power plants with a total capacity of 5,664 MW in eight countries and has one power plant under construction. In Asia, AES operates generation facilities only. See Note 15—Segment and Geographic Information in the Consolidated Financial Statements in Item 8 of this Form 10-K for revenue, gross margin and total assets by segment. The following table provides highlights of our Asia operations:

Countries	China, Qatar, Pakistan, Oman, India, the Philippines, Sri Lanka and Jordan
Generation Capacity	5,664 Gross MW
Utilities Penetration	N/A
Generation Facilities	13 (including 1 under construction)
Utilities Businesses	None
Key Businesses	Yangcheng, Masinloc, Pak Gen and Lal Pir

Asia Generation. Almost half of our generation capacity in Asia is located in China. In 1996, AES joined with Chinese partners to build Yangcheng, the first "coal-by-wire" power plant with the capacity of 2,100 MW. In 2003, AES started commercial operations of its combined power and desalination water facility in Oman, the first of its kind. We also have a combined power and desalination water facility, the first such facility to be awarded to the private sector, in Qatar. This facility generates over 18% of the country's peak system capacity and 23% of the country's water supply. In April 2008, the Company completed the purchase of a 92% interest in a 660 MW coal-fired thermal power generation facility in Masinloc, Philippines ("Masinloc"). AES Amman East ("Amman East") is a 380 MW combined-cycle gas power plant under construction in Jordan. Amman East achieved simple cycle commercial operation in 2008 and is expected to achieve combined cycle operation in 2009.

Set forth below is a list of our generation facilities in Asia:

Generation

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Aixi	China	Coal	51	71%	1998
Chengdu	China	Gas	50	35%	1997
Cili	China	Hydro	26	51%	1994
Wuhu	China	Coal	250	25%	1996
Yangcheng	China	Coal	2,100	25%	2001
OPGC	India	Coal	420	49%	1998
Barka	Oman	Gas	456	35%	2003
Lal Pir	Pakistan	Oil	362	55%	1997
Pak Gen	Pakistan	Oil	365	55%	1998
Masinloc	Philippines	Coal	660	92%	2008
Ras Laffan	Qatar	Gas	756	55%	2003
Kelanitissa	Sri Lanka	Diesel	168	90%	2003
			5,664		

Generation under construction

Business	Location	Fuel	Gross MW	AES Equity Interest (Rounded)	Expected Year of Commercial Operation
Amman East(1)	Jordan	Gas	380	37%	2009

(1) Construction of the Amman East power plant commenced in May 2007.

Corporate and Other

Corporate and Other includes general and administrative expenses related to corporate staff functions and initiatives—primarily executive management, finance, legal, human resources, information systems and certain development costs which are not allocable to our business segments; interest income and interest expense; and intercompany charges such as management fees and self insurance premiums which are fully eliminated in consolidation.

In addition, Corporate and Other also includes the net operating results of AES Wind Generation, AES Solar, climate solutions, and certain other initiatives, which are not material to our presentation of reporting segments. See Note 15—Segment and Geographic Information in the Consolidated Financial Statements in Item 8 of this Form 10-K for information on revenue from external customers, gross margin and total assets by segment.

In March 2008, we formed a joint venture called AES Solar LLC with Riverstone, a private equity firm to develop, own and operate solar installations. The joint venture is an unconsolidated entity and accounted for under the equity method of accounting. Since its launch, AES Solar has commenced commercial operations of 24 MW of solar projects in Spain and has development potential in three other countries.

We own and operate 1,060 MW of wind generation capacity and operate an additional 215 MW capacity through operating and management agreements. Our wind business is located primarily in North America where we operate wind generation facilities that have generation capacity of 1,174 MW. Buffalo Gap III, a 170 MW capacity wind farm commenced commercial operations in August 2008.

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Set forth below is a list of AES Wind Generation facilities:

Generation

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Year Acquired or Began Operation
Hulunbeier[1]	China	Wind	50	49%	2008
InnoVent	France	Wind	30	40%	2007
Hargicourt	France	Wind	12	40%	2008
Hescamps	France	Wind	5	40%	2008
Plechatel	France	Wind	4	40%	2008
Altamont	USA—CA	Wind	43	100%	2005
Mountain View I & II[2]	USA—CA	Wind	67	100%	2008
Palm Springs	USA—CA	Wind	30	100%	2006
Tehachapi	USA—CA	Wind	58	100%	2006
Storm Lake II[2]	USA—IA	Wind	80	100%	2007
Lake Benton I[2]	USA—MN	Wind	107	100%	2007
Condon[2]	USA—OR	Wind	50	100%	2005
Buffalo Gap I[2]	USA—TX	Wind	121	100%	2006
Buffalo Gap II[2]	USA—TX	Wind	233	100%	2007
Buffalo Gap III[2]	USA—TX	Wind	170	100%	2008
Wind generation facilities[3]	USA	Wind	215	0%	2005
			1,275		

(1) Joint Venture with Guohua Energy Investment Co. Ltd.

(2) AES owns these assets together with third party tax equity investors with variable ownership interests. The tax equity investors receive a portion of the economic attributes of the facilities, including tax attributes, that vary over the life of the projects. The proceeds from the issuance of tax equity are recorded as Minority Interest in the Company's consolidated balance sheet.

(3) AES operates these facilities through management or O&M agreements and owns no equity interest in these businesses.

AES Wind Generation projects under construction

Business	Location	Fuel	Gross MW	AES Equity Interest (Percent, Rounded)	Expected Year of Commercial Operation
St. Nikolas	Bulgaria	Wind	156	89%	2009
Guohua Energ Investment Co. Ltd.[1]	China	Wind	198	49%	2009-2010
InnoVent[2]	France	Wind	34	40%	2009
North Rhins	Scotland	Wind	22	51%	2009
			410		

(1) Joint Ventures with Guohua Energy Investment Co. Ltd. Huanghua I & II, Chenbáerhe and Xinaèrhue.

(2) InnoVent plants: Frenouville, Audrieu, Boisbergues, Gapree and Croixrault-Moyencourt.

Financial Data by Country

The table below presents information about our consolidated operations and long-lived assets, by country, for each of the three years ended December 31, 2008, 2007 and 2006, respectively. Revenues are recognized in the country in which they are earned and assets are reflected in the country in which they are located.

	Revenues			Property, Plant & Equipment, net	
	2008	2007	2006	2008	2007
		(in millions)		(in millions)	
United States	$ 2,745	$ 2,641	$ 2,573	$ 6,926	$ 6,448
Non-U.S.					
Brazil	5,501	4,748	4,119	4,206	5,369
Chile	1,349	1,011	594	1,540	968
Argentina	949	678	542	446	450
Pakistan	607	396	318	204	265
Dominican Republic	601	476	357	634	651
El Salvador	484	479	437	255	249
Hungary	466	344	304	211	241
Mexico	463	399	185	819	838
Ukraine	403	330	269	78	104
Cameroon	379	330	300	579	504
United Kingdom	342	235	222	308	383
Colombia	291	213	184	395	393
Puerto Rico	251	245	234	622	620
Kazakhstan	234	284	215	56	52
Panama	210	175	144	715	582
Sri Lanka	184	123	92	79	83
Qatar	161	178	169	526	552
Philippines(1)	148	—	—	731	—
Oman	105	105	114	321	331
Bulgaria(2)	—	—	1	1,329	542
Other Non-U.S.	197	126	136	413	349
Total Non-U.S.	13,325	10,875	8,936	14,467	13,526
Total	$ 16,070	$ 13,516	$ 11,509	$ 21,393	$ 19,974

(1) Acquired in May 2008, revenues represent results for a partial year.

(2) Currently under development, facility is not operational at this time.

Customers

We sell to a wide variety of customers. No individual customer accounted for 10% or more of our 2008 total revenues. In our generation business, we own and/or operate power plants to generate and sell power to wholesale customers such as utilities and other intermediaries. Our utilities sell to end-user customers in the residential, commercial, industrial and governmental sectors in a defined service area.

Employees

As of December 31, 2008 we employed approximately 25,000 people.

Executive Officers

The following individuals are our executive officers:

Paul Hanrahan, 51 years old, has been the President, CEO and a member of our Board of Directors since 2002. Prior to assuming his current position, Mr. Hanrahan was the Executive Vice President and COO. In this role, he was responsible for managing all aspects of business development activities and the operation of multiple electric utilities and generation facilities in Europe, Asia and Latin America. Mr. Hanrahan was previously the President and CEO of the AES China Generating Company, Ltd., a public company formerly listed on NASDAQ. Mr. Hanrahan also has managed other AES businesses in the United States, Europe and Asia. In March 2006, he was elected to the board of directors of Corn Products International, Inc. Prior to joining AES, Mr. Hanrahan served as a line officer on the U.S. fast attack nuclear submarine, USS Parche (SSN-683). Mr. Hanrahan is a graduate of Harvard Business School and the U.S. Naval Academy.

Andres R. Gluski, 51 years old, has been an Executive Vice President and COO of the Company since March 2007. Prior to becoming the COO, Mr. Gluski was Executive Vice President and the Regional President of Latin America from 2006 to 2007. Mr. Gluski was Senior Vice President for the Caribbean and Central America (Venezuela, El Salvador, Panama and the Dominican Republic) from 2003 to 2006, Group Manager and CEO of La Electricidad de Caracas ("EDC") from 2002 to 2003, CEO of AES Gener (Chile) in 2001 and Executive Vice President of Finance and Shared Services of EDC and Corporacion EDC. Prior to joining AES in 2000, Mr. Gluski was Executive Vice President of Corporate Banking for Banco de Venezuela (Grupo Santander), Vice President for Santander Investment Banking, and Executive Vice President and CFO of CANTV (subsidiary of GTE) in Venezuela. Mr. Gluski has also worked with the International Monetary Fund in the Treasury and Latin American Departments, served as Director General of Public Finance and Senior Macro Economic Policy Advisor to the Minister of Planning of Venezuela, and was also a Member of the Board for the Venezuelan Investment Fund. Mr. Gluski is a graduate of Wake Forest University and holds a Master of Arts and a Doctorate in Economics from the University of Virginia.

Ned Hall, 49 years old, has been an Executive Vice President, Regional President for North America and Chairman, Global Wind Generation and Energy Storage since June 2008. In December of 2008, Mr. Hall became Chairman, Greenhouse Gas Services, LLC, a joint venture between AES, GE and Mission Point. Prior to his current position, Mr. Hall was Vice President of the Company and President, Global Wind Generation from April 2005 to June 2008, Managing Director of AES Global Development from September 2003 to April 2005, and was an AES Group Manager from April 2001 to September 2003. Mr. Hall joined AES in 1988 as a Project Manager working in the Development Group and has held a variety of development and operating roles for AES, including assignments in the U.S., Europe, Asia and Latin America. He is a Registered Professional Engineer in the State of Massachusetts. Mr. Hall holds a BSME degree from Tufts University and an SM degree in finance/operations management from the MIT Sloan School of Management.

Victoria D. Harker, 44 years old, has been an Executive Vice President and Chief Financial Officer ("CFO") since January 2006. Prior to joining the Company, Ms. Harker held the positions of Acting CFO, Senior Vice President and Treasurer of MCI from November 2002 to January 2006. Prior to that, Ms. Harker served as CFO of MCI Group, a unit of WorldCom Inc., from 1998 to 2002. Prior to 1998, Ms. Harker held several positions at MCI in the areas of finance, information technology and operations. Ms. Harker received a Bachelor of Arts degree in English and Economics from the University of Virginia and a Masters in Business Administration, Finance from American University.

John McLaren, 46 years old, has been an Executive Vice President of the Company since 2006 and is the Regional President of Europe, Asia, Middle East & Africa. Mr. McLaren served as Vice President of Operations for AES Europe & Africa from 2003 to 2006 (and AES Europe, Middle East and Africa from May 2005 to January 2006), Group Manager for Operations in Europe & Africa from

2002 to 2003, Project Director from 2000 to 2002, and Business Manager for AES Medway Operations Ltd. from 1997 to 2000. Mr. McLaren is a Chartered Director, a professional qualification for business leaders conferred by the Institute of Directors in London. Mr. McLaren joined the Company in 1993. He holds a Masters in Business Administration from the University of Greenwich Business School in London.

Brian A. Miller, 43 years old, is an Executive Vice President of the Company, General Counsel, Corporate Secretary and Acting Chief Compliance Officer. Mr. Miller joined the Company in 2001 and has served in various positions including Vice President, Deputy General Counsel, Corporate Secretary, General Counsel for North America and Assistant General Counsel. Prior to joining AES, he was an attorney with the law firm Chadbourne & Parke, LLP. Mr. Miller received a bachelor's degree in History and Economics from Boston College and holds a Juris Doctorate from the University of Connecticut School of Law.

Rich Santoroski, 44 years old, has been the Vice President, Global Risk & Commodity Organization since February 2008. Prior to his current position, Mr. Santoroski was Vice President, Energy & Natural Resources, a business development group, and Vice President, Risk Management. Mr. Santoroski joined AES in January 1999 to lead AES Eastern Energy's commodity management. Prior to AES, Mr. Santoroski held various engineering, trading and risk management positions at New York State Electric & Gas, including leading the energy trading group. He graduated from Pennsylvania State University with a Bachelor of Science in Electrical Engineering, and earned an MBA and a Master of Science in Electrical Engineering from Syracuse University. Mr. Santoroski is a Licensed Professional Engineer in the State of New York.

Andrew Vesey, 53 years old, has been an Executive Vice-President and Regional President of Latin America since March 2008. Prior to his current position, Mr. Vesey was President and Chief Operating Officer for Latin America since July 2007 and Chief Operating Officer for Latin America since 2004. Mr. Vesey also served as Vice President and Group Manager for AES Latin America, DR-CAFTA Region from 2006 to 2007, Vice President of the Global Business Transformation Group from 2005 to 2006, and Vice President of the Integrated Utilities Development Group from 2004 to 2005. Prior to joining the Company in 2004, Mr. Vesey was a Managing Director of the Utility Finance and Regulatory Advisory Practice at FTI Consulting Inc, a partner in the Energy, Chemicals and Utilities Practice of Ernst & Young LLP, and CEO and Managing Director of Citipower Pty of Melbourne, Australia. He received his BA in Economics and BS in Mechanical Engineering from Union College in Schenectady, New York and his MS from New York University.

Mark E. Woodruff, 51 years old, is an Executive Vice President of the Company who focuses on development. Prior to his current position, Mr. Woodruff was Regional President of Asia & Middle East from March 2007 through January 2008, Vice President of North America Business Development from September 2006 to March 2007 and was Vice President of AES for the North America West region from 2002 to 2006. Mr. Woodruff has held various leadership positions since joining the Company in 1992. Prior to joining the Company in 1991, Mr. Woodruff was a Project Manager for Delmarva Capital Investments, a subsidiary of Delmarva Power & Light Company. Mr. Woodruff holds a Bachelor of Science degree in Mechanical and Aerospace Engineering from the University of Delaware.

How to Contact AES and Sources of Other Information

Our principal offices are located at 4300 Wilson Boulevard, Arlington, Virginia 22203. Our telephone number is (703) 522-1315. Our website address is *http://www.aes.com*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to such reports filed pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 are posted on our website. After the reports are filed with, or furnished to, the Securities and Exchange Commission ("SEC"), they are available from us free of charge. Material contained on our website is not part of and is not incorporated by reference in this Form 10-K.

Our CEO and our CFO have provided certifications to the SEC as required by Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as exhibits to this Annual Report on Form 10-K.

Our CEO provided a certification pursuant to Section 303A of the New York Stock Exchange Listed Company Manual on May 22, 2008.

Our Code of Business Conduct ("Code of Conduct") and Corporate Governance Guidelines have been adopted by our Board of Directors. The Code of Conduct is intended to govern, as a requirement of employment, the actions of everyone who works at AES, including employees of our subsidiaries and affiliates. Our Ethics and Compliance Department provides training, information, and certification programs for AES employees related to the Code of Conduct. The Ethics and Compliance Department also has programs in place to prevent and detect criminal conduct, promote an organizational culture that encourages ethical behavior and a commitment to compliance with the law, and to monitor and enforce AES policies on corruption, bribery, money laundering and associations with terrorists groups. The Code of Conduct and the Corporate Governance Guidelines are located in their entirety on our website at *www.aes.com*. Any person may obtain a copy of the Code of Conduct or the Corporate Governance Guidelines without charge by making a written request to: Corporate Secretary, The AES Corporation, 4300 Wilson Boulevard, Arlington, VA 22203. If any amendments to, or waivers from, the Code of Conduct or the Corporate Governance Guidelines are made, we will disclose such amendments or waivers on our website.

Regulatory Matters

Overview

In each country where we conduct business, we are subject to extensive and complex governmental regulations which affect most aspects of our business, such as regulations governing the generation and distribution of electricity and environmental regulations. These regulations affect the operation, development, growth and ownership of our businesses. Regulations differ on a country by country basis and are based upon the type of business we operate in a particular country.

Regulation of our Generation Businesses

Our Generation businesses operate in two different types of regulatory environments:

Market Environments. In market environments, sales of electricity may be made directly on the spot market, under negotiated bilateral contracts, or pursuant to PPAs. The spot markets are typically administered by a central dispatch or system operator who seeks to optimize the use of the generation resources throughout an interconnected system (cost of the least expensive next generation plant required to meet system demand). The spot price is usually set at the marginal cost of energy or based on bid prices. In addition, many of these wholesale markets include markets for ancillary services to support the reliable operation of the transmission system, such as regulation (a service that corrects for short-term changes in electricity use that could impact the stability of the power system). Most of our businesses in Europe, Latin America and the U.S. operate in these types of liberalized markets.

Other Environments. We operate Generation assets in certain countries that do not have a spot market. In these environments, electricity is sold only through PPAs with state-owned entities and/or industrial clients as the offtaker. Examples of countries where we operate in this type of environment include Jordan, Nigeria, Oman, Pakistan, Puerto Rico, Qatar and Sri Lanka.

Regulation of our Distribution Businesses

In general, our distribution companies sell electricity directly to end users, such as homes and businesses and bill customers directly. The amount our distribution companies can charge customers for electricity is governed by a regulated tariff. The tariff, in turn, is generally based upon a certain usage level that includes a pass through of costs to the customer that are not controlled by the distribution company, including the costs of fuel (in the case of integrated utilities) and/or the costs of purchased energy, plus a margin for the value added by the distributor, usually calculated as a fair return on the fair value of the company's assets. This regulated tariff is periodically reviewed and reset by the regulatory agency of the government. Components of the tariff that are directly passed through to the customer are usually adjusted through an automated process. In many instances, the tariffs can be adjusted between scheduled regulatory resets pursuant to an inflation adjustment or another index. Customers with demand above a certain level are often unregulated and can choose to contract with generation companies directly and pay a wheeling fee, which is a fee to the distribution company for use of the distribution system. Most of our utilities operate as monopolies within exclusive geographic areas set by the regulatory agency and face very limited competition from other distributors.

Set forth below is a discussion of certain regulations we face in each country where we do business. In each country, the regulatory environment can pose material risks to our business, its operations and/or its financial condition. For further discussion of those risks, see the Risk Factors in Item 1A of this Annual Report on Form 10-K.

Latin America

Brazil. Brazil has one main interconnected electricity system, the National Interconnected System. The power industry in Brazil is regulated by the Brazilian government, acting through the Ministry of Mines and Energy and the National Electric Energy Agency, ("ANEEL"), an independent federal regulatory agency that has authority over the Brazilian power industry. ANEEL supervises concessions for electricity generation, transmission, trading and distribution, including the setting of tariff rates, and supervising and auditing of concessionaires.

On March 15, 2004, the Brazilian government launched a proposed new model for the Brazilian power sector. The New Power Sector Model created two energy markets: (1) the regulated contractual market for the distribution companies, and (2) the free contract environment market, designed for traders and other large volume users.

AES has two distribution businesses in Brazil—Eletropaulo, serving approximately six million customers in the São Paulo area, and Sul, serving over one million customers in the state of Rio Grande do Sul. Under the New Power Sector Model, every distribution utility is obligated to contract to meet 100% of its energy requirements in the regulated contractual market, through energy auctions from new proposed generation projects or existing generation facilities. Bilateral contracts are being honored, but cannot be renewed.

The tariff charged by distribution companies to regulated customers is composed of a non-manageable cost component (Part A), which includes energy purchase costs and charges related to the use of transmission and distribution systems and is directly passed through to customers, and a manageable cost component (Part B), which includes operation and maintenance costs based on a reference company (a model distribution company defined by ANEEL), recovery of depreciated assets and a component for the value added by the distributor (calculated as net asset base multiplied by pre-tax weighted average cost of capital). Part B is reset every three to five years depending on the specific concession. There is an annual tariff adjustment to pass through Part A costs to customers and to adjust the Part B costs by inflation less an efficiency factor (X-Factor). Distribution companies are also entitled to extraordinary tariff revisions, in the event of significant changes to their cost structure.

At ANEEL's Public Meeting on July 1, 2008, Eletropaulo was granted an 8.01% average tariff increase effective July 4, 2008. In the 2007 tariff reset process, certain items were determined to be provisional and this process is expected to be defined in the next tariff adjustment process (July, 2009).

On May 16, 2002, ANEEL issued Order 288, a regulation that stipulated the retroactive denial to the choice of not participating in the "exposition relief mechanism", a tool that allowed the selling of energy from Itaipu Generating Co. in the spot market. Due to its negative impact, Sul filed a lawsuit seeking to annul Order 288, and as soon as the case went to court, Sul was granted a preliminary injunction that ordered ANEEL to review the Brazilian Electric Energy Commercialization Chamber ("CEEE") calculations and liquidation, an injunction that was later suspended. If Sul obtains a favorable final verdict, it will have a positive impact of about R$437.8 million (historic values referring to 2001 and 2002) or approximately $187.0 million, but if Sul's requests are not granted, under Order 288 Sul will owe a net amount of approximately R$146.7 million or approximately $62.6 million at December 31, 2008. All amounts are reserved in Sul's books, including the amount owed to CCEE in the event Sul loses the case.

AES has two generation businesses in Brazil—Tietê, a 2,651 MW hydro-generation facility and AES "Uruguaiana", a 639 MW generation facility. Under the New Power Sector Model and in order to optimize the generation of electricity through Brazil's nationwide system, generation plants are allocated a generating capacity referred to as "assured energy" or the amount of energy representing the long-term average energy production of the plant defined by ANEEL. Together with the system operator, ANEEL establishes the amount of assured energy to be sold by each plant. The system operator determines generation dispatch which takes into account nationwide electricity demand, hydrological conditions and system constraints. In order to mitigate risks involved in hydroelectric generation, a mechanism is in place to transfer surplus energy from those who generated in excess of their assured energy to those who generated less than their assured energy. The energy that is reallocated through this mechanism is priced pursuant to an energy optimization tariff, designed to optimize the use of generation available in the system.

Tietê is allowed to sell electric power within the two environments, maintaining the competitive nature of the generation. All the agreements, whether entered in the ACR (Regulated Contracting Environment) or in the ACL (Free Contracting Environment), are registered in the CCEE and they serve as basis for the accounting posting and the settlement of the differences in the short-term market. Generation companies must provide physical coverage from their own power generation for 100% of their sale contracts. The verification of physical coverage is accomplished on a monthly basis, based on generation data and on sale company contracts of the last 12 months. The failure to provide physical coverage exposes the generating company to the payment of penalties.

Beginning in 2006, all Tietê's assured energy has been sold to Eletropaulo. The PPA entered into with Eletropaulo expires on December 31, 2015, and requires that the price of energy sold be adjusted annually based on the Brazilian inflation ("IGPM") variation. In October 2003, Tietê and Eletropaulo executed an amendment to extend the PPA through June 2028. However, this amendment was not approved by ANEEL. In response, Eletropaulo filed a suit against ANEEL and is currently awaiting the first-instance judgment. Based on the current rules concerning the purchase and sale of energy through the auction process, and because such rules remain in effect until 2015, the selling price may significantly differ from the current price adjusted under the terms of the existing PPA. If the PPA were terminated, Tietê would only be allowed to sell in the ACR or ACL.

Tietê's concession agreement with the State of São Paulo for its generation plant includes an obligation to increase generation capacity by 15% originally to be accomplished by the end of 2007. Tietê, as well as other concessionaire generators, were not able to meet this requirement due to regulatory, environmental and hydrological constraints, and requested an extension of the term. Currently, the matter is under consideration by the Government of the State of São Paulo, after a decision by the Board of Officers of ANEEL, that ANEEL is not the appropriate authority to consider the extension, since the expansion obligation derives from the purchase and sale agreement between Tietê and the Government of São Paulo, and not from the concession agreement. Tietê is negotiating new conditions and a new deadline to fulfill the expansion requirement. There is a dispute alleging that Tietê failed to increase its generation capacity as established in the concession agreement. The dispute seeks to determine the application of penalties related to the concession agreement, and also to determine its termination. Judicial summons have been received and, in October 2008, Tietê presented its defense. On October 31, 2008, a decision was rendered ordering the Plaintiff to respond to Tietê's defense. Such a response has not been filed yet.

Uruguaiana has been impacted by the energy crisis in Argentina, primarily through natural gas supply restrictions. During this period, Uruguaiana has been forced to purchase energy from the spot market and through bilateral contracts in order to satisfy its alleged obligations under the PPAs with the distribution companies. In August 2008, the Argentinean gas supplier sent a notification to Uruguaiana declaring force majeure under the gas supply agreement. Uruguaiana extended the effects of such force majeure to the PPAs with the distribution companies. After such declaration by the Argentinean gas supplier, Uruguaiana started negotiations with the four distribution companies to reduce the amount of energy contracted under the PPAs and resolve these matters. From August 2008 to December 2008, Uruguaiana and the distribution companies entered into amendments to reduce the energy amounts under the PPAs to the level of the bilateral agreements executed by Uruguaiana, suspend such agreements by December 2009 and settle all pending matters. Three of these distribution companies sought and received a decision by ANEEL declaring that they were entitled to involuntary exposures, which allows these distribution companies to purchase replacement energy in the market and recover the related additional costs, if any, through their tariffs. The fourth involuntary exposure request from a distribution company is under analysis by ANEEL.

Chile. In Chile, except for the small isolated systems of Aysén and Punta Arenas, generation activities are principally in two electric systems: the Central Interconnected Grid (known as the SIC), which supplies approximately 92% of the country's population; and the Northern Interconnected Grid (known as the SING), where the principal users are mining and industrial companies.

In each of these grids, electricity generation is coordinated by the respective independent Economic Load Dispatch Center, or CDEC, in order to minimize operational costs and ensure the highest economic efficiency of the system, while fulfilling all quality of service and reliability requirements established by current regulations. In order to satisfy demand at the lowest possible cost at all times, each CDEC orders the dispatch of generation plants based strictly on variable generation costs, starting with the lowest variable cost, and does so independent of the contracts held by each generation company. Thus, while the generation companies are free to enter into supply contracts with their customers and are obligated to comply with such contracts, the energy needed to satisfy demand is always produced by the CDEC members whose variable production costs are lower than the system's marginal cost at the time of dispatch. In addition, the Chilean market is designed to include payments for capacity (or firm capacity), which are explicitly paid to generation companies for contributing to the system's sufficiency. The cost of investment and operation of transmission systems are borne by generation companies and consumers (regulated tolls) in proportion to their use.

The Chilean Ministry of Economy, Development and Reconstruction grants concessions for the provision of the public service of electric distribution; and the National Commission for the Environment administers the system for evaluating the environmental impact of projects. Concessions are not required from government agencies to build and operate thermoelectric plants. The National Energy Commission establishes, regulates and coordinates energy policy. The Superintendency of Electricity and Fuels oversees compliance with service quality and safety regulations. The General Water Authority issues the rights to use water for hydroelectric generation plants. The Chilean electric system includes a Panel of Experts, an independent technical agency whose purpose is to analyze and resolve in a timely fashion conflicts arising between companies within the electric sector and among one or more of these companies and the energy authorities.

Power generation is based primarily on long-term contracts between generation companies and customers specifying the volume, price and conditions for the sale of energy and capacity. The law recognizes two types of customers for generation companies: unregulated customers and regulated customers. Unregulated customers are principally consumers whose connected capacity is higher than

2 MW, and consumers whose connected capacity is between 500 kW and 2 MW who have selected the unregulated pricing mechanism for a period of four years. These customers are not subject to price regulation; therefore, generation and distribution companies are able to freely negotiate prices and conditions for electricity supply with them. Regulated customers are those whose connected capacity is less than or equal to 500 KW, and those with connected capacity between 500 kW and 2 MW who have selected—also for four years—the regulated pricing system.

The distinct electricity sector activities are regulated by the General Electricity Services Law, DFL No. 1/1982 enacted by the Mining Ministry, with its subsequent amendments: Law No. 19,490 (2004, known as the "Short Law I") and Law No. 20,01/005, or the "Short Law II", which did not modify the foundation of Chile's stable electricity sector model. These laws were rewritten and systematized under DFL No. 4/2007. Sector activities are also governed by the corresponding technical regulations and standards.

In accordance with the amendment to the electricity law enacted in May 2005, new contracts assigned by distribution companies for consumption from 2010 onward must be awarded to generation companies based on the lowest supply price offered in public bid processes. These prices called "long-term node prices", include indexation formulas and are valid for the entire term of the contract, up to a maximum of 15 years. More precisely, the long-term energy node price for a particular contract is the lowest energy price offered by the generation companies participating in each respective bid process, while the long-term capacity node price is that set in the node price decree in effect at the time of the bid.

The "Tokman Law", which was enacted in September 2007, requires that generation companies must continue to supply electricity to distribution companies whose supply contract may be terminated as a result of bankruptcy of the distribution company, its generation supplier, or the anticipated termination of the power purchase contract due to an arbitration award or court decision. The law states that in these situations, if the distribution company is not able to procure a new contract, all generation companies in the system must then supply the distribution company at node prices based on the generator's respective participation in the grid.

Another statute, Law 20,257, was enacted in April 2008. Law 20, 257 promotes non-conventional renewable energy sources, such as solar, wind, small hydroelectric and biomass energy. The law requires that a percentage of the new power purchase contracts held by generation companies after August 31, 2007, be supplied from renewable sources. The required energy percentage begins at 5% for the period 2010-2015, and gradually increases to a maximum of 10% in 2024. A penalty is applied for each kWh not supplied in accordance with the law. Our businesses in Chile have developed a plan for complying with this law, which includes the sale of certain water rights, the purchasers of which have agreed to build a small hydroelectric plant and sell the energy to Gener at a fixed price.

Colombia. Colombia has one main national interconnected system (the "SIN"). In 1994 the Colombian Congress issued the laws of Domiciliary Public Services and the Electricity Law, which set the institutional arrangement and the general regulatory framework for the electricity sector. The Regulatory Commission of Electricity and Gas ("CREG") was created to foster the efficient supply of energy through regulation of the wholesale market, the natural monopolies of transmission and distribution, and by setting limits for horizontal and vertical economic integration. The control function was assigned to the Superintendency of Public Services.

The wholesale market is organized around both bilateral contracts and a mandatory pool and spot market for all generation units larger than 20 MW. Each unit bids its availability quantities for a 24 hour period with one bid price set for those 24 hours. The dispatch is arranged by lowest to highest bid price and the spot price is set by the marginal price.

The spot market started in July 1995, and in 1996 a capacity payment was introduced for a term of 10 years. In December 2006, a regulation was enacted that replaced the capacity charge with the reliability charge and established two implementation periods. The first period consists of a transition period from December 2006 to November 2012, during which, the price is equal to $13.045 per MWh ("megawatt hour") and volume is determined based on firm energy offers which are pro-rated so that the total firm energy level does not exceed system demand. The second period, in which the reliability charge will be determined, based on the energy price and volume offers submitted by new market participants bidding for new capacity for the system, begins in December 2012. The first reliability charge auction was held in May 2008 with the following results: (i) The reliability charge for existing plants for the period between December 2012 and November 2013 will be $13.998 per MWh; (ii) For new plants that successfully participated in the auction, the charge will be paid for 20 years starting December 2012; (iii) Three new projects won the auction for a total capacity of 429.6 MW starting in 2012.

Furthermore, the CREG issued a proposal to create the "MOR" or Organized Regulated Market. The MOR will replace current bilateral contracts (assigned between traders and generators) for a centralized auction in which the System Operator buys energy for all regulated customers attended by the traders. The main provisions contained in the proposal include: i) it is mandatory for all traders to buy energy at the auction price and it is voluntary for sellers (generators and traders companies) to offer energy in each auction; ii) one price for the energy sales in the year; iii) the auctions are held one year before the actual dispatch moment and the commitment period of the auction is one year, iv) the proposal is to establish four auctions in each year, in order to cover the annual demand. We expect that a definitive resolution on this matter will be issued in the second quarter of 2009.

Finally, ANDI—the Colombian Industry Guild, and the Energy Minister, among others, have raised objections to the increase in energy prices in the spot and bilateral contracts market for 2009 and 2010. In response, the regulator (CREG) issued new rules that allow traders to slowly adjust the tariffs to consumers and to promote competition. In general, these rules are not expected to create significant changes in the current regulation.

Argentina. Argentina has one main national interconnected system. The National Electrical Regulating Agency is responsible for ensuring the compliance of transmission and distribution companies to concessions granted by the Argentine government, and approves distribution tariffs. The regulatory entity authorized to manage and operate the wholesale electricity market in Argentina is Compañía Administradora del Mercado Mayorista Eléctrico, Sociedad Anómima, ("CAMMESA"), in coordination with the policies established by the National Secretariat of Energy.

CAMMESA performs load dispatching and clears commercial transactions for energy and power. Sales of electricity may be made on the spot market at the marginal cost of energy to satisfy the system's hourly demand, or in the wholesale energy market under negotiated term contracts. As a result of the gas crisis earlier this decade, this mechanism was modified in 2003 by Resolution 240/03. At present, the price is determined as if all generating units in Argentina were operating with natural gas, even though they may be using other, more expensive, alternative fuels. In the case of generators using alternative fuels, CAMMESA pays the total variable cost of production, which may exceed the established spot price. Additionally, in the spot market, generators are also remunerated for their capacity to generate electricity in excess of supply agreements or private contracts executed by them.

As the result of a political, social and economic crisis, the Argentine government has adopted many new economic measures since 2002, by means of the "Emergency Law" 25561 issued on January 6, 2002, extended by Law N? 26.456 issued on December 16, 2008 until December 31, 2009. The regulations adopted in the energy sector effectively terminated the use of the U.S. Dollar as the functional currency of the Argentine electricity sector. During 2004, the Energy Secretariat reached agreements with natural gas and electricity producers to reform the energy markets. In the electricity sector, the Energy Secretariat passed Resolution 826/2004, inviting generators to contribute a percentage of their sales margins to fund the development and construction of two new combined cycle power plants to be installed by 2008/2009. The time period for the funding was set from January 2004 through December 2006 and was subsequently extended through December 2007. During 2008 both power plants have started the operation of the gas turbines, and during the second half of 2009 it is expected that the steam turbines will be installed and the plants will start to operate in combined cycle mode. In exchange, the Government committed to reform the market regulation to match the pre-crisis rules prevailing before December 2001. Additionally, participating generators will receive a pro-rata ownership share in the new generation plants after ten years.

Under the previous regulations, distribution companies were granted long-term concessions (up to 99 years) which provided, directly or indirectly, tariffs based upon U.S. Dollars and adjusted by the U.S. consumer price index and producer price index. Under the new regulations, tariffs are no longer linked to the U.S. Dollar and U.S. inflation indices. As a consequence of the emergency declared by the above-mentioned laws and its resulting regulatory framework, the tariffs of all distribution companies were converted to pesos and were frozen at the peso national rate as of December 31, 2001. In October 2003, the Argentine Congress established a procedure for renegotiation of the public utilities concessions.

On November 12, 2004, EDELAP, an AES distribution business, signed a Letter of Understanding with the Argentine government in order to renegotiate its concession contract and to start a tariff reform process, which was ratified by the National Congress on May 11, 2005. Final government approval was obtained on July 14, 2005. As a first step during this process, a Distribution Value Added ("DVA") increase of 28%, effective February 1, 2005, was granted. On October 24, 2005, EDEN and EDES, two AES distribution businesses, signed a Letter of Understanding with the Ministry of Infrastructure and Public Services of the Province of Buenos Aires to renegotiate their concession contracts and to start a tariff reform process, which was formally approved on November 30, 2005. An initial 19% DVA increase became effective in August 2005 and an additional 8% DVA increase became effective in January 2007. On July 31, 2008, ENRE (the national electricity regulatory agency) issued Resolution 324 that granted EDELAP a tariff increase DVA of approximately 18%. In addition, the Government established that a process to establish the RTI (integral tariff reset) will take place during February 2009. Upon execution of these Letters of Understanding, AES agreed to postpone or suspend certain international claims. However, these Letters of Understanding provide that if the government does not fulfill its commitments, AES may restart the international claim process. AES has postponed any action until the tariff reset is finalized.

On August 25, 2008 the Province of Buenos Aires issued the Decree 1578, that granted EDES a tariff increase DVA of approximately 49%. This decree granted a rise in the tariff at all levels of consumption. The Government also established that the tariff review process will take place during 2009.

El Salvador: Electricity generators and distribution companies in El Salvador are linked through a single, main interconnected system managed by the Transactions Unit ("UT"). The transmission system is operated by ETESAL, a state-owned company. The El Salvador wholesale electricity market is comprised of: (1) a contract market based on contracts between electricity generators, distributors and trading companies and (2) a spot market for uncontracted electricity based upon bids from spot market participants specifying prices at which they are willing to buy or sell electricity.

El Salvador has five electricity distribution companies, which came under private ownership as part of the privatization process that took place in 1998. AES controls four of these five distribution companies, encompassing about 80% of the national territory, serving about 1,100,000 customers. El Salvador's electricity industry is regulated under the General Electricity Law enacted in October 1996 and subsequently amended twice in June 2003, and in October 2007. The Superintendencia General de Electricidad y Telecomunicaciones ("SIGET") is an independent regulatory authority that regulates the electricity and telecommunications sectors in El Salvador.

The maximum tariff to be charged by distribution companies to regulated customers is subject to the approval of SIGET. The components of the electricity tariff are (a) the average energy price ("energy charge"), (b) the charges for the use of the distribution network ("distribution charge"), and (c) customer service costs ("service charge"). Both the distribution charge and service charge are based on average capital costs as well as operation and maintenance costs of an efficient distribution company. The energy charge is adjusted every six months to reflect the changes in the spot market price for electricity. The distribution charge and service charge are approved by SIGET every five years and have two adjustments: (1) an annual adjustment considering the inflation variation and (2) an automatic adjustment in April, July and October, provided that change in the adjusted value exceeds the value in effect by at least 10%.

The distribution tariff for all five distribution companies in El Salvador was reset on December 4, 2007. The approved tariff schedule is valid for the next five years (2008-2012). One outcome of the tariff reset was a significant reduction in the distribution value added component of the tariff for each of AES's distribution businesses. On March 28, 2008, after negotiations with SIGET and the El Salvador Presidential House, a revised tariff schedule was enacted. It came into force on April 1, 2008. The negotiated tariff schedule included a higher technical losses index than originally recognized by SIGET. This permits the companies to recover an adequate portion of their technical losses through billing. The new tariffs improved distribution revenues by around 9% compared to the rates set on December 4, 2007. This schedule is valid for the period 2008-2012. As a result of this negotiation and the enactment of the new rate schedule, AES agreed to withdraw its appeal recourse before the El Salvador Supreme Court, which was introduced on December 11, 2007.

As expected, SIGET approved new regulations for Service Connection and Reconnection charges, which came into force on November 3, 2008. The charges underwent a reduction of about 20% on average for these activities. In addition, there are also Quality of Service Regulations contained in SIGET resolution 192-E-2004, which require that distribution companies comply with certain Technical Product Standards, Technical Service Standards and Commercial Service Standards. The Quality of Service Standards became permanent in 2008, which means that they are now enforced to their full extent.

On November 28, 2008 SIGET enacted the bylaw for the Operation of the Transmission System and the Wholesale Market based on Generation Costs, which provides rules for the Independent System Operator, who is responsible for administering and operating the wholesale market for electricity. From 1996 until the passing of the bylaw, the wholesale market was governed by a price-offer system, whereby each generator submitted a daily price offer for its available generation (limited by a price cap) and the offer price determined dispatch. Under the new bylaw, each generating unit will have audited variable costs (generating costs), which will determine the economic dispatch merit order. The bylaw also provides for additional capacity payments to providers as determined by the regulator. The variable costs mechanism enabling legislation has been enacted, and it provides for a preparation and transition period before the regulations are in full force and effect which is scheduled to occur in 2010.

Currently, the Company does not face any regulatory action in El Salvador.

Dominican Republic. The Dominican Republic has one main interconnected system with 3,000 MW of installed capacity and four isolated systems. Under current regulations, the Dominican government retains ultimate oversight and regulatory authority as well as control and ownership of the transmission grid and the hydroelectric facilities in the country. In addition, the government shares ownership in certain generation and distribution assets. The Dominican government's oversight responsibilities for the electricity sector are carried out by the National Energy Commission ("CNE") and the Superintendency of Electricity.

The wholesale market in the Dominican Republic commenced operations in June 2000. This market includes a spot market and contract market. All participants in the Dominican electric system with available units are put in the spot market in order of merit for dispatch based on lowest marginal cost. The order of merit determines the order in which each participant is dispatched. The order of merit is effective for one week. The price to be paid for the electricity corresponds to the marginal cost of the last dispatched unit using natural gas. Sector participants may execute private contracts in which they agree to specific price, energy, and capacity transactions.

The regulatory framework in the Dominican electricity market establishes a methodology for calculating the firm capacity, which is the supply that can be economically dispatched by a generating unit during peak demand, provided that the unit has a certain unavailability (mechanical in the case of thermal power plants, and primarily hydrological in the case of hydroelectric power plants). The total firm capacity of the electric system in a year is equal to the peak demand of that year. The capacity payment is regulated as the average fixed cost (monthly capital cost of the investment cost plus fixed operational and maintenance cost) of an oil-fired open cycle gas turbine, multiplied by a factor to take into account a reserve margin.

The financial crisis in the Dominican Republic during 2004 caused a financial crisis in the electricity sector. The inability to pass through higher fuel prices and the costs of devaluation led to a gap between collections at the distribution companies and the amounts required to pay the generators. In 2005 the government committed itself to stay current with its energy bills and also to cover the potential deficit of distribution companies. During 2005, 2006, and 2007 the government was paying both the subsidies and its own energy bills on time. In December 2006, a bill with the primary goal of supporting fraud prosecution was sent to Congress by the Executive Branch. This bill was approved in July 2007 and is expected to help the sector reach financial sustainability by: criminalizing electrical fraud; setting new limits to non-regulated users in order to protect the distribution companies' market; allowing for service cutoff after only one bill due; and classifying as a national security breach the intentional damage or interruption of the national electricity grid.

Despite these improvements, the electricity sector has not completely recovered from the financial crisis of 2004. In 2006 the electricity sector needed $530 million in subsidies from the government to cover current operations. In 2007, the sector needed more than $630 million and, at projected fuel prices, (petroleum at $75 per barrel) the government budgeted subsidies of $800 million for 2008. In 2008, because petroleum and all other fuels doubled in price, the subsidy of $800 million was not enough to cover additional costs, which reached $1,200 million. The Government has been trying to raise more funds, by allocating funds from the national budget, such as a recent approval of an additional $300 million in electricity subsidies supplementing 2008. In addition the Government has been trying to obtain credit from local banks and multilateral institutions.

In October of 2006, CDEEE (Corporación Dominicana de Empresas Electricas Estatales), the state owned transmission and hydro company, began making public statements that it intends to seek to compel the renegotiation and/or rescission of long-term PPAs with certain power generating companies in the Dominican Republic. Although the details concerning CDEEE's statements are unclear and no formal government action has been taken, AES holds ownership interests in three power generation facilities in the country (AES Andres, Itabo and Dominican Power Partners) that could be adversely affected by the actions taken by the CDEEE, if any.

Panama. In 1998, as part of the privatization process, the Panamanian Government divided the *Instituto de Recursos Hidráulicos y de Electrificación* (IRHE's) assets and operations into four generation companies, three distribution companies and one transmission company. Following a public auction, 51% of shares in each distribution company were sold by the Panamanian Government in September 1998. This was followed in November 1998 by the sale of 49% of shares in each of the three state-owned hydroelectric generation companies and 51% of shares in the main thermoelectric generation company. These sales were completed in 1999. As a result of the sales, AES acquired control and operation of two of the hydroelectric companies.

The Panamanian Government retained control of *Empresa de Transmisión Eléctrica, S.A.* (ETESA), the state-owned transmission company, which operates and controls the National Interconnected System (NIS) of 230Kv and certain 115Kv lines. Panama has one main interconnected system (the NIS) operated by ETESA. The transmission charges are reviewed and approved every four years by The National Authority of Public Services (ASEP); the current transmission tariffs are in effect until June 2009. The ASEP sets the framework for the tariff regime, determining transmission zones and rates applicable in the relevant zones and regulates power generation, transmission, interconnection and distribution activities in the electric power sector.

The National Dispatch Center ("CND") is responsible for planning, supervising and controlling the integrated operation of the NIS and for ensuring its safe and reliable operation. The dispatch order is determined and planned by the CND, which dispatches electricity from generation plants based on lowest marginal cost. According to the Electricity Law, the order in which generators are dispatched must be based on maximizing efficient consumption of energy by minimizing the total cost of energy in the Panamanian power system.

Distribution companies are required to contract 100% of their annual power requirements (although they can self-generate up to 15% of their demand). Generators can enter into long-term PPAs with distributors or unregulated consumers. In addition, generators can enter into alternative supply contracts with each other. The terms and contents of PPAs are determined through a competitive bidding process and are governed by the Commercial Rules. AES Panama participated in the last Public Bid of Long Term called EDEMET 01-08 for the supply of power and energy until the year 2022. The public bid was held on September 9, 2008 and part of the Public Bid for the sale of 100MW at $92.95/MWh from the year 2012 until the year 2021 and 41 MW at $99.87/MWh from the year 2013 until the year 2022 was awarded to AES Panama. AES Panama already contracted to sell an average of 86% of firm capacity through 2018.

Under the Electricity Law, generation companies will not be granted new concessions if they would thereby account, directly or indirectly, for more than 25% of national electricity consumption. The percentage may be increased by the Panamanian Government where justified by competitive conditions subject to the approval of the ASEP. The percentage was increased to 40% by Executive Resolution No. 76 of October 19, 2005. This provision does not apply to licenses for thermal generation.

Besides the PPA market, generators may buy and sell energy in the spot market. Energy sold in the spot market corresponds to the hourly differences between the actual dispatch of energy by each generator and its contractual commitments to supply energy. The energy spot price is set by the order in which generators are dispatched. The CND ranks generators according to their variable cost (thermal) and the value of water (hydroelectric), starting with the lowest value, thereby establishing on an hourly basis the merit order in which generators will be dispatched the following day in order to meet expected demand. This price ranking system is intended to ensure that national demand will be satisfied by the lowest cost combination of available generating units in the country. A generator whose dispatched energy is greater than its contractual commitments to supply energy at any given time is a seller in the energy spot market; the reverse is true for a generator whose dispatched energy is less than its contractual commitments to supply energy. Generators and unregulated consumers can purchase energy in the energy spot market, while only generators can sell energy in the energy spot market.

North America

United States. The U.S. wholesale electricity market consists of multiple distinct regional markets that are subject to both federal regulation, as implemented by the FERC, and regional regulation as defined by rules designed and implemented by the Independent System Operator ("ISO"). These rules for the most part govern such items as the determination of the market mechanism for setting the system marginal price for energy and the establishment of guidelines and incentives for the addition of new capacity. The current regulatory framework in the U.S. is the result of a series of regulatory actions that have taken place over the past two decades, as well as numerous policies adopted by both the federal government and the individual states that encourage competition in wholesale and retail electricity markets.

The federal government, through regulations promulgated by FERC, has primary jurisdiction over wholesale electricity markets and transmission services. While there have been numerous federal statutes enacted during the past 30 years, including the Public Utility Regulatory Policy Act of 1978 ("PURPA"), the Energy Policy Act of 1992 ("EPAct 1992") and the Energy Policy Act of 2005 ("EPAct 2005"), there are two fundamental regulatory initiatives implemented by FERC during that time frame that directly impact our U.S. businesses:

(a) FERC approval of market based rate authority beginning in 1986 for many providers of wholesale generation; and

(b) FERC issuance of Order #888 in 1996 mandating the functional separation of generation and transmission operations and requiring utilities to provide open access to their transmission systems.

Several of our generation businesses in the U.S. currently operate as Qualifying Facilities ("QF's") as defined under PURPA. These businesses entered into long-term contracts with electric utilities that had a mandatory obligation at that time, as specified under PURPA, to purchase power from QF's at the utility's avoided cost (i.e. the likely costs for both energy and facilities that would have been incurred by the purchasing utility if that utility had to provide its own generating capacity). EPAct 2005 later amended PURPA to eliminate the mandatory purchase obligation in certain markets, but did so only on a prospective basis. Cogeneration facilities and small power production facilities that meet certain criteria can be QFs. To be a QF, a cogeneration facility must produce electricity and useful thermal energy for an industrial or commercial process or heating or cooling applications in certain proportions to the facility's total energy output, and must meet certain efficiency standards. To be a QF, a small power production facility must generally use a renewable resource as its energy input and meet certain size criteria.

Our non-QF generation businesses in the U.S. currently operate as Exempt Wholesale Generators ("EWG's") as defined under EPAct 1992. These businesses were historically exempt from PUHCA 1935 and are also exempt from the Public Utility Holding Company Act of 2005 ("PUHCA 2005"), and subject to FERC approval, have the right to sell power at market-based rates, either directly to the wholesale market or to a third party offtaker such as a power marketer or utility/industrial customer. As an example, one of our larger generation businesses in the U.S. is Eastern Energy. A brief description of the regulatory environment under which Eastern Energy operates is provided below:

Eastern Energy. AES, through its Eastern Energy subsidiary, currently operates four coal-fired generation plants with a combined total capacity of 1,268 MW located in the state of New York. The plants sell power directly to the New York Independent System Operator ("NYISO"), a FERC approved regional operator which manages the transmission system in New York and operates the state's wholesale electricity markets. NYISO is regulated as an electric utility by the FERC and has an Open Access Transmission Tariff on file that incorporates rates and conditions for use of the transmission system and a Market Services Tariff that describes the rules and conditions of use for the various markets.

The NYISO wholesale power markets are based on a combination of bilateral contracts, contracts for differences ("CFDs") which financially settle relative to an agreed upon index or floating price, and NYISO-administered day-ahead and real-time energy markets. The day-ahead market includes energy, regulation and operating reserves and is a financially binding commitment to produce or replace the products sold. The real time market, which also offers energy, regulation and operating reserves, is a balancing market and is not a financially binding commitment but rather a best effort standard. NYISO uses location based marginal pricing (i.e., pricing for energy at a given location based on a market clearing price that takes into account physical limitations, generation and demand throughout the region) calculated at each node to account for congestion on the grid. Generators are paid the location marginal price at their node, while the end customer pays a zonal price that is the average of nodes within a zone. The market has a $1,000 per MWh cap on bids for energy. However, market rules also incorporate scarcity pricing mechanisms when the market is short of required operating reserves that can result in energy prices above $1,000 per MWh.

In addition to our generation businesses, we also own IPL, a vertically integrated utility located in Indiana. A brief description of the regulatory environment under which IPL operates is provided below:

IPL. As a regulated electric utility, IPL is subject to regulation by the FERC and the Indiana Utility Regulatory Commission ("IURC"). As indicated below, the financial performance of IPL is directly impacted by the outcome of various regulatory proceedings before the IURC and FERC.

IPL is subject to regulation by the IURC with respect to the following: its services and facilities; the valuation of property; the construction; purchase or lease of electric generating facilities; the classification of accounts; rates of depreciation; retail rates and charges; the issuance of securities (other than evidences of indebtedness payable less than twelve months after the date of issue); the acquisition and sale of some public utility properties or securities; and certain other matters.

IPL's tariff rates for electric service to retail customers (basic rates and charges) are set and approved by the IURC after public hearings ("general rate case"). General rate cases, which have occurred at irregular intervals, include the participation of consumer advocacy groups and certain customers. The last general rate case for IPL was completed in 1995. In addition, pursuant to statute, the IURC is to conduct a periodic review of the basic rates and charges of all utilities at least once every four years, but the IURC has the authority to review the rates of any utility in its jurisdiction at any time it chooses. Such reviews have not been subject to public hearings.

The majority of IPL customers are served pursuant to retail tariffs that provide for the monthly billing or crediting to customers of increases or decreases, respectively, in the actual costs of fuel (including purchased power costs) consumed from estimated fuel costs embedded in basic rates, subject to certain restrictions on the level of operating income. These billing or crediting mechanisms are referred to as "trackers". This is significant because fuel and purchased power costs represent a large and volatile portion of IPL's total costs. In addition, IPL's rate authority provides for a return on IPL's investment and recovery of the depreciation and operation and maintenance expenses associated with certain IURC-approved environmental investments. The trackers allow IPL to recover the cost of qualifying investments, including a return on investment, without the need for a general rate case.

IPL may apply to the IURC for a change in its fuel charge every three months to recover its estimated fuel costs, including the energy portion of purchased power costs, which may be above or below the levels included in its basic rates and charges. IPL must present evidence in each fuel adjustment charge ("FAC") proceeding that it has made every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest cost reasonably possible.

Independent of the IURC's ability to review basic rates and charges, Indiana law requires electric utilities under the jurisdiction of the IURC to meet operating expense and income test requirements as a condition for approval of requested changes in the FAC. Additionally, customer refunds may result if IPL's rolling 12-month operating income, determined at quarterly measurement dates, exceeds IPL's authorized annual net operating income and there are not sufficient applicable cumulative net operating income deficiencies against which the excess rolling twelve month net operating income can be offset.

In IPL's two most recently approved FAC filings (FAC 81 and 82), the IURC found that IPL's rolling annual jurisdictional retail electric net operating income was lower than the authorized annual jurisdictional net operating income. However, in IPL's FAC 76 through 80 filings, the IURC found that IPL's rolling annual jurisdictional retail electric net operating income was greater than the authorized annual jurisdictional net operating income. Because IPL has a cumulative net operating income deficiency, IPL has not been required to make customer refunds in their FAC proceedings. However, in an effort to allay concerns raised by the IURC regarding IPL's level of earnings, in IPL's IURC approved FAC 79 and 80 IPL provided voluntary credits to its retail customers totaling $30 million and $2 million, respectively. IPL recorded a $30 million deferred fuel regulatory liability in March 2008 and a $2 million deferred fuel regulatory liability in June 2008, with corresponding and respective reductions against revenues for these voluntary credits. Approximately $30.3 million has been applied in the form of offsets against fuel charges that customers would have otherwise been billed during June 1, 2008 through December 31, 2008 and approximately $1.7 million remains to be applied as of December 31, 2008.

IPL has participated in the restructured wholesale energy market since its implementation April 1, 2004. The restructured wholesale energy market is operated by Midwest Independent System Operator, Inc. ("MISO") and under the jurisdiction of the FERC. Prior to the implementation of these markets, IPL dispatched its generation and purchased power resources directly to meet its demands. In the MISO markets, IPL is obligated to offer its generation and to bid its demand into the market on an hourly basis. The MISO settles these hourly offers and bids based on location based marginal prices (i.e., pricing for energy at a given location based on a market clearing price that takes into account physical limitations, generation and demand throughout the MISO region). The MISO evaluates the market participants' energy injections into, and withdrawals from, the system to economically dispatch the entire MISO system on a five-minute basis. Market participants are able to hedge their exposure to congestion charges, which result from constraints on the transmission system, with certain Financial Transmission Rights ("FTRs"). Participants are allocated FTRs each year and are permitted to purchase additional FTRs. As anticipated, and in keeping with similar market start-ups around the world, location marginal prices are volatile, and there are process, data and model issues requiring editing and enhancement. IPL and other market participants have raised concerns with certain MISO transactions and the resolution of those items could impact our results of operations.

In IPL's March 2006 proceeding (FAC 71) before the IURC, a consumer advocacy group representing some of IPL's industrial customers requested that a sub-docket be established. Through the sub-docket, the industrial group was seeking a review of various FAC components including a review of IPL's treatment of transmission losses through ISO and an IURC order requiring IPL to provide customer refunds for past charges and changes to future ratemaking. Because of the uncertain outcome of the FAC 71 sub-docket, the IURC orders in IPL's FAC 71 through 81 proceedings had approved IPL's FAC factors on an interim basis, subject to refund. In December 2008, the IURC issued an order in which it determined that IPL should continue its current treatment of transmission losses and therefore removed the "subject to refund" provisions in its FAC 71 through 81 orders, as it pertains to the FAC 71 sub-docket.

Mexico. Mexico has a single national electricity grid (referred to as the "National Interconnected System"), covering nearly all of Mexico's territory. The only exception is the Baja California peninsula which has its own separate electricity system. Article 27 of the Mexican Constitution reserves the generation, transmission, transformation, distribution, and supply of electric power exclusively to the Mexican State for the purpose of providing a "public service". The Federal Electricity Commission ("CFE"), by virtue of Article 1 of the Energy Law, is granted sole and exclusive responsibility for providing this public service as it relates to the supply, transmission and distribution of electric power.

In 1992, the Energy Law was amended to allow private parties to invest in certain activities in the Mexico electrical power market, under the assumption that "self-supply" generation of electric power is not considered a public service. These reforms allowed private parties to obtain permits from the Ministry of Energy for (i) generating power for self-supply; (ii) generating power through co-generation processes; (iii) generating power through independent production; (iv) small-scale production and (v) importing and exporting electrical power. Beneficiaries holding any of the permits contemplated under the Energy Law are required to enter into PPAs with the CFE with regard to all surplus power produced. It is under this basis that AES's Mérida ("Mérida") and TEG/TEP facilities operate. Mérida, a majority owned 484 MW generation business, provides power exclusively to CFE under a long-term contract. TEG/TEP provides the majority of its output to two offtakers under long-term contracts, and can sell any excess or surplus energy produced to CFE at a predetermined day-ahead price.

Europe & Africa

European Union. European Union ("EU") member states are required to implement EU legislation, although there is a degree of disparity as to how such legislation is implemented and the pace of implementation in the respective member states. EU legislation covers a range of topics which impact the energy sector, including market liberalization and environmental legislation. The Company has subsidiaries which operate existing generation businesses in a number of countries which are member states of the EU, including the Czech Republic, Hungary, the Netherlands, Spain and the United Kingdom. The Company also has subsidiaries which are in the process of constructing a generation plant in Bulgaria. Bulgaria became a member state of the EU as of January 1, 2007.

The principles of market liberalization in the EU electricity and gas markets were introduced under the Electricity and Gas Directives. In 2005, the European Commission ("the Commission"), the legislative and administrative body of the EU, launched a sector-wide inquiry into the European gas and electricity markets. In the context of the electricity market, the inquiry has to date focused on identifying issues related to price formation in the electricity wholesale markets and the role of long-term agreements as a possible barrier to entry with a view to improving the competitive situation. In January 2007, the Commission published a proposal for a new common energy policy for Europe. In November 2008, the Commission published a second Strategic Energy Review aimed at developing the concept of a common European Energy Policy. It focused mainly on security of supply and infrastructure development. The Strategic Energy Review proposed reviews of the Gas Storage Directive in 2010 and an update of the Oil Stocks Directives.

In October 2008, Energy Ministers reached political agreement on the "Third Liberalism Package," which includes five pieces of legislation, Electricity and Gas Directives, Electricity and Gas Regulations and Agency Regulation, which are expected to be passed by Parliament in early 2009 and come into force at the national level in 2009/2010. Little progress was made on this legislation during the fourth quarter of 2008, as legislative efforts focused instead on the "Green Package." The Green Package consists of 3 directives (Carbon Capture & Storage, EU Emissions Trading Scheme ("ETS"), and the Renewables Directive) which were agreed by the European Parliament in December 2008, along with a decision on Green House Gas burden sharing. The key elements of the Green Package include:

- A 20% reduction in EU GHG emissions by 2020, as compared with 1990 levels, or 30% if other developed nations agree to take similar action by 2020;

- The ETS caps will deliver 21% GHG reduction by 2020 compared to 2005, distribution will be skewed to favor lower GDP member states, and auctioning will be phased in for some member states power sectors;
- 20% increase in energy efficiency; and
- Minimum 10% target for renewable energy by 2020.

Progress in the implementation of the directives referred to above varies from member state to member state. AES generation businesses in each member state will be required to comply with the relevant measures taken to implement the directives. See "Air Emissions" below, for a description of these Directives.

Kazakhstan. Under the present regulatory structure, the electricity generation and supply sector in Kazakhstan is mainly regulated by the Ministry of Energy and Mineral Resources (the "Ministry"), the Agency for protection of competition (the "AZK") and the Agency for Regulation of Natural Monopolies (the "Agency"). Each has the necessary authority for the supervision of the Kazakhstan power industry. However, the continuous changes in the law result in certain contradictions between different laws and regulations. This in turn results in uncertainty in the regulatory environment of the power sector.

Kazakhstan has a wholesale power market, where generators and customers are free to sign contracts at negotiated prices. The power market infrastructure is evolving into a functioning centralized trading system. Since 2004, power producers, guaranteed suppliers and wholesale traders have been required to purchase and sell part of their electricity volumes on the electronic centralized power trading market. State-owned entities and natural monopolies are obligated to buy power through tenders and centralized trading. The wholesale transmission grid is owned by state-owned company KEGOC, which also acts as the system operator. The government is planning to introduce a real-time balancing market in 2009.

To date, the Agency approves and regulates all tariffs for power transmission and distribution. Under the law, power companies which the AZK considers dominant entities must notify the Agency of the proposed increase of their prices and the Agency has the right to veto such proposed tariff increases. Further, the Agency has the right to request a decrease in the applicable tariffs and/or request introduction of the fixed prices for those power companies with prior record of anti-monopoly violations. In addition, the government introduced price regulation of the power sales from the Northern zone of the wholesale market to the southern region of Kazakhstan, and power companies involved in such transactions require approval for any tariff increase from the AZK.

Two hydro plants which are under AES concession, Ust-Kamenogorsk and Shulbinsk, together with Ust-Kamenogorsk TET, all located in the Eastern Kazakhstan region, are recognized by the AZK as dominant entities in the Eastern Kazakhstan regional market because their aggregated share in the electricity supply commodity market in the region is 70%. These businesses are required to notify the AZK about any power price increases for regional customers. Additionally, in December 2008, Shulbinsk was included in the dominant companies list for the Taldykorgan region and Irtysh Power and Light together with Sogrinsk CHP were included in the dominant list of the East Kazakhstan region. Ekibastuz GRES, which is under AES management, must obtain approval from the AZK for power price increases for its customers in the southern region of Kazakhstan.

Effective January 1, 2008, the Prime Minister of Kazakhstan ordered all generating plants in Kazakhstan to maintain fourth quarter 2007 price levels through the first quarter of 2008 in order to help moderate high inflation rates in Kazakhstan. Beginning in April 2008, the government permitted power plants to increase the electricity tariffs charged to their electricity retail companies by 13.6% for the remainder of 2008 and eliminated the electricity price restrictions for other customers.

In 2008, the parliament adopted a new competition law and amendments to the Electricity Law and Natural Monopoly legislation, which became effective as of January 2009. According to the new amendments to the Electricity Law, the Ministry should determine the groups of technologically identical power generation companies and set upper price ceilings for each group of power companies for seven years. In cases where such price ceiling is too low to support new investments, a power generation company will be able to apply for investment tariffs. The Ministry and the AZK have rights jointly to approve the investment programs, approve the investment tariffs and sign an investment contract with a power company. The legislation envisages large fines in the case of failures to implement investment programs. Trading companies will be prohibited and power plants will be able to conduct trading activities only in order to provide electricity supply to its customers during emergency shutdowns.

The new competition law excludes from the list of antimonopoly violations agreed actions between affiliated companies. Amendments to the Natural Monopoly law give additional authority to the Agency to control allowed costs of natural monopoly companies and impose responsibility on these companies to eliminate non-technical losses within the timeframes set by the Agency. The law eliminates the price regulation of power companies recognized as dominant entities and the price regulation of power sales from the Northern to the southern region of Kazakhstan.

In 2008, the Company, through an indirect wholly owned subsidiary, sold its assets in Northern Kazakhstan, including AES Ekibastuz LLP, the operator of the AES Ekibastuz power plant, and Maikuben West LLP, the owner of the AES Maikuben coal mine. In 2008, the Company continued to manage these businesses pursuant to a management agreement. The Company is retaining its facilities in Eastern Kazakhstan, including Sogrinsk CHP and Ust-Kamenogorsk CHP; its facilities under concession agreements, Shulbinsk HPP and Ust-Kamenogorsk HPP; and its trading business, Nurenergoservice L.L.P.

Cameroon. The law governing the Cameroonian electricity sector was passed in December 1998. The regulator is the Electricity Sector Regulatory Agency ("ARSEL") and its role is regulating and ensuring the proper functioning of the electricity sector, supervising the process of granting concessions, licenses and authorizations to operators, monitoring the application of the electricity regulation by the operators of the sector, approving and/or publicizing the regulated tariffs in the sector and safeguarding the interests of electricity operators and consumers. ARSEL has the legal status of a Public Administrative Establishment and is placed under the dual technical supervisory authority of the Ministries charged with electricity and finance.

The concession agreement of July 2001 between the Republic of Cameroon and Sonel covers a twenty-year period. The first three years constituted a grace period to permit resolution of issues existing at the time of the privatization. In 2006, Sonel and the Cameroonian government signed an amended concession agreement. The amendment updates the schedule for investments to more than double the number of people Sonel serves over the next 15 years and provides for upgrading the generation, transmission and distribution system. Additionally, the concession agreement amended the tariff structure that results in an electricity price based on a reasonable return on the generation, transmission and distribution asset base and a pass through of a portion of fuel costs associated with increased thermal generation in years when hydrology is poor. The amended concession agreement has also reduced the cost of connection to facilitate access to electricity in Cameroon.

Nigeria. Nigeria's electricity sector consists of a generation market comprised of approximately 6 GW of installed capacity, with the state-owned entity, Power Holding Company of Nigeria ("PHCN") holding approximately 88% of the market share and two IPPs holding the remaining 12%. The IPPs, of which AES Nigeria Barges Ltd. ("AESNB") is one, maintain long term contracts with PHCN as the sole offtaker.

All of Nigeria's distribution and transmission networks and companies are owned by state entities.

In March 2005, President Obasanjo signed the Power Sector Reform Bill into law, enabling private companies to participate in transmission and distribution in addition to electricity generation that had previously been legalized. The government has separated PHCN into eleven distribution firms, six generating companies, and a transmission company, all of which plan to be privatized. Several problems, including union opposition, have delayed the privatization indefinitely. However, it is envisaged that after the privatization process, the power sector will transform into a fully liberalized market.

The Nigerian Electricity Regulatory Commission ("NERC") has also been established to regulate the electricity sector including the setting of tariffs and industry standards for future electricity sector development. NERC has asked the Company to revalidate our generation license. As part of the revalidation exercise, NERC is imposing certain conditions on the Company which are in conflict with its PPA and which may result in additional costs. The Company is reviewing the terms of the new license and plans to negotiate its terms and conditions to make them more consistent with our existing PPA. At this time, it is not clear what might be the final outcome of these negotiations. Under the terms of the PPA, the Company has a right to pass through any such additional cost and there is no cap. At present we estimate that the additional cost, if any, due to the license will be about $1 million.

Hungary. The Hungarian market has one main interconnected system. The state-owned electricity wholesaler, MVM, is the dominant exporter, importer and wholesaler of electricity. MVM's affiliated company, MAVIR is the Hungarian transmission system operator. Currently, Hungary is dependent on energy imports (mainly from Russia) since domestic production only partially covers consumption. Magyar Energia Hivatal (MEH), is the government entity responsible for regulation of the electricity industry in Hungary.

With the adoption of a new Electricity Act by Hungary in 2007, which became effective January 1, 2008, Hungary is taking the final legislative step to implement a fully liberalized electricity market. By virtue of the Electricity Act, all customers become eligible to choose their electricity supplier. In the competitive market, generators sell capacity to wholesale traders, distribution companies, other generators, electricity traders and eligible customers at an unregulated price.

Shortly before its accession to the European Union, the Hungarian government notified the European Commission of arrangements concerning compensation to the state owned electricity wholesaler, MVM. The Commission decided to open a formal investigation in 2005 to determine whether or not any government subsidies were provided by MVM to its suppliers which were incompatible with the common market. In June 2008, the Commission reached its decision that the PPAs, including AES Tisza's PPA, contain elements of illegal state aid. The decision requires Hungary to terminate the PPAs within six months of the June 2008 publication of the decision, and to recover the alleged illegal state aid from the generators within ten months of publication. Hungary and the Commission are in the process of resolving confidentiality matters relating to the wording of the decision, which has not yet been notified by the Commission to the generators. AES Tisza is challenging the Commission's decision in the Court of First Instance of the European Communities. Referring to the Commission's decision, Hungary adopted act number LXX of 2008 which terminates all long-term PPAs in Hungary, including AES Tisza's PPA, as of December 31, 2008, and requires generators to repay the alleged illegal state aid that was allegedly received by the generators through the PPAs, and provides for the possibility to offset stranded costs of the generators from the repayable state aid. Depending on the outcome of these events, there could be a material impact on the Company.

At the end of 2006 and for all of 2007, the Hungarian government reintroduced administrative pricing for all electricity generators, overriding PPA pricing, including the pricing in AES Tisza's PPA. In January 2007, AES Summit Generation Limited, a holding company associated with AES Tisza's operations in Hungary, and AES Tisza notified the Hungarian government of a dispute concerning its acts and omissions related to AES's substantial investments in Hungary in connection with the reintroduction of the administrative pricing for Hungarian electricity generators. In conjunction with this, AES Summit and AES Tisza have commenced International Centre for Settlement of Investment Disputes ("ICSID") arbitration proceedings against Hungary under the Energy Charter Treaty in connection with Hungary's reintroduction of the administrative pricing for Hungarian electricity generators. In the meantime, pursuant to the new Electricity Act in force from January 1, 2008, administrative pricing for electricity generators was subsequently abolished.

Hungary, pursuant to act number LXVII of 2008 introduced a special tax to be levied on energy companies including companies such as AES Tisza. The rate of the special tax is 8% and it is valid for two years, i.e., 2009 and 2010.

Ukraine. The electricity sector in Ukraine is regulated by the National Energy Regulatory Commission ("NERC"). Electricity costs to end users in Ukraine consist of three main components: 1) the wholesale market tariff is the price at which the distributor purchases energy on the wholesale market, 2) the distribution tariff covers the cost of transporting electricity over the distribution network, 3) the supply tariff covers the cost of supplying electricity to an end user. The total cost permitted by the regulator under the distribution and supply tariff each year is referred to as DVA. The distribution and supply tariffs for the five privatized distribution companies in Ukraine are established by the NERC on an annual basis, at which time an operational expense allowance is adjusted for inflation and the tariff is adjusted for the amount of capital that was invested for the year and the amount of energy that was distributed. A change in the methodology was effected at the end of 2007 with respect to the treatment of wages and salaries such that the adjustment for inflation replaced by an allowance based on the average industrial wage in the country.

Due to Parliamentary elections in 2006, there were significant staff changes in the key regulatory agencies. In particular, a new Minister of Energy and a new NERC Chairman were appointed. NERC twice authorized 25% increases in end user tariffs for residential customers in 2006. During 2006, the wholesale electricity market price increased approximately 18% due to increases in fuel prices and changes in the pricing arrangements for thermal generating companies. During 2007, the wholesale electricity market price increased by 21% and during 2008, it increased by 49%.

At the end of 2008, the tariff methodology for the calculation of the DVA in AES Ukraine's tariffs was to be comprehensively reviewed, including the rate of return on initial investment, operational expenses treatment, and definition and valuation of the rate base. However, in late 2008, NERC introduced minimal and short term changes into the tariff methodology with a view to delaying a comprehensive review until 2010. The delay is due to NERC's intention to develop a new methodology applicable to all distribution and supply companies. Short term changes implemented in 2009 include (a) setting rates of return on initial investment at the level of 15% after tax for 2009, (b) wages and salaries treatment remaining as per the mechanism introduced in 2007, (c) operational expenses subject to indexation by inflation and (d) other operational expenses subject to adjustment based on actual expenses given reasonable substantiation. In 2010, a comprehensive tariff methodology review will take place addressing the issues of (1) rate of return on investment, (2) rate base revaluation, and (3) operational expense allowance treatment.

During the tariff review for 2009, NERC policies were directed by the provisions of the Presidential decree "On Additional Measures for Overcoming the Financial Crisis". This decree introduced a moratorium on natural monopolists' price increases until the financial situation in the Ukraine stabilizes. The DVA (total cost permitted in tariffs) approved for 2009, however, increased 3.8% for AES Kievoblenergo and 5.4% for AES Rivneenergo.

United Kingdom. AES Kilroot ("Kilroot") is subject to regulation by the Northern Ireland Authority for Utility Regulation ("NIAUR"). Under the terms of the generating license granted to Kilroot, the NIAUR has the right to review and, subject to compliance with certain procedural steps and conditions, require the early termination in 2010 of the long-term PPAs under which Kilroot currently supplies electricity to Northern Ireland Electricity ("NIE") until 2024.

On March 21, 2007, Order 2007 (Single Wholesale Market—Northern Ireland) was enacted, which provided for the introduction and regulation of a single wholesale electricity market for Northern Ireland and the Republic of Ireland that began operation in November of 2007. The legislation grants powers to the Department of Enterprise, Trade and Investment, or NIAER, for a period of two years to modify existing arrangements within the electricity market in Northern Ireland, including the power to modify existing licenses and/or require the amendment or termination of existing agreements or arrangements, to allow for the creation of a single wholesale electricity market. Modifications have been made to Kilroot's license and agreements to accomplish the objectives of the single market and to allow for the separation of NIE into constituent bodies and the extraction of the management of the transmission system ("SONI") from NIE. These activities have been completed with reasonably minimal impact and with the maintenance of existing underlying guarantees for Kilroot.

Revenues from the new market include a regulated capacity and an energy payment based on the system marginal price ("SMP"). Bidding principles restrict bids to short run marginal cost ("SRMC"). Total annual capacity payments are calculated as the product of the annualized fixed cost of a best new entrant ("BNE") peaking plant multiplied by the capacity required to meet the security standard. This capacity pot is then distributed on the basis of plant availability.

Despite the new market mechanisms, Kilroot has continued to operate under its existing PPA which is able to subsist within the single wholesale market, although operating dispatch instructions are now a function of the new market inputs and system constraints and no longer the exclusive decision of NIE. The impact on the business has been minimal as the relatively higher price of gas has led Kilroot (a coal-fired plant) to be dispatched consistently during peak winter demand. However, NIAUR sought to invoke the introduction of the single electricity market ("SEM") as a rationale for the early termination in 2010 of the long-term PPAs between Kilroot and NIE. Kilroot challenged by way of judicial review proceedings the determination of NIAUR that the introduction of the SEM constituted requisite arrangements to allow such early termination. The hearing duly took place in May 2008 and found in favor of the Regulator. Although this grants the ability to the Regulator to terminate the contracts from 2010, the current expectation is that due to the value of the CO_2 allowances (that passes through to the consumer while Kilroot is under contract), the likely earliest date that cancellation would be invoked is after 2012 (when free allowances are due to cease).

Following receipt of a complaint from Friends of the Earth claiming that the existing long-term PPAs with NIE in Northern Ireland are incompatible with EU law, the EC has requested certain information from the UK authorities related to these agreements, including information pertaining to the Kilroot power plant and PPA in order to enable the EC to assess the complaint. The Department of Enterprise Trade and Investment ("DETI") submitted a response to the EC on January 12, 2007 and there have been no further developments.

Czech Republic. The electricity industry in the Czech Republic is dominated by three vertically integrated companies ("CEZ", "E.ON" and "PRE") that both supply and distribute power. CEZ, which owns approximately 70% of the installed capacity, produced approximately 73% of the Czech Republic's energy in 2007. Electricity distribution is also dominated by these three entities: CEZ (62%); E.ON (25%); and PRE (13%). There are 22 generators with installed capacity of over 50 MW and 25 generators with installed capacities between 5-50 MW, none of which have a market share greater than 3%. In accordance with EU directives regarding market liberalization, all customers are able to select their energy supplier.

Since August 2007, the Prague Energy Exchange has been trading energy in the form of base load and peak load on a monthly, quarterly and annual basis. The majority of electricity is, however, still traded on a bilateral basis between generators and distributors, independent traders (there are six major active traders plus more than 20 smaller traders in the market) and also between generators and final customers. In February 2008, a day ahead spot market was incorporated into the Energy Exchange as existed in Slovakia. As of March 2009, the Prague Energy Exchange will also include Hungary trades. AES Bohemia's electricity, steam, water and compressed air output is governed under bilateral contracts with industrial and municipal customers in the surrounding area.

Spain. Spain is a member of the EU and as such the Spanish Government has been taking steps to liberalize the country's electricity sector in accordance with EU directives. Since January 1, 2003, all customers have been eligible to choose their electricity supplier.

AES currently operates and holds a 71% ownership interest in a 1,199 MW natural gas-fired plant located in Cartagena on the southeast coast of Spain. The plant sells energy into the Pan-Iberian electricity market ("MIBEL"). The MIBEL market was created in January 2004 when Spain and Portugal signed a formal agreement. This new market allows generators in the two countries to sell their electricity on both sides of Spanish-Portuguese border as one single market. OMEL, Spain's energy market regulator and Portugal's equivalent, OMIP, merged in April 2006, creating OMI, a single operator for the MIBEL electricity market, which began in the summer of 2006 with the objective of setting up a mechanism for harmonizing tariffs and of integrating the current management functions of the spot and forward markets.

The state-owned transmission company, Red Eléctrica de España ("REE") owns 99% of the 400 kilovolt ("kV") grid and 98% of the 220 kV network. REE also operates as system operator and is responsible for technical management of the system and for monitoring transmission. Under the country's energy plan, REE plans to invest in strengthening the mainland grid, connecting new plants and improving interconnection throughout the country. Cartagena has two agreements in place with the REE: one governing the construction of the interconnection and the other specifying the specific terms and conditions of access.

In September 2002, the Spanish Cabinet approved a 10-year energy plan which focuses on meeting the country's future energy requirements. The plan also reflects reliance on Special Systems which represents energy output from the facilities supplied by renewable energy sources, waste and cogeneration plants, and provides for new renewable tariffs (Royal Decree 661/207) and favorable regulation.

Turkey. The wholesale generation and distribution market in Turkey is primarily a bilateral market dominated by state-owned entities. The state-owned Electricity Generation Company ("EUAS") and its subsidiaries comprise approximately 24 GW of generation capacity and represent approximately 48% of the market. Private producers (with public off take) account for another 35%, and auto-producers and other industrial parties, the remaining 17%. The transmission network is owned and controlled by TEIAS, the State Transmission Company. TETAS, the Wholesale Market Pool, sets wholesale price based on average procurement costs from EUAS, auto-producers and Build Own Operate/Build Own Transfer/Transfer of Operating Rights producers. This wholesale price represents the buying price for TEDAS, the State Distribution Company, which controls distribution in 20 out of 21 regions. There is also a balancing spot market, with prices typically 20% higher than TETAS, which is growing and has a capacity of 70 Gigawatt hours ("GWh") of daily trade. The automatic price mechanism which is meant to halt the government subsidization has been approved, and implementation commenced in July 2008. With this mechanism, all major cost items (foreign exchange, gas price increases, inflation, among others) are expected to be reflected in the tariff. As a result, mid term market wholesale prices are expected to converge to the current spot market prices.

Distribution companies can procure 100% of their needs from TETAS, but can also source up to 15% from other sources. Additionally, eligible customers, using greater than 1.2 GWh annually, can contract through channels other than TEDAS.

Retail electricity prices are determined by the distribution company or companies and approved by the electricity regulator, EMRA.

Turkey has introduced a "renewable" feed-in tariff that sets a floor for renewable generation (wind and run of river hydro) for the first 10 years of operation. The floor is between 5.0 - 5.5 € cents per kWh and decreed by EMRA each year. AES's Turkey hydro assets fall under the renewable feed-in tariffs.

In efforts to move to a fully liberalized market, Turkey began a formal tender process to privatize three of its distribution companies owned by the State Distribution Company in 2006. As of the end of 2008, the distribution companies in four regions (Baskent, Sakarya, Konya and Aras) have been put out to tender and the remaining distribution companies are expected to be privatized in 2009. The Turkish government has also announced plans to privatize all the state-owned generation assets by the 2009-2010 period, except for large hydro plants.

Asia & Middle East

China: In 2005, the National Development and Reform Commission ("NDRC") released interim regulations governing on-grid tariffs, along with two other regulations governing transmission and retail tariffs. Pursuant to the interim regulations, the on-grid tariffs shall be appraised and ratified by the pricing authorities by reference to the economic life of power generation projects and determined in accordance with the principle of allowing IPPs to cover reasonable costs and to obtain reasonable returns. Such costs were defined to be the average costs in the industry and reasonable returns will be calculated on the basis of the interest rate of China's long-term Treasury bond plus certain percentage points. In addition to the foregoing tariff setting mechanism, China's central government also issued a tariff adjustment policy allowing the on-grid tariffs to be pegged to the fuel price in the case of significant fluctuations in fuel price. Seventy percent of the increase in fuel costs may be passed through in the tariff. Pursuant to this policy, the tariffs of coal-fired facilities in China were increased in 2005 and 2006, and there were two rounds of tariff increments in 2008 to alleviate the escalation of fuel price; however, such adjustments fell short of compensating all businesses for coal price increases in 2008 in accordance with the above mentioned policy.

Pursuant to the *Renewable Energy Law of China*, which came into effective on January 1, 2006, renewable resources such as wind, solar, biomass, geo-thermal, and hydro enjoy unrestricted generation and dispatch, and local grid interconnection is mandated to such plants. With a view to implementing the Renewable Energy Law, on August 2, 2007, various central government agencies jointly issued the *Temporary Measures for Dispatching Electricity Generated by Energy Conservation Projects*. Under this regulation, power plants are categorized into various groups and each group will, under certain circumstances, enjoy priority dispatch over the subsequent groups. The first group are renewable energy power plants, namely wind, hydro, solar, biomass, tidal-wave, geo-thermal and landfill gas power plants that satisfy certain environmental standards. The second group is nuclear power plants. The third group is power plants using 'modern coal' which includes co-generation power plants, and power plants utilizing residual heat, residual gas, coal-gangue (or waste coal) and coal mine methane. The last three groups are natural gas, conventional coal and oil-fired power plants. In other words, power plants using renewable resources will enjoy priority dispatch over power plants using fossil fuels. This is in line with the requirement that renewable energy power plants will enjoy unrestricted generation and dispatch under the Renewable Energy Law, as well as the Chinese government's policy objective to encourage comprehensive utilization of resources in an energy-efficient and environmental-friendly manner.

In 2007, the Chinese government also issued a number of rules and procedures that govern the shutdown of small coal or oil-fired power plants. The types of plants to be shutdown include: (i) power plants with a capacity under 50 MW; (ii) power plants with a capacity of up to 100 MW which are over 20 years old; (iii) power plants with a capacity of up to 200 MW whose equipment has reached an end of its useful life; and (iv) power plants that have coal consumption rates that are higher than either 10% above the applicable provincial average or 15% above the national average. The shutdown procedures have been set in place to ensure that certain smaller power plants are appropriately shutdown and replaced by larger and more efficient power plants. The purpose of such rules and regulations is again in accord with China's policy to achieve energy conservation and emission reduction. The Hefei business, in which AES held a 70% interest, was shut down pursuant to this policy. A termination agreement with the offtaker was reached and executed on March 30, 2008 and the Hefei business received a termination payment in the amount of $39 million on March 31, 2008.

India. India's power sector is regulated by the Central Electricity Regulatory Commission ("CERC") at the national level and respective State Electricity Regulatory Commissions ("SERCs") at the state level. CERC is responsible for regulating interstate generation and central transmission, while intra-state generation, distribution and transmission are regulated by SERCs.

In 2003, the Government of India enacted the Electricity Act 2003 to establish a framework for a multi-seller-multi-buyer model for the electricity industry and introduced significant changes in India's electricity sector. In accordance with the Electricity Act the Government of India came out with the National Electricity Policy in February 2005 and in January 2006 published the National Tariff Policy. The policies established deadlines to implement different provisions of the Electricity Act. However, the pace of actual implementation of the reform process is contingent on the respective state governments and SERCs, as electricity is a "concurrent" subject in India's constitution.

Under the Electricity Act, there is no license required to set up generation plants and generators are allowed to sell to state utilities, traders, and open access consumers. The access to consumers is subject to regulatory provisions on transmission corridor availability and payment of cross subsidy surcharge. Under the National Tariff Policy, sales since the end of 2006 from new IPP's to distribution utilities are required to be on a competitive bidding basis. Two power exchanges have received licenses from CERC and have started operations in the past year. However, the volume of power trading on the power exchanges is short term and small, as the bulk of power is still traded through long term bilateral contracts.

Philippines. The Philippines have three major island grids—Luzon, Visayas, and Mindanao. Luzon is the largest grid, accounting for 79% and 71% respectively of installed capacity and gross generation. The Luzon and Visayas grids are interconnected through undersea cables. In June 2001, the Philippines Congress issued the Electric Power Industry Reform Act of 2001 ("EPIRA"), aiming at liberalizing the electricity sector, and transforming it from a single-buyer model in which National Power Company ("NPC") plays a dominant role in generation, transmission, and distribution, to a competitive market model, in which NPC is privatized and competition is introduced in generation and distribution.

The Energy Regulatory Commission ("ERC") was created to be the governing body for the restructured power industry and to promote competition, encourage market development, ensure customer choice and penalize abuse of market power. As part of its role, the ERC regulates the rates charged by transmission and distribution companies and as such approves cost recovery of contracts between generators and distribution companies.

The Power Sector Assets and Liabilities Management Corporation ("PSALM") was created in July 2001 to manage the sale, disposition and privatization of the NPC generation assets. As of 2008, PSALM has sold 2,771 MW of NPC owned generation assets (including the sale of the 660 MW Masinloc plant to AES), and is in the process of selling an additional 1,213 MW of capacity.

EPIRA mandates PSALM to select and appoint qualified entities called Independent Power Producer Administrators ("IPPA") to administer and manage the energy output that has been contracted by NPC with IPPs. PSALM has initially appointed three independent trading teams to act as IPPA for these contracts, but it has now initiated the process for the sale of 1,700 MW of contracted capacity.

The Wholesale Electricity Spot Market ("WESM") started commercial operation in the Luzon grid in June 2006 with the primary objective of establishing a competitive, efficient, transparent, and reliable spot market for electricity. The market is organized around both bilateral contracts and a mandatory pool and spot market with the spot market consisting of an hour ahead market (ex-ante) and a real-time (ex-post) market. Each generating unit submits hourly bids. The dispatch is arranged by the lowest to highest bid price and the spot price is set by the marginal price of the last dispatched unit following the merit order.

Environmental and Land Use Regulations

Overview. The Company is subject to various international, national, state and local environmental and land use laws and regulations. These laws and regulations primarily relate to discharges into the air and air quality, discharge of effluents into water and the use of water, waste disposal, remediation, noise pollution, contamination at current or former facilities or waste disposal sites, wetlands preservation and endangered species. Many of the countries in which the Company does business also have laws and regulations relating to the siting, construction, permitting, ownership, operation, modification, repair and decommissioning of, and power sales from, such assets. In addition, international projects funded by the International Finance Corporation, the private sector lending arm of the World Bank are subject to World Bank environmental standards, which tend to be more stringent than local country standards. The Company often has used advanced environmental technologies (such as circulating fluidized bed ("CFB") coal technologies or advanced gas turbines) in order to minimize environmental impacts.

Environmental laws and regulations affecting electric power generation facilities are complex, change frequently and have become more stringent over time. The Company has incurred and will continue to incur capital costs and other expenditures to comply with environmental laws and regulations. See Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures in this Form 10-K for more detail. If these regulations change or the enforcement of these regulations becomes more rigorous, the Company and its subsidiaries may be required to make significant capital or other expenditures to comply. There can be no assurance that the businesses operated by the subsidiaries of the Company would be able to recover any of these compliance costs from their counterparties or customers such that the Company's consolidated results of operations, financial condition and cash flows would not be materially adversely affected.

Various licenses, permits and approvals are required for our operations. Failure to comply with permits or approvals, or with environmental laws, can result in fines, penalties, capital expenditures, interruptions or changes to our operations. While the Company has at times been out of compliance with environmental laws and regulations, past non-compliance has not resulted in the revocation of material permits or licenses and has not had a material adverse effect on our business, financial conditions or results of operations and we have expeditiously corrected the non-compliance as required. See Item 3—Legal Proceedings in this Form 10-K for more detail with respect to environmental disclosure.

Greenhouse Gas Laws, Protocols and Regulations. In 2008, the Company's subsidiaries operated electric power generation businesses which had total approximate direct CO_2 emissions of 83.8 million metric tonnes (ownership adjusted). Approximately 41.5 million metric tonnes of the 83.8 million metric tonnes were emitted in the United States (both figures ownership adjusted). The following is an overview of both the regulations that currently apply to our businesses and those that may be imposed over the next few years. Such regulations could have a material adverse effect on the electric power generation businesses of the Company's subsidiaries and on the Company's consolidated results of operations, financial condition and cash flows. In addition, while the Company through its climate solutions initiatives is developing and implementing projects to produce GHG offsets for use by the Company and/or for sale, as set forth in the Risk Factor entitled " *Our renewable energy projects and* *other initiatives face considerable uncertainties including development, operational and regulatory challenges*", there is no guarantee that these projects will be successful, especially in light of the global financial crisis and the Company's increased focus on preserving liquidity, which will likely result in slower growth for these activities. Further, even if our GHG offsets projects are successful, the level of potential benefit is unclear given current uncertainties regarding legislation and/or litigation concerning GHG emissions.

International

In July 2003, the European Community "Directive 2003/87/EC on Greenhouse Gas Emission Allowance Trading" was created, which requires member states to limit emissions of CO_2 from large industrial sources within their countries. To do so, member states are required to implement EC-approved national allocation plans ("NAPs"). Under the NAPs, member states are responsible for allocating limited CO_2 allowances within their borders. Directive 2003/87/EC does not dictate how these allocations are to be made, and NAPs that have been submitted thus far have varied their allocation methodologies. For these and other reasons, uncertainty remains with respect to the implementation of the European Union Emissions Trading System ("EU ETS") that commenced in January 2005. The European Union has announced that it intends to keep the EU ETS in place after 2012, even if the Kyoto Protocol is not extended. The Company's subsidiaries operate seven electric power generation facilities, and another subsidiary has one under construction, within six member states which have adopted NAPs to implement Directive 2003/87/EC. Based on its current analyses, the Company does not expect that achieving and maintaining compliance with the NAPs to which its subsidiaries are subject will have a material impact on its consolidated operations or results. In particular, the risk and benefit associated with achieving compliance with applicable NAPs at several facilities of the Company's subsidiaries are not the responsibility of the Company's subsidiaries as they are subject to contractual provisions that transfer the costs associated with compliance to contract counterparties. However, in the event that such counterparties challenge or dispute these provisions, there can be no assurance that the Company and/or the relevant subsidiary would prevail in any such dispute. Furthermore, even if the Company and/or the relevant subsidiary does prevail, it would be subject to the cash and administrative burden associated with such dispute. Certain Company subsidiaries will, however, bear some or all of the risk and benefit associated with compliance with applicable NAPs at certain facilities. Based upon anticipated operations, CO_2 emission allowance allocations, and the costs to acquire offsets and emission allowances for compliance purposes, the Company's subsidiaries have not to date incurred material costs to comply with Directive 2003/87/EC and applicable NAPs, however, there can be no guarantees that compliance will not have a material adverse effect on our business in future periods.

On February 16, 2005, the Kyoto Protocol became effective. The Kyoto Protocol requires the industrialized countries that have ratified it to significantly reduce their GHG emissions, including CO_2. The vast majority of developing countries which have ratified the Kyoto Protocol have no GHG reduction requirements. Many of the countries in which the Company's subsidiaries operate have no reduction obligations under the Kyoto Protocol. In addition, of the 29 countries that the Company's subsidiaries currently operate in, all but two—the United States (including Puerto Rico) and Kazakhstan—have ratified the Kyoto Protocol. While we have developed and are implementing certain climate solutions projects under the Clean Development and Joint Implementation Mechanisms of the Kyoto Protocol, there is no guarantee that we will be successful in developing these. To date, compliance with the Kyoto Protocol and EU ETS has not had a material adverse effect on the Company's consolidated results of operations, financial condition and cash flows. In December 2008, a United Nations Climate Change Conference was held in Poznan, Poland. Over 180 countries sent representatives and a majority agreed to continue to negotiate further reductions in GHG emissions for the period beginning after 2012 when Kyoto Protocol expires. At present, the Company cannot predict whether compliance with the Kyoto Protocol or any agreements reached at the Climate Change Conference will have a material impact on the Company in future periods.

Even though it has been announced that the EU ETS will remain in place even if the Kyoto Protocol expires in 2012, there remains significant uncertainty with respect to the implementation of NAPs post-2012. The EU has indicated that a portion of the emission allowances given to member states will need to be auctioned under the NAPs and the Company cannot predict with any certainty if compliance with such programs will have a material adverse effect on its consolidated operations or results.

Countries in Latin America and Asia in which subsidiaries of the Company operate may also choose to adopt regulations that directly or indirectly regulate GHG emissions from coal plants. For example, in April 2008 a Chilean law, was enacted that requires a percentage of all new power purchase contracts held after August 31, 2007 be supplied by renewable sources. The Company's subsidiary has developed a plan for complying with the law. See Regulatory Matters—Latin America—Chile. Another example is in China. One of the ways that China has chosen to address its stated goals of energy conservation and CO_2 emissions reduction is by putting regulations and procedures in place that govern the shut down of certain small coal and oil-fired power plants and encourage replacement with larger more efficient power plants. The Hefei project, formerly operated by subsidiaries of the Company in China, was shut down pursuant to these regulations. A termination agreement with the Hefei offtaker was executed on March 30, 2008 and a subsidiary of the Company received a termination payment in the amount of $39 million on March 31, 2008. The Company does not currently anticipate that implementation of such regulations would have a material adverse affect on the Company's consolidated financial condition or results of operations. See Regulatory Matters—Asia & Middle East—China. Although the Company does not currently believe that CO_2 laws and regulations that have been adopted to date in countries in Latin America and Asia in which subsidiaries of the Company operate will have a material adverse effect on the Company's consolidated financial condition or results of operations, the Company cannot predict with any certainty if future laws and regulations in these countries regarding CO_2 emissions will have a material adverse effect on the Company's consolidated financial condition or results of operations.

United States

Currently in the United States there are no Federal mandatory GHG emissions reduction programs (including CO_2) affecting the electric power generation facilities of the Company's subsidiaries. The U.S. Congress is debating a number of proposed GHG legislative initiatives, but to date there have been no new federal laws regulating GHG emissions. Although several bills have been introduced in the U.S. Congress that would require reductions in CO_2 emissions, the Company is not able to predict whether any federal mandatory CO_2 emissions reduction program will be adopted and implemented in the immediate future. The new administration has, however, requested the development of new federal proposals by Congress and the U.S. EPA that could lead to the adoption of a mandatory program to reduce GHG emissions through, for example, an economy-wide cap-and-trade program, a carbon tax or a combination of both. The Company will continue to monitor new developments with respect to the possible federal regulation of CO_2 emissions from electricity power generation facilities.

On April 2, 2007, the U.S. Supreme Court issued its decision in a case involving the regulation of CO_2 emissions from motor vehicles under the U.S. Clean Air Act ("CAA"). The Court ruled that CO_2 is a pollutant which potentially could be subject to regulation under the CAA and that the U.S. Environmental Protection Agency (the "U.S. EPA") has a duty to determine whether CO_2 emissions contribute to climate change or to provide some reasonable explanation why it will not exercise its authority. In response to the Court's decision, on July 11, 2008, the U.S. EPA issued an advanced notice of proposed rulemaking ("ANPR") to solicit public input on whether CO_2 emissions should be regulated from both mobile and stationary sources under the CAA. The U.S. EPA has not yet made any such determination. However, the Court's decision and stimulus from the new administration, regulators, members of Congress, states, non-governmental organizations, private parties and the courts and other factors could lead to a determination by the U.S. EPA to regulate CO_2 emissions from mobile and stationary sources, including electric power generation facilities. The Company will continue to monitor developments with respect to the regulation of CO_2 emissions under the CAA.

Ten northeastern states have entered into a memorandum of understanding under which the states coordinate to establish rules that require reductions in CO_2 emissions from power plant operations within those states. This initiative is called the Regional Greenhouse Gas Initiative ("RGGI"). A number of these states in which our subsidiaries have generating facilities, including Connecticut, Maryland, New York and New Jersey, have implemented rules to effectuate RGGI. RGGI, which became effective January 1, 2009, imposes a cap on baseline CO_2 emissions during the 2009 through 2014 period, and mandates a ten percent reduction in CO_2 emissions during the 2015 to 2019 period. RGGI establishes a cap-and-trade program whereby power plants will require a carbon allowance for each ton of CO_2. Unlike the previously implemented federal sulfur dioxide ("SO_2") and NO_X cap-and-trade emissions programs, RGGI requires that CO_2 emitters acquire CO_2 allowances either from a RGGI auction or in the secondary emissions trading market, except for several small set-aside accounts for long term contracted plants and voluntary renewable energy. The auction rules include a minimum reserve price of $1.86 per allowance. This reserve price is subject to change. In addition, the auction platform and auction results are subject to review by an independent market monitoring firm. The first such auction occurred on September 25, 2008 and the clearing price per allowance was $3.07. The second such auction occurred on December 17, 2008 and the clearing price per allowance was $3.38. The third such auction is scheduled for March 18, 2009.

The Company's Eastern Energy business is located in New York. Under the New York RGGI rule, each budgeted source of CO_2 emissions is required to surrender one CO_2 allowance for each CO_2 metric tonne emitted during a three-year compliance period. All fossil fuel powered generating facilities in New York that have a generating capacity of 25 or more MW are subject to the rule. In January 2009, Indeck Energy brought a legal challenge to the regulations adopted by three New York State agencies to implement RGGI. The Company will closely monitor developments with respect to this litigation.

The Company's Thames business is located in Connecticut. The State of Connecticut passed legislation, effective July 1, 2007, which requires that the Connecticut Department of Environmental Protection develop necessary regulations to implement RGGI. The regulations adopted to implement RGGI include an auction of CO_2 emission allowances except for several set-aside accounts. AES Thames is eligible for a set-aside for the first compliance period, 2009-2011, which allows CO_2 allowances to be purchased at $2 per allowance in 2009, and $2 per allowance plus a consumer price indexing in years 2010 and 2011. Eligibility for the second compliance period, 2012-2014, is still to be determined.

The Company's Warrior Run business is located in Maryland. In April 2006, the Maryland General Assembly passed the Maryland Healthy Air Act which, among other thing things, required the State of Maryland to join RGGI. The Maryland Department of Environment ("MDE") adopted regulations that require 100% of the allowances the State receives to be auctioned except for several small allowance set-aside accounts. The Maryland MDE regulations include a safety valve to control the economic impact of the CO_2 cap-and-trade program. If the auction closing price reaches $7, up to 50% of a year's allowances will be reserved for purchase by electric power generation facilities located within Maryland at $7 per allowance, regardless of auction prices.

The Company's Red Oak business is located in New Jersey. The State of New Jersey adopted the Global Warming Response Act in July 2007 which established goals for the reduction of GHG emissions in the State. In furtherance of these goals, in January 2008, additional state legislation authorized the New Jersey Department of Environmental Protection ("NJDEP") to develop and adopt RGGI regulations and the NJDEP RGGI regulations became effective in 2008. The regulations adopted to implement RGGI include an auction of CO_2 emission allowances with procedures for the fixed-price sale of allowances to facilities with long-term power purchase contracts, directs allocation of allowances to cogeneration facilities meeting specified thermal efficiency criteria, and includes a CO_2 allowance set-aside designed to support the voluntary renewable energy market.

In 2008, of the approximately 41.5 million metric tons of CO_2 emitted in the United States by the businesses operated by our subsidiaries (ownership adjusted), approximately 11.8 million metric tonnes were emitted in U.S. states participating in RGGI. We believe that due to the absence of allowance allocations, RGGI could have a material adverse impact on the Company's consolidated results of operations, financial condition and cash flows. While CO_2 emissions from businesses operated by subsidiaries of the Company are calculated globally in metric tonnes, RGGI allowances are denominated in short tons. (1 metric tonne equals 2,200 pounds and 1 short ton equals 2,000 pounds.) For forecasting purposes, the Company has modeled the impact of CO_2 compliance for 2009-2011 for its businesses that are subject to RGGI and that may not be able to pass through compliance costs. The model includes a conversion from metric tonnes to short tons as well as the impact of some market recovery by merchant plants and contractual and regulatory provisions. The model also utilizes an allowance price of $3.38 per allowance under RGGI. The source of this per tonne allowance estimate was the clearing price in the second RGGI allowance auction held in December 2008. Based on these assumptions, the Company estimates that the RGGI compliance costs could be approximately $29.1 million per year from 2009 through 2011, which is the last year of the first RGGI compliance period. Given all of the uncertainties surrounding RGGI, including the challenge to New York State's RGGI program and those discussed in the "Business—Regulatory Matters—Environmental and Land Use Regulations" section of this Form 10-K, and the fact that the assumptions utilized in the model may prove to be incorrect, there is a significant risk that our actual compliance costs under RGGI will differ from our estimates by a material amount and that our model could underestimate our costs of compliance.

The Company's Southland and Placerita businesses are located in California. On September 27, 2006, the Governor of California signed the Global Warming Solutions Act of 2006, also called Assembly Bill 32 ("A.B. 32"). A.B. 32 directs the California Air Resources Board to promulgate regulations that will require the reduction of CO_2 and other GHG emissions to 1990 levels by 2020. On December 11, 2008, the California Air Resources Board unanimously adopted the Scoping Plan that outlines how the reductions in AB 32 will be met. The Scoping Plan follows closely the recommendations put forth by the California Public Utilities Commission and the California Energy Commission on February 8, 2008, including the first jurisdictional deliverer being the point of regulation for AB 32. A key component of the Scoping Plan is a cap-and-trade market that will be developed in coordination with the Western Climate Initiative as detailed below. In addition, other key recommendations include increasing energy efficiency and increasing the renewable portfolio goals to 33%. This program is expected to become effective in 2012.

In February 2007, the governors of the Western U.S. states (Arizona, New Mexico, California, Washington and Oregon) established the Western Climate Initiative ("WCI"). The WCI has since been joined by two other states (Montana and Utah) and four Canadian provinces (British Columbia, Manitoba, Ontario, and Quebec). Participating states and provinces have agreed to cut GHG emissions to 15% below 2005 levels by 2020 and they are considering the implementation of a cap-and-trade program for the electricity industry to achieve this reduction. On September 23, 2008, the WCI issued its design recommendations for a cap-and-trade program which would apply to in-state electricity generators and the first jurisdictional deliverer of electricity into a WCI partner state. The final regulatory design of this program is not yet known.

The Company owns IPL which is located in Indiana. On November 15, 2007, six Midwestern state governors (including the governor of Indiana) and the premier of Manitoba signed the Midwestern Greenhouse Gas Reduction Accord ("MGGRA") committing the participating states and province to reduce GHG emissions through the implementation of a cap-and-trade program. Three states (including Indiana) and the province of Ontario have signed as observers.

The Company owns a power generation facility in Hawaii. On June 30, 2007, the governor of Hawaii signed GHG legislation. By December 1, 2009, Hawaii's Greenhouse Gas Emissions Reduction Task Force will deliver to the legislature a work plan and regulatory scheme designed to reduce emissions of greenhouse gases to 1990 levels by 2020.

At this time, other then the estimated impact of CO_2 compliance noted above for certain of its businesses that are subject to RGGI, the Company has not estimated the costs of compliance with other potential U.S. federal, state or regional CO_2 emissions reductions legislation or initiatives, such as A.B. 32, WCI, MGGRA and potential Hawaii regulations, due to the fact that these proposals are in earlier stages of development and any final regulations, if adopted, could vary drastically from current proposals. Although complete specific implementation measures for any federal regulations, A.B. 32, WCI, MGGRA and the Hawaiian regulations have yet to be finalized, these GHG-related initiatives will likely affect a number of the Company's U.S. subsidiaries. Any federal, state or regional legislation or regulations adopted in the U.S. that would require the reduction of GHG emissions could have a material adverse effect on the Company's consolidated results of operations, financial condition and cash flows.

The possible impact of any future federal legislation or regulations or any regional or state proposal will depend on various factors, including but not limited to:

- the geographic scope of legislation and/or regulation (e.g., federal, regional, state), which entities are subject to the legislation and/or regulation (e.g., electricity generators, load serving entities, electricity deliverers, etc.), the enactment date of the legislation and/or regulation and the compliance deadlines set forth therein;
- the level of reductions of CO_2 being sought by the regulation and/or legislation (e.g., 10%, 20%, 50%, etc.) and the year selected as a baseline for determining the amount or percentage of mandated CO_2 reduction (e.g., 10% reduction from 1990 CO_2 emission levels, 20% reduction from 2000 CO_2 emission levels, etc.);
- the legislative structure (e.g., a CO_2 cap-and-trade program, a carbon tax, CO_2 emission limits, etc.);
- in any cap-and-trade program, the mechanism used to determine the price of emission allowances or offsets to be auctioned by designated governmental authorities or representatives;
- the price of offsets and emission allowances in the secondary market, including any price floors on the costs of offsets and emission allowances and price caps on the cost of offsets and emission allowances;
- the operation of and emissions from regulated units;
- the permissibility of using offsets to meet reduction requirements (e.g., type of offset projects allowed, the amount of offsets that can be used for compliance purposes, any geographic limitations regarding the origin or location of creditable offset projects) and the methods required to determine whether the offsets have resulted in reductions in GHG emissions and that those reductions are permanent (i.e., the verification method);

- whether the use of proceeds of any auction conducted by responsible governmental authorities is reinvested in developing new energy technologies, is used to offset any cost impact on certain energy consumers or is used to address issues unrelated to power;
- how the price of electricity is determined at the affected businesses, including whether the price includes any costs resulting from any new CO_2 legislation and the potential to transfer compliance costs pursuant to legislation, market or contract, to other parties;
- any impact on fuel demand and volatility that may affect the market clearing price for power;
- the effects of any legislation or regulation on the operation of power generation facilities that may in turn affect reliability;
- the availability and cost of carbon control technology; and
- any opportunities to change the use of fuel at the generation facilities of our subsidiaries or opportunities to increase efficiency.

NY Consent Decree

In 2005, the Company entered into a Consent Decree (the "2005 Consent Decree") with the State of New York, and New York State Electric and Gas Corporation ("NYSEG") which resolves violations of CAA requirements alleged to have occurred at the Greenridge, Westover, Jennison and Hickling plants prior to the Company's acquisition of such plants. Under the terms of the 2005 Consent Decree, the Company is required to undertake projects to reduce emissions of air pollutants ("Upgrade Projects") or to cease operations of electric generating units at the plants. The Company completed an Upgrade Project at Greenridge in 2006 and a similar project at Westover in 2008 and has ceased operations of the electric generating units at Hickling and Jennison. In accordance with the 2005 Consent Decree, the Company is required to provide notifications to the New York State Department of Environmental Conservation ("NYSDEC") regarding the status of the Upgrade Projects and upon completion to propose new final emissions limits for NYSDEC's approval. The Company has received NYSDEC approval for proposed final emissions limits applicable to AES Greenridge and will submit proposals for new final emission limits to NYSDEC for approval after the Upgrade Project at Westover completes commercialization testing and final ratification in 2009.

Other Air Emission Regulations. The CAA and various state laws and regulations regulate emissions of air pollutants, including SO_2, NOx and particulate matter ("PM"). The applicable rules and the steps taken by the Company to comply are discussed in further detail below.

Regarding NOx emissions, the U.S. EPA has required adjustments to state implementation plans (the "NOx SIP Call") so that coal-fired electric generating facilities in 21 U.S. states and the District of Columbia had to either (i) reduce their NOx emissions to levels equal to allowances under the plan or (ii) purchase NOx emissions allowances from other operators to meet actual emissions levels by May 31, 2004.

Subsequently, the U.S. EPA finalized two rules that are relevant to our U.S. coal-fired power plants. The first rule, the "Clean Air Interstate Rule" ("CAIR"), was promulgated by the EPA on March 10, 2005, and required allowance surrender for SO_2 and NOx emissions from existing power plants located in 28 eastern states and the District of Columbia. CAIR contemplated two implementation phases. The first phase was to begin in 2009 and 2010 for NOx and SO_2, respectively. A second phase with additional allowance surrender obligations for both air emissions was to begin in 2015. To implement the required emission reductions for this rule, the states were to establish emission allowance-based "cap-and-trade" programs. CAIR was subsequently challenged in federal court and on July 11, 2008, the U.S. Court of Appeals for the D.C. Circuit issued an opinion striking down CAIR. On September 19, 2008, EPA filed a petition for rehearing and rehearing en banc. On October 21, 2008, the Court issued an order requesting that certain petitioners, including AES Beaver Valley and AES Warrior Run, file a response to EPA's petition by November 5, 2008, indicating whether any such petitioners were seeking a vacatur of CAIR and whether the Court should stay its mandate until EPA promulgates a revised rule. As of December 31, 2008, the Company had assets of approximately $11.6 million related to these SO_2 and NOx emission allowance programs. On December 23, 2008, the Court issued an opinion and order denying petitions for rehearing and, rather than vacating CAIR as originally ordered, remanding the ease to EPA without vacatur to enable EPA to remedy CAIR's flaws in accordance with the Court's July opinion. While the Court did not impose a timeline on EPA, the Court did indicate that the stay was not intended to be indefinite.

The second rule, the Clean Air Mercury Rule ("CAMR"), was promulgated on March 15, 2006 and as proposed required reductions of mercury emissions from coal-fired power plants in two phases. The first phase was to begin in 2010 and require nationwide reduction of coal-fired power plant mercury emissions from 48 to 38 tons per year. The second phase was to begin in 2018 and require nationwide reduction of mercury emissions from these sources from 38 tons per year to 15 tons per year. CAMR also established stringent mercury emission performance standards for new coal-fired power plants. However, on February 8, 2008, the U.S. Court of Appeals for the District of Columbia Circuit ruled that CAMR as promulgated violated the CAA and vacated the rule. U.S. EPA and an industry trade association subsequently appealed the decision to the U.S. Supreme Court. On February 3, 2009, an amendment to the CAA was introduced in the U.S. House of Representatives that would require the EPA to promulgate mercury emission standards for electric generating units. The EPA would have one year from the date the amendment is enacted to set maximum achievable control technology standards for electric generating units pursuant to Section 112 of the CAA. The amendment is designed to prevent EPA from regulating mercury emissions through a cap-and-trade program. When the D.C. Circuit vacated CAMR in February 2008, the court did not rule on whether such programs violate the CAA. On February 6, 2009, the Acting Solicitor General of the United States filed a motion in the U.S. Supreme Court to dismiss the EPA's request for review of the D.C. Circuit's February 2008 decision which vacated CAMR. According to the motion to dismiss, EPA intends to develop maximum achievable control technology standards for electric generating units pursuant to Section 112 of the CAA. The industry trade association's appeal is still pending and the U.S. Supreme Court has not yet decided whether to hear the appeal.

Also, a number of states have indicated that they intend to impose more stringent emission limitations on power plants within their states rather than promulgate rules consistent with the originally contemplated CAIR and CAMR cap-and-trade programs. In response to CAIR, CAMR and potentially more stringent U.S. state initiatives on SO_2 and NOx emissions, subsidiaries of the Company completed installing selective catalytic reduction ("SCR") and other NOx control technologies at three coal-fired units of our subsidiary, IPL. Subsidiaries of the Company also completed a multi-pollutant control project at its Greenridge power plant in the state of New York. In addition, Westover construction of a similar project at its power plant in New York in 2008. The Westover project is expected to complete commercialization testing and final notification in 2009. In addition, a flue gas desulphurization scrubber upgrade project was completed at the IPL Petersburg power plant, and construction of an SCR system at our Deepwater petroleum coke-fired power plant near Houston, Texas was completed in March 2007.

While the exact impact and cost of CAIR, any new federal mercury rules and any related state proposals cannot be established until, in the case of CAIR, the states complete the process of assigning emission allowances to our affected facilities, and in the case of the other rules, until they are promulgated, there can be no assurance that the Company's business, financial conditions or results of operations would not be materially and adversely affected by such rules.

NYSDEC previously promulgated regulations requiring electric generators to reduce SO_2 emissions by 50% below current CAA standards. The SO_2 regulations began to be phased in beginning on January 1, 2006 with implementation to have been completed by January 1, 2008. These regulations also establish stringent NOx reduction requirements year-round, rather than just during the summertime ozone season.

In July 1999, the U.S. EPA published the "Regional Haze Rule" to reduce haze and protect visibility in designated federal areas. On June 15, 2005, U.S. EPA proposed amendments to the Regional Haze Rule that, among other things, set guidelines for determining when to require the installation of "best available retrofit technology" ("BART") at older plants. The amendment to the Regional Haze Rule required states to consider the visibility impacts of the haze produced by an individual facility, in addition to other factors, when determining whether that facility must install potentially costly emissions controls. The Regional Haze Rule was further amended on October 6, 2006 when U.S. EPA promulgated a rule allowing states to impose alternatives to BART, including emissions trading, if such alternatives were demonstrated to be more effective than BART. States were required to submit their regional haze state implementation plans to the U.S. EPA by December 2007.

In Europe the Company is, and will continue to be, required to reduce air emissions from our facilities to comply with applicable EC Directives, including Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants (the "LCPD"), which sets emission limit values for NOx, SO_2, and particulate matter for large-scale industrial combustion plants for all member states. Until June 2004, existing coal plants could "opt-in" or "opt-out" of the LCPD emissions standards. Those plants that opted out will be required to cease all operations by 2015 and may not operate for more than 20,000 hours after 2008. Those that opted-in, like the Company's AES Kilroot facility in the United Kingdom, must invest in abatement technology to achieve specific SO_2 reductions. Kilroot is installing a new flue gas desulphurization system that is scheduled for commission in the first quarter of 2009. The Company's other coal plants in Europe are either exempt from the Directive due to their size or have opted-in but will not require any additional abatement technology to comply with the LCPD.

Water Discharges. The Company's facilities are subject to a variety of rules governing water discharges. In particular the Company is evaluating the impact of the U.S. Clean Water Act Section 316(b) rule regarding existing power plant cooling water intake structures issued by the U.S. EPA in 2005 (69 Fed. Reg. 41579, July 9, 2004) and the subsequent Circuit Court of Appeals decision which vacated significant portions of the rule (Docket Nos. 04-6692 to 04-6699). The rule as originally issued would affect 12 of the Company's U.S. power plants and the rule's requirements would be implemented via each plant's National Pollutant Discharge Elimination System ("NPDES") water quality permit renewal process. These permits are usually processed by state water quality agencies. To protect fish and other aquatic organisms, the 2004 rule requires existing steam electric generating facilities to utilize the best technology available for cooling water intake structures. To comply, a steam electric generating facility must first prepare a Comprehensive Demonstration Study to assess the facility's effect on the local aquatic environment. Since each facility's design, location, existing control equipment and results of impact assessments must be taken into consideration, costs will likely vary. The timing of capital expenditures to achieve compliance with this rule will vary from site to site. On January 25, 2007 the United States Court of Appeals for the Second Circuit decision (Docket Nos. 04-6692 to 04-6699) vacated and remanded major parts of the 2005 rule back to U.S. EPA. In November 2007, three industry petitioners sought review of the Second Circuit's decision by the U.S. Supreme Court and this review was granted by the U.S. Supreme Court in April 2008. Oral arguments were held in December 2008 and a decision by the U.S. Supreme Court is expected in 2009. The Second Circuit's decision, coupled with the appeal pending before the Supreme Court may result in further delays in implementing the rule at those affected facilities located in states which have either not been delegated authority to implement Section 316(b) of the U.S. Clean Water Act or are awaiting more specific direction from the U.S. EPA before proceeding. The U.S. EPA is currently drafting a new rule to address the Second Circuit's decision and while a draft of the new rule is expected to be issued later this year, it is possible that the U.S. EPA could delay the issuance of the draft rule pending a decision by the U.S. Supreme Court. Certain states in which the Company operates power generation facilities, such as New York, have been delegated authority and are moving forward with best technology available determinations in the absence of any final rule from U.S. EPA. At present, the Company cannot predict whether compliance with the anticipated new 316(b) rule will have a material impact on our operations or results.

Waste Management. In the course of operations, the Company's facilities generate solid and liquid waste materials requiring eventual disposal. With the exception of coal combustion products ("CCP"), its wastes are not usually physically disposed of on our property, but are shipped off site for final disposal, treatment or recycling. CCP, which consists of bottom ash, fly ash and air pollution control wastes, is disposed of at some of our coal-fired power generation plant sites using engineered, permitted landfills. Waste materials generated at our electric power and distribution facilities include CCP, oil, scrap metal, rubbish, small quantities of industrial hazardous wastes such as spent solvents, tree and land clearing wastes and polychlorinated biphenyl ("PCB") contaminated liquids and solids. The Company endeavors to ensure that all its solid and liquid wastes are disposed of in accordance with applicable national, regional, state and local regulations.

Subsequent Events

On December 23, 2008, in a transaction associated with the sale in November 2008 of 9.55% of the Company's shares in AES Gener, as further discussed in Item 8—Financial Statements and Supplementary Data, Note 17—Subsidiary Stock, the local Chilean SEC approved Gener's share issuance of approximately 945 million shares at a price of $162.50 Chilean Pesos. The proceeds of the share issuance were $246 million and Gener anticipates using these proceeds for future expansion plans, working capital and other operating needs. The preemptive rights period began on January 7, 2009 remained open for 30 days and closed on February 5, 2009. During the preemptive rights period AES, through its wholly-owned subsidiary, Cachagua, paid $175 million from the proceeds of the November 2008 share sale to maintain its current ownership percentage of approximately 70%.

On February 9, 2009, the government of the Dominican Republic, the government-owned power companies and the power companies sector ("generation companies"), signed two Memorandums of Understanding (each an "MOU"). The first MOU provides for the settlement of outstanding 2008 accounts receivables ("2008 A/R") held by the generation companies from distribution companies through the payment of government-issued bonds of which the Company's three generation businesses have been allocated $110 million. This MOU also states that the bonds can be used to offset fiscal taxes, but that element will need to be approved by the National Congress of the Dominican Republic during their first legislative session of 2009. The second MOU acknowledges that the bond payment does not fully satisfy the outstanding 2008 A/R balance. The residual amount outstanding after the bond payment will be fully settled by the distribution companies, within a timeframe to be negotiated in the near future.

It is AES' intention to accept these bonds as settlement for approximately $110 million of outstanding 2008 A/R, under the assumption that the bonds will have the ability to offset fiscal taxes. The Company's businesses will have approximately $58 million of 2008 A/R outstanding after the bond payment that will be subject to the terms of the second MOU. The intention of the distribution companies is to pay approximately $35 million of these receivables in 2009. Therefore, AES has appropriately reclassified $23 million to long-term receivables on the Company's Consolidated Balance Sheet included in Item 8 of this Form 10-K as of December 31, 2008.

ITEM 1A. RISK FACTORS

You should consider carefully the following risks, along with the other information contained in or incorporated by reference in this Form 10-K. Additional risks and uncertainties also may adversely affect our business and operations including those discussed in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K. If any of the following events actually occur, our business and financial results could be materially adversely affected.

Risks Associated with our Disclosure Controls and Internal Control over Financial Reporting

We recently completed the remediation of our material weaknesses in internal control over financial reporting. However, our disclosure controls and procedures may not be effective in future periods if our judgments prove incorrect or new material weaknesses are identified.

For each of the fiscal quarters since December 31, 2004 through September 30, 2008, our management reported material weaknesses in our internal control over financial reporting. A material weakness is a deficiency (within the meaning of the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 5), or a combination of deficiencies, that adversely affects a company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of these material weaknesses, our management concluded that for each of the fiscal quarters since December 31, 2004 through September 30, 2008, we did not maintain effective internal control over financial reporting and concluded that our disclosure controls and procedures were not effective to provide reasonable assurance that financial information that we are required to disclose in our reports under the Exchange Act was recorded, processed, summarized and reported accurately.

To address these material weaknesses in our internal control over financial reporting, each time we prepared our annual and quarterly reports we performed additional analyses and other post-closing procedures. These additional procedures were costly, time consuming and required us to dedicate a significant amount of our resources, including the time and attention of our senior management, toward the correction of these problems. Nevertheless, even with these additional procedures, the material weaknesses in our internal control over financial reporting caused us to have errors in our financial statements and since 2003 we had to restate our annual financial statements six times to correct these errors.

The material weaknesses in our internal control over financial reporting also caused us to delay the filing of certain quarterly and annual reports with the SEC to dates that went beyond the deadline prescribed by the SEC's rules to file such reports. Under SEC rules, failure to timely file these reports prohibited us for a period of twelve months from offering and selling our securities pursuant to our shelf registration statement on Form S-3, which impaired our ability to access the capital markets through the public sale of registered securities in a timely manner. The failure to file our annual and quarterly reports with the SEC in a timely fashion also resulted in covenant defaults under our senior secured credit facility and the indenture governing certain of our outstanding debt securities. Such defaults required us to obtain a waiver from the lenders under the senior secured credit facility; however the default under the indentures was cured upon the filing of the reports within the permitted grace period. In addition to these problems, the material weaknesses in internal controls, the restatements of our financial statements and the delay in the filing of our annual and quarterly reports exposed us to other risks including, but not limited to:

- litigation or an expansion of the SEC's informal inquiry into our restatements or the commencement of formal proceedings by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties;

- negative publicity;
- ratings downgrades; or
- the loss or impairment of investor confidence in the Company.

As of December 31, 2008, our management has reported in this Annual Report on Form 10-K that for the first time in four years all of our previously identified material weaknesses had been remediated and that our internal control over financial reporting and our disclosure controls were effective. For a discussion of our completed remediation efforts and management assessment of our internal control over financial reporting and our disclosure controls, see Item 9A–Controls and Procedures in this Form 10-K. In making their assessment about the effectiveness of our internal control over financial reporting and our disclosure controls and procedures, management had to make certain judgments and it is possible that any number of their judgments were wrong and that our remediation efforts did not fully and completely cure the previously identified material weaknesses. There is also the possibility that there are other material weaknesses in our internal control that are unknown to us or that new material weaknesses may develop in the future. The existence of any material weakness in our internal control over financial reporting would subject us to all of the risks described above.

Furthermore, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, changes in accounting practice or policy, or that the degree of compliance with the revised policies or procedures deteriorates over time. Management, including our CEO and CFO, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Our identification of material weaknesses in internal control over financial reporting caused us to miss deadlines for certain SEC filings and if further filing delays occur, they could result in negative attention and/or legal consequences for the Company.

Our identification of the material weaknesses in internal control over financial reporting caused us to delay the filing of certain quarterly and annual reports with the SEC to dates that went beyond the deadline prescribed by the SEC's rules to file such reports.

We did not timely file with the SEC our quarterly and annual reports for the year ended December 31, 2005, our quarterly reports for the second and third quarters of 2006, our annual report for the year ended December 31, 2006, and our quarterly report for the quarter ended March 31, 2007. Under SEC rules, failure to timely file these reports prohibited us for a twelve month period from offering and selling our securities pursuant to our shelf registration statement on Form S-3, which impaired our ability to access the capital markets through the public sale of registered securities in a timely manner.

The failure to file our annual and quarterly reports with the SEC in a timely fashion also resulted in covenant defaults under our senior secured credit facility and the indenture governing certain of our outstanding debt securities. Such defaults required us to obtain a waiver from the lenders under the senior secured credit facility; however the default under the indentures was cured upon the filing of the reports within the permitted grace period.

If we identify new material weaknesses, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that a related default under our senior secured credit facility and indentures could occur. In addition, the material weaknesses in internal controls, the restatements of our financial statements, and the delay in the filing of our annual and quarterly reports and any similar problems in the future could have other adverse effects on our business, including, but not limited to:

- impairing our ability to access the capital markets, including, but not limited to the inability to offer and sell securities pursuant to a shelf registration statement on Form S-3;
- litigation or an expansion of the SEC's informal inquiry into our restatements or the commencement of formal proceedings by the SEC or other regulatory authorities, which could require us to incur significant legal expenses and other costs or to pay damages, fines or other penalties;
- additional covenant defaults, and potential events of default, under our senior secured credit facility and the indentures governing our outstanding debt securities, resulting from our failure to timely file our financial statements;
- negative publicity;
- ratings downgrades; or
- the loss or impairment of investor confidence in the Company.

Risks Related to our High Level of Indebtedness

We have a significant amount of debt, a large percentage of which is secured, which could adversely affect our business and the ability to fulfill our obligations.

As of December 31, 2008, we had approximately $18.1 billion of outstanding indebtedness on a consolidated basis. All outstanding borrowings under The AES Corporation's senior secured credit facility, our Second Priority Senior Secured Notes and certain other indebtedness are secured by certain of our assets, including the pledge of capital stock of many of The AES Corporation's directly-held subsidiaries. Most of the debt of The AES Corporation's subsidiaries is secured by substantially all of the assets of those subsidiaries. Since we have such a high level of debt, a substantial portion of cash flow from operations must be used to make payments on this debt. Furthermore, since a significant percentage of our assets are used to secure this debt, this reduces the amount of collateral that is available for future secured debt or credit support and reduces our flexibility in dealing with these secured assets. This high level of indebtedness and related security could have other important consequences to us and our investors, including:

- making it more difficult to satisfy debt service and other obligations;
- increasing the likelihood of a downgrade of our debt, which can cause future debt payments to increase and consume an even greater portion of cash flow;
- increasing our vulnerability to general adverse economic and industry conditions;
- reducing the availability of cash flow to fund other corporate purposes and grow our business;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry;
- placing us at a competitive disadvantage to our competitors that are not as highly leveraged; and
- limiting, along with the financial and other restrictive covenants relating to such indebtedness, among other things, our ability to borrow additional funds as needed or take advantage of business opportunities as they arise, pay cash dividends or repurchase common stock.

The agreements governing our indebtedness, including the indebtedness of our subsidiaries, limit, but do not prohibit, the incurrence of additional indebtedness. To the extent we become more leveraged, the risks described above would increase. Further, our actual cash requirements in the future may be greater than expected. Accordingly, our cash flows may not be sufficient to repay at maturity all of the outstanding debt as it becomes due and, in that event, we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms or at all to refinance our debt as it becomes due. In recent months, these risks have increased as conditions in the global economy, including credit markets worldwide, have deteriorated dramatically. For further discussion of these global economic conditions and their potential impact on the Company, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

The AES Corporation is a holding company and its ability to make payments on its outstanding indebtedness, including its public debt securities, is dependent upon the receipt of funds from its subsidiaries by way of dividends, fees, interest, loans or otherwise.

The AES Corporation is a holding company with no material assets, other than the stock of its subsidiaries. All of The AES Corporation's revenue is generated through its subsidiaries. Accordingly, almost all of The AES Corporation's cash flow is generated by the operating activities of its subsidiaries. Therefore, The AES Corporation's ability to make payments on its indebtedness and to fund its other obligations is dependent not only on the ability of its subsidiaries to generate cash, but also on the ability of the subsidiaries to distribute cash to it in the form of dividends, fees, interest, loans or otherwise.

However, our subsidiaries face various restrictions in their ability to distribute cash to The AES Corporation. Most of the subsidiaries are obligated, pursuant to loan agreements, indentures or project financing arrangements, to satisfy certain restricted payment covenants or other conditions before they may make distributions to The AES Corporation. In addition, the payment of dividends or the making of loans, advances or other payments to The AES Corporation may be subject to legal or regulatory restrictions. Business performance and local accounting and tax rules may limit the amount of retained earnings that may be distributed to us as a dividend. Subsidiaries in foreign countries may also be prevented from distributing funds to The AES Corporation as a result of foreign governments restricting the repatriation of funds or the conversion of currencies. Any right that The AES Corporation has to receive any assets of any of its subsidiaries upon any liquidation, dissolution, winding up, receivership, reorganization, bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of The AES Corporation's indebtedness to participate in the distribution of, or to realize proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's creditors (including trade creditors and holders of debt issued by such subsidiary).

The AES Corporation could receive less funds than it expects as a result of the current challenges facing the global economy, which could impact the performance of our businesses and their ability to distribute cash to The AES Corporation. For further discussion of the macroeconomic environment and its impact on our business, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

The AES Corporation's subsidiaries are separate and distinct legal entities and, unless they have expressly guaranteed any of The AES Corporation's indebtedness, have no obligation, contingent or otherwise, to pay any amounts due pursuant to such debt or to make any funds available whether by dividends, fees, loans or other payments. While some of The AES Corporation's subsidiaries guarantee its indebtedness under its Senior Secured Credit Facility and certain other indebtedness, none of its subsidiaries guarantee, or are otherwise obligated with respect to, its outstanding public debt securities.

Even though The AES Corporation is a holding company, existing and potential future defaults by subsidiaries or affiliates could adversely affect The AES Corporation.

We attempt to finance our domestic and foreign projects primarily under loan agreements and related documents which, except as noted below, require the loans to be repaid solely from the project's revenues and provide that the repayment of the loans (and interest thereon) is secured solely by the capital stock, physical assets, contracts and cash flow of that project subsidiary or affiliate. This type of financing is usually referred to as non-recourse debt or "project financing." In some project financings, The AES Corporation has explicitly agreed to undertake certain limited obligations and contingent liabilities, most of which by their terms will only be effective or will be terminated upon the occurrence of future events. These obligations and liabilities take the form of guarantees, indemnities, letter of credit reimbursement agreements and agreements to pay, in certain circumstances, the project lenders or other parties.

As of December 31, 2008, we had approximately $18.1 billion of outstanding indebtedness on a consolidated basis, of which approximately $5.2 billion was recourse debt of The AES Corporation and approximately $12.9 billion was non-recourse debt. In addition, we have outstanding guarantees, letters of credit, and other credit support commitments which are further described in this Form 10-K in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Parent Company Liquidity.

Some of our subsidiaries are currently in default with respect to all or a portion of their outstanding indebtedness. The total debt classified as current in our consolidated balance sheets related to such defaults was $129 million at December 31, 2008. While the lenders under our non-recourse project financings generally do not have direct recourse to The AES Corporation (other than to the extent of any credit support given by The AES Corporation), defaults there under can still have important consequences for The AES Corporation, including, without limitation:

- reducing The AES Corporation's receipt of subsidiary dividends, fees, interest payments, loans and other sources of cash since the project subsidiary will typically be prohibited from distributing cash to The AES Corporation during the pendency of any default;
- triggering The AES Corporation's obligation to make payments under any financial guarantee, letter of credit or other credit support which The AES Corporation has provided to or on behalf of such subsidiary;
- causing The AES Corporation to record a loss in the event the lender forecloses on the assets;
- triggering defaults in The AES Corporation's outstanding debt and trust preferred securities. For example, The AES Corporation's senior secured credit facility and outstanding senior notes include events of default for certain bankruptcy related events involving material subsidiaries. In addition, The AES Corporation's senior secured credit facility includes certain events of default relating to accelerations of outstanding debt of material subsidiaries; or
- the loss or impairment of investor confidence in the Company.

None of the projects that are currently in default are owned by subsidiaries that meet the applicable definition of materiality in The AES Corporation's senior secured credit facility in order for such defaults to trigger an event of default or permit acceleration under such indebtedness. However, as a result of future write-down of assets, dispositions and other matters that affect our financial position and results of operations, it is possible that one or more of these subsidiaries could fall within the definition of a "material subsidiary" and thereby upon an acceleration of such subsidiary's debt, trigger an event of default and possible acceleration of the indebtedness under The AES Corporation's senior secured credit facility. The risk of such defaults may have increased as a result of the deteriorating global economy. For further discussion of these conditions, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

Risks Associated with our Ability to Raise Needed Capital

The AES Corporation has significant cash requirements and limited sources of liquidity.

The AES Corporation requires cash primarily to fund:

- principal repayments of debt;
- interest and preferred dividends;
- acquisitions;
- construction and other project commitments;
- other equity commitments, including business development investments;
- taxes; and
- Parent Company overhead costs.

The AES Corporation's principal sources of liquidity are:

- dividends and other distributions from its subsidiaries;
- proceeds from debt and equity financings at the Parent Company level; and
- proceeds from asset sales.

For a more detailed discussion of The AES Corporation's cash requirements and sources of liquidity, please see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity in this 2008 Form 10-K.

While we believe that these sources will be adequate to meet our obligations at the Parent Company level for the foreseeable future, this belief is based on a number of material assumptions, including, without limitation, assumptions about our ability to access the capital or commercial lending markets, the operating and financial performance of our subsidiaries, exchange rates, our ability to sell assets, and the ability of our subsidiaries to pay dividends. Any number of assumptions could prove to be incorrect and therefore there can be no assurance that these sources will be available when needed or that our actual cash requirements will not be greater than expected. For example, in the current credit crisis, certain financial institutions have gone bankrupt. In the event that a bank who is party to our credit agreement or other facilities goes bankrupt or is otherwise unable to fund its commitments, we would need to replace that bank in our syndicate or risk a reduction in the size of the facility, which would reduce our liquidity. In addition, our cash flow may not be sufficient to repay at maturity the entire principal outstanding under our credit facilities and our debt securities and we may have to refinance such obligations. There can be no assurance that we will be successful in obtaining such refinancing and any of these events could have a material effect on us. For further discussion of these global economic conditions and their potential impact on the Company, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

Our ability to grow our business could be materially adversely affected if we were unable to raise capital on favorable terms.

From time to time, we rely on access to capital markets as a source of liquidity for capital requirements not satisfied by operating cash flows. Our ability to arrange for financing on either a recourse or non-recourse basis and the costs of such capital are dependent on numerous factors, some of which are beyond our control, including:

- general economic and capital market conditions;

- the availability of bank credit;
- investor confidence;
- the financial condition, performance and prospects of The AES Corporation in general and/or that of any subsidiary requiring the financing; and
- changes in tax and securities laws which are conducive to raising capital.

Since 2007, credit conditions and credit markets have weakened considerably and deteriorated dramatically in 2008, which has made it difficult for many companies to arrange for financing on a recourse or non-recourse basis. For further discussion of these global economic conditions and their potential impact on the Company, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operation—Credit Crisis and the Macroeconomic Environment. Should future access to capital not be available to us, we may have to sell assets or decide not to build new plants or expand or improve existing facilities, either of which would affect our future growth.

A downgrade in the credit ratings of The AES Corporation or its subsidiaries could adversely affect our ability to access the capital markets which could increase our interest costs or adversely affect our liquidity and cash flow.

If any of the credit ratings of The AES Corporation or its subsidiaries were to be downgraded, our ability to raise capital on favorable terms could be impaired and our borrowing costs would increase. Furthermore, depending on The AES Corporation's credit ratings and the trading prices of its equity and debt securities, counterparties may no longer be as willing to accept general unsecured commitments by The AES Corporation to provide credit support. Accordingly, with respect to both new and existing commitments, The AES Corporation may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace any credit support by The AES Corporation. There can be no assurance that such counterparties will accept such guarantees in the future. In addition, to the extent The AES Corporation is required and able to provide letters of credit or other collateral to such counterparties, it will limit the amount of credit available to The AES Corporation to meet its other liquidity needs.

We may not be able to raise sufficient capital to fund "greenfield" projects in certain less developed economies which could change or in some cases adversely affect our growth strategy.

Part of our strategy is to grow our business by developing Generation and Utility businesses in less developed economies where the return on our investment may be greater than projects in more developed economies. Commercial lending institutions sometimes refuse to provide non-recourse project financing in certain less developed economies, and in these situations we have sought and will continue to seek direct or indirect (through credit support or guarantees) project financing from a limited number of multilateral or bilateral international financial institutions or agencies. As a precondition to making such project financing available, the lending institutions may also require governmental guarantees of certain project and sovereign related risks. There can be no assurance, however, that project financing from the international financial agencies or that governmental guarantees will be available when needed, and if they are not, we may have to abandon the project or invest more of our own funds which may not be in line with our investment objectives and would leave less funds for other projects. These risks have increased as a result of the recent credit crisis and the deteriorating global economy. For further discussion of these global economic conditions and their potential impact on the Company, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

External Risks Associated with Revenue and Earnings Volatility

Our financial position and results of operations may fluctuate significantly due to fluctuations in currency exchange rates experienced at our foreign operations.

Our exposure to currency exchange rate fluctuations results primarily from the translation exposure associated with the preparation of the Consolidated Financial Statements, as well as from transaction exposure associated with transactions in currencies other than an entity's functional currency. While the Consolidated Financial Statements are reported in U.S. Dollars, the financial statements of many of our subsidiaries outside the United States are prepared using the local currency as the functional currency and translated into U.S. Dollars by applying appropriate exchange rates. As a result, fluctuations in the exchange rate of the U.S. Dollar relative to the local currencies where our subsidiaries outside the United States report could cause significant fluctuations in our results. In addition, while our expenses with respect to foreign operations are generally denominated in the same currency as corresponding sales, we have transaction exposure to the extent receipts and expenditures are not denominated in the subsidiary's functional currency.

We also experience foreign transaction exposure to the extent monetary assets and liabilities, including debt, are in a different currency than the subsidiary's functional currency. Moreover, the costs of doing business abroad may increase as a result of adverse exchange rate fluctuations. Our financial position and results of operations have been significantly affected by fluctuations in the value of a number of currencies, primarily the Brazilian real, Argentine peso, Chilean peso, Colombian peso and Philippine peso. As our Brazilian and Argentine businesses primarily identify their local currency as their functional currency, recent depreciation of these currencies has resulted in the increase of deferred translation losses (foreign currency translation adjustments recognized in accumulated other comprehensive loss) based on positive net asset positions. Devaluation has also resulted in foreign currency transaction losses primarily associated with U.S. Dollar debt at these businesses.

Our businesses may incur substantial costs and liabilities and be exposed to price volatility as a result of risks associated with the wholesale electricity markets, which could have a material adverse effect on our financial performance.

Some of our Generation businesses sell electricity in the wholesale spot markets in cases where they operate wholly or partially without long-term power sales agreements. Our Utility businesses and, to the extent they require additional capacity, our Generation businesses, also buy electricity in the wholesale spot markets. As a result, we are exposed to the risks of rising and falling prices in those markets. The open market wholesale prices for electricity are very volatile and often reflect the fluctuating cost of coal, natural gas, or oil. Consequently, any changes in the supply and cost of coal, natural gas, and oil may impact the open market wholesale price of electricity.

Volatility in market prices for fuel and electricity may result from among other things:

- plant availability;
- competition;
- demand for energy commodities;
- electricity usage;
- seasonality;
- interest rate and foreign exchange rate fluctuation;
- availability and price of emission credits;
- input prices;

- hydrology and other weather conditions;
- illiquid markets;
- transmission or transportation constraints or inefficiencies;
- availability of competitively priced renewables sources;
- available supplies of natural gas, crude oil and refined products, and coal;
- generating unit performance;
- natural disasters, terrorism, wars, embargoes and other catastrophic events;
- energy, market and environmental regulation, legislation and policies;
- geopolitical concerns affecting global supply of oil and natural gas; and
- general economic conditions in areas where we operate which impact energy consumption.

The Company has faced gas curtailments in the past. For example, gas supply in the Argentine market is increasingly scarce and exports have been both taxed and curtailed. Gas supply curtailments can be exacerbated during the Argentine winter (May through September) when domestic demand for electricity experiences a seasonal increase. Since substantially all of the gas used in the Chilean power sector is currently imported from Argentina, gas curtailments can impact our Chilean operations through higher fuel costs and higher costs of purchased energy from the spot market. Our natural gas-fired plant in Southern Brazil, Uruguaiana, has also been impacted by limited fuel supply. Since 2004, Uruguaiana has had its gas supply interrupted from May to September. During this period, Uruguaiana purchases energy from the spot market and through bilateral contracts to fulfill its sales contracts and has paid higher fuel prices as a result. During the fourth quarter of 2007, the combination of gas curtailments and increases in the spot market price of energy triggered an impairment analysis of Uruguaiana's long-lived assets for recoverability. As a result of this impairment analysis, aggregate pre-tax impairment charges of $388 million were recognized in 2008 and 2007 which represents a full impairment of the fixed assets.

In addition, our business depends upon transmission facilities owned and operated by others. If transmission is disrupted or capacity is inadequate or unavailable, our ability to sell and deliver power may be limited, which may have a material adverse impact on our business.

We may not be adequately hedged against our exposure to changes in commodity prices or interest rates.

We routinely enter into contracts to hedge a portion of our purchase and sale commitments for electricity, fuel requirements and other commodities to lower our financial exposure related to commodity price fluctuations. As part of this strategy, we routinely utilize fixed-price forward physical purchase and sales contracts, futures, financial swaps, and option contracts traded in the over-the-counter markets or on exchanges. We also enter into contracts which help us to hedge our interest rate exposure on variable debt. However, we may not cover the entire exposure of our assets or positions to market price (or interest rate) volatility, and the coverage will vary over time. Furthermore, the risk management procedures we have in place may not always be followed or may not work as planned. In particular, if prices of commodities (or interest rates) significantly deviate from historical prices or if the price volatility (or interest rates) or distribution of these changes deviates from historical norms, our risk management system may not protect us from significant losses. As a result, fluctuating commodity prices may negatively impact our financial results to the extent we have unhedged or inadequately hedged positions. In addition, certain types of economic hedging activities may not qualify for hedge accounting under GAAP, resulting in increased volatility in our net income. In addition, there is a risk that the current parties to these arrangements may fail or are unable to perform their obligations under these arrangements.

Supplier and/or customer concentration may expose the Company to significant financial credit or performance risks.

We often rely on a single contracted supplier or a small number of suppliers for the provision of fuel, transportation of fuel and other services required for the operation of certain of our facilities. If these suppliers cannot perform, we would seek to meet our fuel requirements by purchasing fuel at market prices, exposing us to market price volatility and the risk that fuel and transportation may not be available during certain periods at any price.

At times, we rely on a single customer or a few customers to purchase all or a significant portion of a facility's output, in some cases under long-term agreements that account for a substantial percentage of the anticipated revenue from a given facility. We have also hedged a portion of our exposure to power price fluctuations through forward fixed price power sales. Counterparties to these agreements may breach or may be unable to perform their obligations. We may not be able to enter into replacement agreements on terms as favorable as our existing agreements, or at all. If we were unable to enter into replacement PPAs, we would sell our plants' power at market prices.

The failure of any supplier or customer to fulfill its contractual obligations to The AES Corporation or our subsidiaries could have a material adverse effect on our financial results. Consequently, the financial performance of our facilities is dependent on the credit quality of, and continued performance by, suppliers and customers.

Certain of our businesses are sensitive to variations in weather.

Our businesses are affected by variations in general weather conditions and unusually severe weather. Our businesses forecast electric sales on the basis of normal weather, which represents a long-term historical average. While we also consider possible variations in normal weather patterns and potential impacts on our facilities and our businesses, there can be no assurance that such planning can prevent these impacts, which can adversely affect our business. Generally, demand for electricity peaks in winter and summer. Typically, when winters are warmer than expected and summers are cooler than expected, demand for energy is lower, resulting in less demand for electricity than forecasted. Significant variations from normal weather where our businesses are located could have a material impact on our results of operations.

In addition, we are dependent upon hydrological conditions prevailing from time to time in the broad geographic regions in which our hydroelectric generation facilities are located. If hydrological conditions result in droughts or other conditions that negatively affect our hydroelectric generation business, our results of operations could be materially adversely affected. In the past, our businesses in Latin America have been negatively impacted by lower than normal rainfall.

Risks Associated with our Operations

We do a significant amount of business outside the United States, including in developing countries, which presents significant risks.

A significant amount of our revenue is generated outside the United States and a significant portion of our international operations is conducted in developing countries. Part of our growth strategy is to expand our business in developing countries because the growth rates and the opportunity to implement operating improvements and achieve higher operating margins may be greater than those typically achievable in more developed countries. International operations, particularly the operation, financing and development of projects in developing countries, entail significant risks and uncertainties, including, without limitation:

- economic, social and political instability in any particular country or region;
- adverse changes in currency exchange rates;

- government restrictions on converting currencies or repatriating funds;
- unexpected changes in foreign laws and regulations or in trade, monetary or fiscal policies;
- high inflation and monetary fluctuations;
- restrictions on imports of coal, oil, gas or other raw materials required by our generation businesses to operate;
- threatened or consummated expropriation or nationalization of our assets by foreign governments;
- difficulties in hiring, training and retaining qualified personnel, particularly finance and accounting personnel with U.S. GAAP expertise;
- unwillingness of governments, government agencies, similar organizations or other counterparties to honor their contracts;
- unwillingness of governments, government agencies, courts or similar bodies to enforce contracts that are economically advantageous to subsidiaries of the Company and economically unfavorable to counterparties, against such counterparties, whether such counterparties are governments or private parties;
- inability to obtain access to fair and equitable political, regulatory, administrative and legal systems;
- adverse changes in government tax policy;
- difficulties in enforcing our contractual rights or enforcing judgments or obtaining a just result in local jurisdictions; and
- potentially adverse tax consequences of operating in multiple jurisdictions.

Any of these factors, by itself or in combination with others, could materially and adversely affect our business, results of operations and financial condition. For example, in the second quarter of 2007, we sold our stake in EDC to Petróleos de Venezuela, S.A. ("PDVSA"), the state owned energy company in Venezuela after Venezuelan President Hugo Chavez threatened to expropriate the electricity business in Venezuela. In connection with the sale, we recognized an impairment charge of approximately $680 million. In addition, our Latin American operations experience volatility in revenues and gross margin which have caused and are expected to cause significant volatility in our results of operations and cash flows. The volatility is caused by regulatory and economic difficulties, political instability and currency devaluations being experienced in many of these countries. This volatility reduces the predictability and enhances the uncertainty associated with cash flows from these businesses.

The operation of power generation and distribution facilities involves significant risks that could adversely affect our financial results.

The operation of power generation and distribution facilities involves many risks, including:

- equipment failure causing unplanned outages;
- failure of transmission systems;
- the dependence on a specified fuel source, including the transportation of fuel;
- catastrophic events such as fires, explosions, floods, earthquakes, hurricanes and similar occurrences; and
- environmental compliance.

Any of these risks could have an adverse effect on our generation and distribution facilities. In addition, a portion of our generation facilities were constructed many years ago. Older generating equipment may require significant capital expenditures for maintenance. This equipment is also likely to require periodic upgrading and improvement. Breakdown or failure of one of our operating facilities may prevent the facility from performing under applicable power sales agreements which, in certain situations, could result in termination of a power purchase or other agreement or incurring a liability for liquidated damages.

As a result of the above risks and other potential hazards associated with the power generation and distribution industries, we may from time to time become exposed to significant liabilities for which we may not have adequate insurance coverage. Power generation involves hazardous activities, including acquiring, transporting and unloading fuel, operating large pieces of rotating equipment and delivering electricity to transmission and distribution systems. In addition to natural risks, such as earthquakes, floods, lightning, hurricanes and wind, hazards, such as fire, explosion, collapse and machinery failure, are inherent risks in our operations which may occur as a result of inadequate internal processes, technological flaws, human error or certain external events. The control and management of these risks depend upon adequate development and training of personnel and on the existence of operational procedures, preventative maintenance plans and specific programs supported by quality control systems which reduce, but do not eliminate the possibility of the occurrence and impact of these risks.

The hazards described above can cause significant personal injury or loss of life, severe damage to and destruction of property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. The occurrence of any one of these events may result in us being named as a defendant in lawsuits asserting claims for substantial damages, environmental cleanup costs, personal injury and fines and/or penalties. We maintain an amount of insurance protection that we believe is adequate, but there can be no assurance that our insurance will be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject. A successful claim for which we are not fully insured could hurt our financial results and materially harm our financial condition. Further, due to rising insurance costs and changes in the insurance markets, we cannot provide assurance that insurance coverage will continue to be available on terms similar to those presently available to us or at all. Any losses not covered by insurance could have a material adverse effect on our financial condition, results of operations or cash flows.

Our ability to attract and retain skilled people could have a material adverse effect on our operations.

Our operating success and ability to carry out growth initiatives depends in part on our ability to retain executives and to attract and retain additional qualified personnel who have experience in our industry and in operating a company of our size and complexity, including people in our foreign businesses. The inability to attract and retain qualified personnel could have a material adverse effect on our business, because of the difficulty of promptly finding qualified replacements. In particular, we routinely are required to assess the financial and tax impacts of complicated business transactions which occur on a worldwide basis. These assessments are dependent on hiring personnel on a worldwide basis with sufficient expertise in U.S. GAAP to timely and accurately comply with U.S. reporting obligations. An inability to maintain adequate internal accounting and managerial controls and hire and retain qualified personnel could have an adverse affect on our ability to report our financial condition and results of operations.

We have contractual obligations to certain customers to provide full requirements service, which makes it difficult to predict and plan for load requirements and may result in increased operating costs to certain of our businesses.

We have contractual obligations to certain customers to supply power to satisfy all or a portion of their energy requirements. The uncertainty regarding the amount of power that our power generation and distribution facilities must be prepared to supply to customers may increase our operating costs. A significant under or over-estimation of load requirements could result in our facilities not having enough or having too much power to cover their obligations, in which case we would be required to buy or sell power from or to third parties at prevailing market prices. Those prices may not be favorable and thus could increase our operating costs.

We may not be able to enter into long-term contracts, which reduce volatility in our results of operations. Even when we successfully enter into long-term contracts, our generation businesses are dependent on one or a limited number of customers and a limited number of fuel suppliers.

Many of our generation plants conduct business under long-term contracts. In these instances, we rely on power sales contracts with one or a limited number of customers for the majority of, and in some case all of, the relevant plant's output and revenues over the term of the power sales contract. The remaining terms of the power sales contracts range from 1 to 25 years. In many cases, we also limit our exposure to fluctuations in fuel prices by entering into long-term contracts for fuel with a limited number of suppliers. In these instances, the cash flows and results of operations are dependent on the continued ability of customers and suppliers to meet their obligations under the relevant power sales contract or fuel supply contract, respectively. Some of our long-term power sales agreements are at prices above current spot market prices and some of our long-term fuel supply contracts are at prices below current market prices. The loss of significant power sales contracts or fuel supply contracts, or the failure by any of the parties to such contracts that prevents us from fulfilling our obligations thereunder, could have a material adverse impact on our business, results of operations and financial condition. In addition, depending on market conditions and regulatory regimes, it may be difficult for us to secure long-term contracts, either where our current contracts are expiring or for new development projects. The inability to enter into long-term contracts could require many of our businesses to purchase inputs at market prices and sell electricity into spot markets. Because of the volatile nature of inputs and power prices, the inability to secure long-term contracts could generate increased volatility in our earnings and cash flows and could generate substantial losses during certain periods which could have a material impact on our business and results of operations.

We have sought to reduce counter party credit risk under our long-term contracts in part by entering into power sales contracts with utilities or other customers of strong credit quality and by obtaining guarantees from the sovereign government of the customer's obligations. However, many of our customers do not have, or have failed to maintain, an investment grade credit rating, and our Generation business can not always obtain government guarantees and if they do, the government does not always have an investment grade credit rating. We have also sought to reduce our credit risk by locating our plants in different geographic areas in order to mitigate the effects of regional economic downturns. However, there can be no assurance that our efforts to mitigate this risk will be successful. These risks have increased as a result of the deteriorating global economy. For further discussion of these global economic conditions and their potential impact on the Company, see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Crisis and the Macroeconomic Environment.

Competition is increasing and could adversely affect us.

The power production markets in which we operate are characterized by numerous strong and capable competitors, many of whom may have extensive and diversified developmental or operating experience (including both domestic and international) and financial resources similar to or greater than ours. Further, in recent years, the power production industry has been characterized by strong and increasing competition with respect to both obtaining power sales agreements and acquiring existing power generation assets. In certain markets, these factors have caused reductions in prices contained in new power sales agreements and, in many cases, have caused higher acquisition prices for existing assets through competitive bidding practices. The evolution of competitive electricity markets and the development of highly efficient gas-fired power plants have also caused, or are anticipated to cause, price pressure in certain power markets where we sell or intend to sell power. These competitive factors could have a material adverse effect on us.

Our business and results of operations could be adversely affected by changes in our operating performance or cost structure.

We are in the business of generating and distributing electricity, which involves certain risks that can adversely affect financial and operating performance, including:

- changes in the availability of our generation facilities or distribution systems due to increases in scheduled and unscheduled plant outages, equipment failure, labor disputes, disruptions in fuel supply, inability to comply with regulatory or permit requirements or catastrophic events such as fires, floods, storms, hurricanes, earthquakes, explosions, terrorist acts or other similar occurrences; and
- changes in our operating cost structure including, but not limited to, increases in costs relating to: gas, coal, oil and other fuel; fuel transportation; purchased electricity; operations, maintenance and repair; environmental compliance, including the cost of purchasing emissions offsets and capital expenditures to install environmental emission equipment; transmission access; and insurance.

Any of the above risks could adversely affect our business and results of operations, and our ability to meet publicly announced projections or analysts' expectations.

Some of our subsidiaries participate in defined benefit pension plans and their net pension plan obligations may require additional significant contributions.

Certain of our subsidiaries have defined benefit pension plans covering substantially all of their respective employees. Of the twenty four defined benefit plans, three are at U.S. subsidiaries and the remaining plans are at foreign subsidiaries. Pension costs are based upon a number of actuarial assumptions, including an expected long-term rate of return on pension plan assets, the expected life span of pension plan beneficiaries and the discount rate used to determine the present value of future pension obligations. Any of these assumptions could prove to be wrong, resulting in a shortfall of pension plan assets compared to pension obligations under the pension plan. The Company periodically evaluates the value of the pension plan assets to ensure that they will be sufficient to fund the respective pension obligations. The Company's exposure is mitigated due to the fact that the asset allocations in our largest plans are more heavily weighted to investments in fixed income securities that have not been as severely impacted by the recent equity market declines. Nevertheless, given the recent significant declines in financial markets, the value of these pension plan assets has declined and our future pension expense and funding obligations have increased. In addition, future downturns in the equity markets, or the failure of any of our assumptions underlying the estimates of our subsidiaries' pension plan obligations, could result in an increase in pension expense and funding requirements in future periods, which may be material. Our subsidiaries who participate in these plans are responsible for funding any shortfall of pension plan assets compared to pension obligations under the pension plan. This may necessitate additional cash contributions to the pension plans that could adversely affect our and our subsidiaries' liquidity.

For additional information regarding the funding position of the Company's pension plans, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—Pension and Postretirement Obligations" and Note 13 to our Consolidated Financial Statements included in this annual report on Form 10-K.

Our business is subject to substantial development uncertainties.

Certain of our subsidiaries and affiliates are in various stages of developing and constructing "greenfield" power plants, some but not all of which have signed long-term contracts or made similar arrangements for the sale of electricity. Successful completion depends upon overcoming substantial risks, including, but not limited to, risks relating to failures of siting, financing, construction, permitting, governmental approvals or the potential for termination of the power sales contract as a result of a failure to meet certain milestones. Financing risk has also increased as a result of the deterioration of the global economy and the crisis in the financial markets, and as a result, we may forgo certain development opportunities. We believe that capitalized costs for projects under development are recoverable; however, there can be no assurance that any individual project will be completed and reach commercial operation. If these development efforts are not successful, we may abandon a project under development and write off the costs incurred in connection with such project. At the time of abandonment, we would expense all capitalized development costs incurred in connection therewith and could incur additional losses associated with any related contingent liabilities.

Our acquisitions may not perform as expected.

Historically, acquisitions have been a significant part of our growth strategy. We may continue to grow our business through acquisitions. Although acquired businesses may have significant operating histories, we will have a limited or no history of owning and operating many of these businesses and possibly limited or no experience operating in the country or region where these businesses are located. Some of these businesses may be government owned and some may be operated as part of a larger integrated utility prior to their acquisition. If we were to acquire any of these types of businesses, there can be no assurance that:

- we will be successful in transitioning them to private ownership;
- such businesses will perform as expected;
- we will not incur unforeseen obligations or liabilities;
- such business will generate sufficient cash flow to support the indebtedness incurred to acquire them or the capital expenditures needed to develop them; or
- the rate of return from such businesses will justify our decision to invest our capital to acquire them.

In April 2008, the Company completed the purchase of a 92% interest in a 660 gross MW coal-fired thermal power generation facility in Masinloc, Philippines ("Masinloc") from the Power Sector Assets & Liabilities Management Corporation, a state enterprise, for $930 million in cash. Immediately after the acquisition, the Company embarked upon a comprehensive rehabilitation program to improve the output, reliability and general condition of the plant. As a result, operating losses have been reduced and the business is expected to generate a profit in 2009. However, in the event that the progress made does not continue, or Masinloc performs worse than expected, the Company could incur further operating losses which could have a material adverse effect on our results of operations. Further losses could also trigger an impairment of the assets held by Masinloc.

In some of our joint venture projects, we have granted protective rights to minority holders or we own less than a majority of the equity in the project and do not manage or otherwise control the project, which entails certain risks.

We have invested in some joint ventures where we own less than a majority of the voting equity in the venture. Very often, we seek to exert a degree of influence with respect to the management and operation of projects in which we have less than a majority of the ownership interests by operating the project pursuant to a management contract, negotiating to obtain positions on management committees or to receive certain limited governance rights, such as rights to veto significant actions. However, we do not always have this type of control over the project in every instance; and we may be dependent on our co-venturers to operate such projects. Our co-venturers may not have the level of experience, technical expertise, human resources, management and other attributes necessary to operate these projects optimally. The approval of co-venturers also may be required for us to receive distributions of funds from projects or to transfer our interest in projects.

In some joint venture agreements where we do have majority control of the voting securities, we have entered into shareholder agreements granting protective minority rights to the other shareholders. For example, Brasiliana Energia ("Brasiliana") is a holding company in which we have a controlling equity interest and through which we own three of our four Brazilian businesses: Eletropaulo, Tietê and Uruguaiana. We entered into a shareholders' agreement with an affiliate of the Brazilian National Development Bank ("BNDES") which owns more than 49 percent of the voting equity of Brasiliana. Among other things, the shareholders' agreement requires the consent of both parties before taking certain corporate actions, grants both parties rights of first refusal in connection with the sale of interests in Brasiliana and grants drag-along rights to BNDES. In May, 2007, BNDES notified us that it intends to sell all of its interest in Brasiliana pursuant to public auction (the "Brasiliana Sale"). BNDES also informed us that if we fail to exercise our right of first refusal to purchase all of its interest in Brasiliana, then BNDES intends to exercise its drag-along rights under the shareholders' agreement and cause us to sell all of our interests in Brasiliana in the Brasiliana Sale as well. After the auction, if a third party offer has been received in the Brasiliana Sale, we will have 30 days to exercise our right of first refusal to purchase all of BNDES's interest in Brasiliana on the same terms as the third- party offer. If we do not exercise this right and BNDES proceeds to exercise its drag-along rights, then we may be forced to sell all of our interest in Brasiliana. Due to the uncertainty in the sale price at this point in time, we are uncertain whether we will exercise our right of first refusal should BNDES receive a valid third-party offer in the Brasiliana Sale and, if we do, whether we would do it alone or with joint venture partners. Even if we desire to exercise our right of first refusal, we cannot assure that we will have the cash on hand or that debt or equity financing will be available at acceptable terms in order to purchase BNDES's interest in Brasiliana. If we do not exercise our right of first refusal, we cannot be assured that we will not have to record a loss if the sale price is below the book value of our investment in Brasiliana.

Our renewable energy projects and other initiatives face considerable uncertainties including, development, operational and regulatory challenges.

AES Wind Generation, AES Solar, our projects in climate solutions and our investments in projects such as energy storage are subject to substantial risks. Projects of this nature are relatively new, are supported financially by favorable regulatory incentives and have been developed through advancement in technologies which may not be proven, or which are unrelated to our core business.

As a result, these projects face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. In addition, because these projects depend on technology outside of our expertise in Generation and Utilities, there are risks associated with our ability to develop and manage such projects profitably. Furthermore, at the development or acquisition stage, because of the nascent nature of these industries, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. There are also risks associated with the fact that many of these projects exist in new or emerging markets, where long-term fixed price contracts for the major cost and revenue components may be unavailable, which in turn may result in these projects having relatively high levels of volatility.

These projects can be capital-intensive and generally require that we obtain third party financing, which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop these projects. These risks may be exacerbated by the current global economic crisis, including our management's increased focus on liquidity, which may also result in slower growth in the number of projects we can pursue. The economic downturn could also impact the value of our assets in these countries and our ability to develop these projects. If the value of these assets decline, this could result in a material impairment or a series of impairments which are material in the aggregate, which would adversely affect our financial statements.

The global credit crisis could impact our growth plans and the values of our assets.

In the second half of 2007, conditions in the credit markets began to deteriorate in the United States and abroad. In the third and fourth quarter of 2008, this crisis and associated market conditions worsened dramatically, with unprecedented market volatility, widening credit spreads, volatile currencies, illiquidity, and increased counterparty credit risk. As a result of the deterioration in the global economy, the Company has placed a greater emphasis on preservation of liquidity. The Company currently intends to complete the projects it has under construction, those that have obtained financing and a select group of projects which may be able to obtain financing in these challenging financial markets. In the event that management determines that, because of macroeconomic challenges or other factors, certain of these or other projects in the pipeline cannot be financed, will not provide the returns originally anticipated, or are otherwise unfeasible, or that other uses of capital such as debt repayment or stock repurchases offer a better return on the Company's capital, or that the funds should be used for working capital, the Company may determine that it will not pursue certain projects in its pipeline, which will affect our growth.

In addition, the global recession could impact the value of our assets around the world. For example, in 2008, we impaired certain projects in our pipeline, resulting in a charge to 2008 earnings. Further declines in asset values could result in additional write-downs, which could be material to our financial statements.

An impairment in the carrying value of goodwill would negatively impact our consolidated results of operations and net worth.

Goodwill is initially recorded at fair value and is not amortized, but is evaluated for impairment at least annually, or more frequently if impairment indicators are present. In assessing the recoverability of goodwill, we make estimates and assumptions about sales, operating margin growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. The fair value of a reporting unit has been determined using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if we experience situations, including but not limited to, disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. There could also be impairments if our acquisitions do not perform as expected. See further discussion in Risk Factor, "*Our Acquisitions May Not Perform as Expected.*" These types of events and the resulting analyses could result in goodwill impairment charges in the future. Impairment charges could substantially affect our financial results in the periods of such charges. As of December 31, 2008, we had $1.4 billion of goodwill, which represented approximately 4.1% of total assets. If current conditions in the global economy continue or worsen, this could increase the risk that we will have to impair goodwill.

Risks associated with Governmental Regulation and Laws

Our operations are subject to significant government regulation and our business and results of operations could be adversely affected by changes in the law or regulatory schemes.

Our inability to predict, influence or respond appropriately to changes in law or regulatory schemes, including any inability to obtain expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, could adversely impact our results of operations or our ability to meet publicly announced projections or analyst's expectations. Furthermore, changes in laws or regulations or changes in the application or interpretation of regulatory provisions in jurisdictions where we operate, particularly our Utilities where electricity tariffs are subject to regulatory review or approval, could adversely affect our business, including, but not limited to:

- changes in the determination, definition or classification of costs to be included as reimbursable or pass-through costs, including but not limited to costs incurred to upgrade our power plants to comply with more stringent environmental regulations;
- changes in the determination of what is an appropriate rate of return on invested capital or a determination that a utility's operating income or the rates it charges customers is too high, resulting in a reduction of rates or consumer rebates;
- changes in the definition or determination of controllable or non-controllable costs;
- changes in the definition of events which may or may not qualify as changes in economic equilibrium;
- changes in the timing of tariff increases; or
- other changes in the regulatory determinations under the relevant concessions.

Any of the above events may result in lower margins for the affected businesses, which can adversely affect our business.

For example, as noted in Item 1—Business—Regulatory Matters—Hungary of this Form 10-K, in June 2008 the European Commission ("the Commission") reached its decision that the PPAs, including AES Tisza's PPA, contain elements of illegal state aid. The decision requires Hungary to terminate the PPAs within six months of the June 2008 publication of the decision, and to recover the alleged illegal state aid from the generators within ten months of publication. Hungary and the Commission are in the process of resolving confidentiality matters relating to the wording of the decision, which has not yet been notified by the Commission to the generators. AES Tisza is challenging the Commission's decision in the Court of First Instance of the European Communities. Referring to the Commission's decision, Hungary adopted act number LXX of 2008 which terminates all long-term PPAs in Hungary, including AES Tisza's PPA, as of December 31, 2008, and requires generators to repay the alleged illegal state aid that was allegedly received by the generators through the PPAs, and provides for the possibility to offset stranded costs of the generators from the repayable state aid. It is possible that the Company may face additional regulatory actions of this type and, depending on the outcome, such actions could have a material adverse impact on the Company.

In addition, in many countries where we conduct business, the regulatory environment is constantly changing or the regulations can be difficult to interpret. As a result, there is risk that we may not properly interpret certain regulations and may not understand the impact of certain regulations on our business. For example, in October 2006, ANEEL, which regulates our utility operations at Sul and Eletropaulo in Brazil, issued Normative Resolution 234 requiring that utilities begin amortizing a liability called "Special Obligations" beginning with their second tariff reset cycle in 2007 or a later year as an offset to depreciation expense. As of May 23, 2007, the date of the filing of our 2006 Form 10-K, no industry positions or any other consensus had been reached regarding how ANEEL guidance should be applied at that date and accordingly, no adjustments to the financial statements were made relating to Special Obligations in Brazil. Subsequent to May 23, 2007, industry discussions occurred and other Brazilian companies filed Forms 20-F with the SEC reflecting the impact of Resolution 234 in their December 31, 2006 financial statements differently from how the Company accounted for Resolution 234. In the absence of any significant regulatory developments between May 23, 2007 and the date of these other filings, the Company determined that Resolution 234 required us to record an adjustment to our Special Obligations liability as of December 31, 2006. In part, the decision to record the adjustment led to the restatement of our financial statements in the third quarter of 2007. If we face additional challenges interpreting regulations or changes in regulations, it could have a material adverse impact on our business.

Our Generation business in the United States is subject to the provisions of various laws and regulations administered in whole or in part by the FERC, including the Public Utility Regulatory Policies Act of 1978 ("PURPA") and the Federal Power Act. The recently enacted EPAct 2005 made a number of changes to these and other laws that may affect our business. Actions by the FERC and by state utility commissions can have a material effect on our operations.

EPAct 2005 authorizes the FERC to remove the obligation of electric utilities under Section 210 of PURPA to enter into new contracts for the purchase or sale of electricity from or to QF's if certain market conditions are met. Pursuant to this authority, the FERC has instituted a rebuttable presumption that utilities located within the control areas of the Midwest Transmission System Operator, Inc., PJM ("Pennsylvania, New Jersey and Maryland") Interconnection, L.L.C., ISO New England, Inc., the New York Independent System Operator and the Electric Reliability Council of Texas, Inc. are not required to purchase or sell power from or to QFs above a certain size. In addition, the FERC is authorized under the new law to remove the purchase/sale obligations of individual utilities on a case-by-case basis. While the new law does not affect existing contracts, as a result of the changes to PURPA, our QF's may face a more difficult market environment when their current long-term contracts expire.

EPAct 2005 repealed PUHCA 1935 and enacted PUHCA 2005 in its place. PUHCA 1935 had the effect of requiring utility holding companies to operate in geographically proximate regions and therefore limited the range of potential combinations and mergers among utilities. By comparison, PUHCA 2005 has no such restrictions and simply provides the FERC and state utility commissions with enhanced access to the books and records of certain utility holding companies. The repeal of PUHCA 1935 removed barriers to mergers and other potential combinations which could result in the creation of large, geographically dispersed utility holding companies. These entities may have enhanced financial strength and therefore an increased ability to compete with us in the U.S. generation market.

In accordance with Congressional mandates in the EPAct 1992 and now in EPAct 2005, the FERC has strongly encouraged competition in wholesale electric markets. Increased competition may have the effect of lowering our operating margins. Among other steps, the FERC has encouraged RTOs and ISOs to develop demand response bidding programs as a mechanism for responding to peak electric demand. These programs may reduce the value of our peaking assets which rely on very high prices during a relatively small number of hours to recover their costs. Similarly, the FERC is encouraging the construction of new transmission infrastructure in accordance with provisions of EPAct 2005. Although new transmission lines may increase market opportunities, they may also increase the competition in our existing markets.

While the FERC continues to promote competition, some state utility commissions have reversed course and begun to encourage the construction of generation facilities by traditional utilities to be paid for on a cost-of-service basis by retail ratepayers. Such actions have the effect of reducing sale opportunities in the competitive wholesale generating markets in which we operate.

Our businesses are subject to stringent environmental laws and regulations.

Our activities are subject to stringent environmental laws and regulations by many federal, state and local authorities, international treaties and foreign governmental authorities. These laws and regulations generally concern emissions into the air, effluents into the water, use of water, wetlands preservation, remediation of contamination, waste disposal, endangered species and noise regulation, among others. Failure to comply with such laws and regulations or to obtain any necessary environmental permits pursuant to such laws and regulations could result in fines or other sanctions. Environmental laws and regulations affecting power generation and distribution are complex and have tended to become more stringent over time. Congress and other domestic and foreign governmental authorities have either considered or implemented various laws and regulations to restrict or tax certain emissions, particularly those involving air and water emissions. See the various descriptions of these laws and regulations contained in Item 1 Business—Regulatory Matters—Environmental and Land Use Regulations of this Form 10-K. These laws and regulations have imposed, and proposed laws and regulations could impose in the future, additional costs on the operation of our power plants. We have incurred and will continue to incur significant capital and other expenditures to comply with these and other environmental laws and regulations. Changes in, or new, environmental restrictions may force us to incur significant expenses or expenses that may exceed our estimates. There can be no assurance that we would be able to recover all or any increased environmental costs from our customers or that our business, financial condition or results of operations would not be materially and adversely affected by such expenditures or any changes in domestic or foreign environmental laws and regulations.

Regulators, politicians, non-governmental organizations and other private parties have expressed concern about greenhouse gas, or GHG, emissions and are taking actions which, in addition to the potential physical risks associated with climate change, could have a material adverse impact on our consolidated results of operations, financial condition and cash flows.

As discussed in Item 1—Business—Regulatory Matters—Environmental and Land Use Regulations, at the international, federal and various regional and state levels, policies are under development to regulate GHG emissions, thereby effectively putting a cost on such emissions in order to create financial incentives to reduce them. In 2008, the Company's subsidiaries operated businesses which had total approximate CO_2 emissions of 83.8 million metric tonnes (ownership adjusted). Approximately 41.5 million metric tonnes of the 83.8 million metric tonnes were emitted by businesses located in the United States (both figures ownership adjusted). Federal, state or regional regulation of GHG emissions could have a material adverse impact on the Company's financial performance. The actual impact on the Company's financial performance and the financial performance of the Company's subsidiaries will depend on a number of factors, including among others, the GHG reductions required under any such legislation or regulations, the price and availability of offsets, the extent to which market based compliance options are available, the extent to which our subsidiaries would be entitled to receive GHG emissions allowances without having to purchase them in an auction or on the open market and the impact of such legislation or regulation on the ability of our subsidiaries to recover costs incurred. As a result of these factors, our cost of compliance could be substantial and could have a material impact on our results of operations. Another factor is the success of our climate solutions projects, which may generate credits that will help offset our GHG emissions. However, as set forth in the Risk Factor titled "*Our renewable energy projects and other initiatives face considerable uncertainties including development, operational and regulatory challenges,*" there is no guarantee that the climate solutions projects will be successful. Also, the level of potential benefit is unclear given current uncertainties regarding legislation and/or litigation concerning GHG emissions.

In January 2005, based on European Community "Directive 2003/87/EC on Greenhouse Gas Emission Allowance Trading," the European Union Greenhouse Gas Emission Trading Scheme ("EU ETS") commenced operation as the largest multi-country GHG emission trading scheme in the world. On February 16, 2005, the Kyoto Protocol became effective. The Kyoto Protocol requires the 40 developed countries that have ratified it to substantially reduce their GHG emissions, including CO_2. To date, compliance with the Kyoto Protocol and the EU ETS has not had a material adverse effect on the Company's consolidated results of operations, financial condition and cash flows.

The United States has not ratified the Kyoto Protocol. In the United States, there currently are no federal mandatory GHG emission reduction programs (including CO_2) affecting the electric power generation facilities of the Company's subsidiaries. However, there are several proposed GHG legislative initiatives in the United States Congress that would, if enacted, constrain GHG emissions, including CO_2, and/or impose costs on us that could be material to our business or results of operations.

On April 2, 2007, the U.S. Supreme Court issued its decision in a case involving the regulation under the CAA of CO_2 emissions from motor vehicles. The Court ruled that CO_2 is a pollutant which potentially could be subject to regulation under the CAA and that the U.S. EPA has a duty to determine whether CO_2 emissions contribute to climate change or to provide some reasonable explanation why it will not exercise its authority. In response to the Court's decision, on July 11, 2008, the U.S. EPA issued an ANPR to solicit public input on whether CO_2 emissions should be regulated from both mobile and stationary sources under the CAA. The U.S. EPA has not yet made any such determination. Since electric power generation facilities, particularly coal-fired facilities, are a significant source of CO_2 emissions both in the United States and globally, the Court's decision, coupled with stimulus from the new administration, regulators, members of Congress, states, non-governmental organizations, private parties, the courts and other factors could result in a determination by the U.S. EPA to regulate CO_2 emissions from electric power generation facilities. While the majority of current state, regional and federal initiatives regarding CO_2 emissions contemplate market-based compliance mechanisms (e.g., cap-and-trade), such a determination by the U.S. EPA could result in CO_2 emission limits on stationary sources that do not include market-based compliance mechanisms (e.g., carbon tax, CO_2 emission limits, etc.). Any such regulations could increase our costs directly and indirectly and have a material adverse affect on our business and/or results of operations.

At the state level, RGGI, a cap-and-trade program covering CO_2 emissions from electric power generation facilities in the Northeast, became effective in January 2009, and the WCI, is also developing market-based programs to address GHG emissions in seven western states. In addition, several states, including California, have adopted comprehensive legislation that, when implemented, will require mandatory GHG reductions from several industrial sectors, including the electric power generation industry. See "Business—Regulatory Matters—Environmental and Land Use Regulations" of this Form 10-K for further discussion about the environmental regulations we face. At this time, other than with regard to RGGI (further described below), the Company cannot estimate the costs of compliance with U.S. federal, regional or state CO_2 emissions reductions legislation or initiatives, due to the fact that these proposals are in earlier stages of development and any final regulations, if adopted, could vary drastically from current proposals.

The RGGI program became effective in January 2009. The first regional auction of RGGI allowances needed to be acquired by power generators to comply with state programs implementing RGGI was held in September 2008 and the second was held in December 2008. The third auction is scheduled for March 2009. Our subsidiaries in New York, New Jersey, Connecticut and Maryland are subject to RGGI. Of the approximately 41.5 million metric tonnes of CO_2 emitted in the United States by our subsidiaries in 2008 (ownership adjusted), approximately 11.8 million metric tonnes were emitted in U.S. states participating in RGGI. We believe that due to the absence of allowance allocations, RGGI as currently contemplated could have an adverse impact on the Company's consolidated results of operations, financial condition and cash flows. While Co_2 emissions from businesses operated by subsidiaries of the Company are calculated globally in metric tonnes, RGGI allowances are denominated in short tons. (1 metric tonne equals 2,200 pounds and 1 short ton equals 2,000 pounds.) For forecasting purposes, the Company has modeled the impact of CO_2 compliance for 2009-2011 for its businesses that are subject to RGGI and that may not be able to pass through compliance costs. The model includes a conversion from metric tonnes to short tons as well as the impact of some market recovery by merchant plants and contractual and regulatory provisions. The model also utilizes an allowance price of $3.38 per metric tonne under RGGI. The source of this per allowance price estimate was the clearing price at the December 2008 RGGI allowance auction. The model also assumes, among other things, that RGGI will be structured solely on the public auction of allowances and that certain costs will be recovered by our subsidiaries. Based on these assumptions, the Company estimates that the RGGI compliance costs could be approximately $29.1 million per year from 2009 through 2011, which is the last year of the first RGGI compliance period. Given all of the uncertainties surrounding RGGI, including those discussed in Item 1—Business—Regulatory Matters—Environmental and Land Use Regulations of this Form 10-K and the fact that the assumptions utilized in the model may prove to be incorrect, there is a significant risk that our actual compliance costs under RGGI will differ from estimates by a material amount. If the actual costs are higher, this could have a material impact on our business and financial results.

In addition to government regulators, other groups such as politicians, environmentalists and other private parties have expressed increasing concern about GHG emissions. For example, certain financial institutions have expressed concern about providing financing for facilities which would emit GHGs, which can affect our ability to obtain capital, or if we can obtain capital, to receive it on commercially viable terms. In addition, rating agencies may decide to downgrade our credit ratings based on the emissions of the businesses operated by our subsidiaries or increased compliance costs which could make financing unattractive. In addition, as disclosed in Item 3—Legal Proceedings of this Form 10-K, the New York Attorney General has issued a subpoena to the Company seeking documents and information concerning the Company's analysis and public disclosure of the potential impacts that GHG legislation and climate change from GHG emissions might have on the Company's operations and financial results. Environmental groups and other private plaintiffs have brought and may decide to bring additional private lawsuits against the Company because of its subsidiaries' GHG emissions.

Furthermore, according to the Intergovernmental Panel on Climate Change, physical risks from climate change could include, but are not limited to, increased runoff and earlier spring peak discharge in many glacier and snow fed rivers, warming of lakes and rivers, an increase in sea level, changes and variability in precipitation and in the intensity and frequency of extreme weather events. Physical impacts may have the potential to significantly affect the Company's business and operations. For example, extreme weather events could result in increased downtime and operation and maintenance costs at the electric power generation facilities and support facilities of the Company's subsidiaries. Variations in weather conditions, primarily temperature and humidity, attributable to climate change, also would be expected to affect the energy needs of customers. A decrease in energy consumption could decrease the revenues of the Company's subsidiaries. In addition, while revenues would be expected to increase if the energy consumption of customers increased, such increase could prompt the need for additional investment in generation capacity. Changes in the temperature of lakes and rivers and changes in precipitation that result in drought could adversely affect the operations of the fossil-fuel fired electric power generation facilities of the Company's subsidiaries. Changes in temperature, precipitation and snow pack conditions also could affect the amount and timing of hydroelectric generation.

If any of the foregoing risks materialize, costs may increase or revenues may decrease and there could be a material adverse effect on the electric power generation businesses of the Company's subsidiaries and on the Company's consolidated results of operations, financial condition and cash flows.

We and our affiliates are subject to material litigation and regulatory proceedings.

We and our affiliates are parties to material litigation and regulatory proceedings. See Business—Legal Proceedings below. There can be no assurances that the outcome of such matters will not have a material adverse effect on our consolidated financial position.

The SEC is conducting an informal inquiry relating to our restatements.

We have been cooperating with an informal inquiry by the SEC Staff concerning our past restatements and related matters, and have been providing information and documents to the SEC Staff on a voluntary basis. Because we are unable to predict the outcome of this inquiry, the SEC Staff may disagree with the manner in which we have accounted for and reported the financial impact of the adjustments to previously filed financial statements and there may be a risk that the inquiry by the SEC could lead to circumstances in which we may have to further restate previously filed financial statements, amend prior filings or take other actions not currently contemplated.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We maintain offices in many places around the world, generally pursuant to the provisions of long- and short-term leases, none of which are material. With a few exceptions, our facilities, which are described in Item 1 of this Form 10-K, are subject to mortgages or other liens or encumbrances as part of the project's related finance facility. In addition, the majority of our facilities are located on land that is leased. However, in a few instances, no accompanying project financing exists for the facility, and in a few of these cases, the land interest may not be subject to any encumbrance and is owned outright by the subsidiary or affiliate.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in certain claims, suits and legal proceedings in the normal course of business, some of which are described below. The Company has accrued for litigation and claims where it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company's financial statements. However, it is reasonably possible that some matters could be decided unfavorably to the Company, and could require the Company to pay damages or make expenditures in amounts that could be material but cannot be estimated as of December 31, 2008. The Company has evaluated claims, in accordance with SFAS No. 5, Accounting for Contingencies, ("SFAS No. 5") that it deems both probable and reasonably estimable and accordingly, has recorded aggregate reserves for all claims for approximately $389 million and $486 million as of December 31, 2008 and 2007, respectively.

In 1989, Centrais Elétricas Brasileiras S.A. ("Eletrobrás") filed suit in the Fifth District Court in the State of Rio de Janeiro against Eletropaulo Eletricidade de São Paulo S.A. ("EEDSP") relating to the methodology for calculating monetary adjustments under the parties' financing agreement. In April 1999, the Fifth District Court found for Eletrobrás and in September 2001, Eletrobrás initiated an execution suit in the Fifth District Court to collect approximately R$937 million ($400 million) from Eletropaulo (as estimated by Eletropaulo) and a lesser amount from an unrelated company, Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP") (Eletropaulo and CTEEP were spun off from EEDSP pursuant to its privatization in 1998). In November 2002, the Fifth District Court rejected Eletropaulo's defenses in the execution suit. Eletropaulo appealed and in September 2003, the Appellate Court of the State of Rio de Janeiro ruled that Eletropaulo was not a proper party to the litigation because any alleged liability had been transferred to CTEEP pursuant to the privatization. In June 2006, the Superior Court of Justice ("SCJ") reversed the Appellate Court's decision and remanded the case to the Fifth District Court for further proceedings, holding that Eletropaulo's liability, if any, should be determined by the Fifth District Court. Eletropaulo's subsequent appeals to the Special Court (the highest court within the SCJ) and the Supreme Court of Brazil have been dismissed. Eletrobrás may resume the execution suit in the Fifth District Court at any time. If Eletrobrás does so, Eletropaulo will be required to provide security in the amount of its alleged liability. In that case, if Eletrobrás requests the seizure of such security and the Fifth District Court grants such request, Eletropaulo's results of operation may be materially adversely affected. In addition, in February 2008, CTEEP filed a lawsuit in the Fifth District Court against Eletrobrás and Eletropaulo seeking a declaration that CTEEP is not liable for any debt under the financing agreement. Eletropaulo believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In September 1999, a state appellate court in Minas Gerais, Brazil, granted a temporary injunction suspending the effectiveness of a shareholders' agreement between Southern Electric Brasil Participacoes, Ltda. ("SEB") and the state of Minas Gerais concerning Companhia Energetica de Minas Gerais ("CEMIG"), an integrated utility in Minas Gerais. The Company's investment in CEMIG is through SEB. This shareholders' agreement granted SEB certain rights and powers in respect of CEMIG ("Special Rights"). In March 2000, a lower state court in Minas Gerais held the shareholders' agreement invalid where it purported to grant SEB the Special Rights and enjoined the exercise of the Special Rights. In August 2001, the state appellate court denied an appeal of the decision and extended the injunction. In October 2001, SEB filed appeals against the state appellate court's decision with the Federal Superior Court and the Supreme Court of Justice. The state appellate court denied access of these appeals to the higher courts, and in August 2002 SEB filed interlocutory appeals against such denial with the Federal Superior Court and the Supreme Court of Justice. In December 2004, the Federal Superior Court declined to hear SEB's appeal. However, the Supreme Court of Justice is considering whether to hear SEB's appeal. SEB intends to vigorously pursue a restoration of the value of its investment in CEMIG by all legal means; however, there can be no assurances that it will be successful in its efforts. Failure to prevail in this matter may limit SEB's influence on the daily operation of CEMIG.

In August 2000, the FERC announced an investigation into the organized California wholesale power markets in order to determine whether rates were just and reasonable. Further investigations involved alleged market manipulation. FERC requested documents from each of the AES Southland, LLC plants and AES Placerita, Inc. AES Southland and AES Placerita have cooperated fully with the FERC investigations. AES Southland was not subject to refund liability because it did not sell into the organized spot markets due to the nature of its tolling agreement. AES Placerita is currently subject to refund liability of $588,000 plus interest for spot sales to the California Power Exchange from October 2, 2000 to June 20, 2001 ("Refund Period"). In September 2004, the U.S. Court of Appeals for the Ninth Circuit issued an order addressing FERC's decision not to impose refunds for the alleged failure to file rates, including transaction specific data, for sales during 2000 and 2001 ("September 2004 Decision"). Although it did not order refunds, the Ninth Circuit remanded the case to FERC for a refund proceeding to consider remedial options. In March 2008, FERC issued its order on remand, requiring the parties to engage in settlement discussions before a settlement judge and establishing procedures for an evidentiary hearing if the settlement process failed. In addition, in August 2006 in a separate case, the Ninth Circuit confirmed the Refund Period, expanded the transactions subject to refunds to include multi-day transactions, expanded the potential liability of sellers to include any pre-Refund Period tariff violations, and remanded the matter to FERC ("August 2006 Decision"). Various parties filed petitions for rehearing in November 2007. The August 2006 Decision may allow FERC to reopen closed investigations and order relief. AES Placerita made sales during the periods at issue in the September 2004 and August 2006 Decisions. Both appeals may be subject to further court review, and further FERC proceedings on remand would be required to determine potential liability, if any. Prior to the August 2006 Decision, AES Placerita's potential liability for the Refund and pre-Refund Periods could have approximated $23 million plus interest. However, given the September 2004 and August 2006 Decisions, it is unclear whether AES Placerita's potential liability is less than or exceeds that amount. AES Placerita believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In August 2001, the Grid Corporation of Orissa, India ("Gridco"), filed a petition against the Central Electricity Supply Company of Orissa Ltd. ("CESCO"), an affiliate of the Company, with the Orissa Electricity Regulatory Commission ("OERC"), alleging that CESCO had defaulted on its obligations as an OERC-licensed distribution company, that CESCO management abandoned the management of CESCO, and asking for interim measures of protection, including the appointment of an administrator to manage CESCO. Gridco, a state-owned entity, is the sole wholesale energy provider to CESCO. Pursuant to the OERC's August 2001 order, the management of CESCO was replaced with a government administrator who was appointed by the OERC. The OERC later held that the Company and other CESCO shareholders were not necessary or proper parties to the OERC proceeding. In August 2004, the OERC issued a notice to CESCO, the Company and others giving the recipients of the notice until November 2004 to show cause why CESCO's distribution license should not be revoked. In response, CESCO submitted a business plan to the OERC. In February 2005, the OERC issued an order rejecting the proposed business plan. The order also stated that the CESCO distribution license would be revoked if an acceptable business plan for CESCO was not submitted to and approved by the OERC prior to March 31, 2005. In its April 2, 2005 order, the OERC revoked the CESCO distribution license. CESCO has filed an appeal against the April 2, 2005 OERC order and that appeal remains pending in the Indian courts. In addition, Gridco asserted that a comfort letter issued by the Company in connection with the Company's indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO's financial obligations to Gridco. In December 2001, Gridco served a notice to arbitrate, pursuant to the Indian Arbitration and Conciliation Act of 1996, on the Company, AES Orissa Distribution Private Limited ("AES ODPL"), and Jyoti Structures ("Jyoti") pursuant to the terms of the CESCO Shareholders Agreement between Gridco, the Company, AES ODPL, Jyoti and CESCO (the "CESCO arbitration"). In the arbitration, Gridco appeared to be seeking approximately $189 million in damages, plus undisclosed penalties and interest, but a detailed alleged damage analysis was not filed by Gridco. The Company counterclaimed against Gridco for damages. In June 2007, a 2-to-1 majority of the arbitral tribunal rendered its award rejecting Gridco's claims and holding that none of the respondents, the Company, AES ODPL, or Jyoti, had any liability to Gridco. The respondents' counterclaims were also rejected. The Company subsequently filed an application to recover its costs of the arbitration, which is under consideration by the tribunal. In addition, in September 2007, Gridco filed a challenge of the arbitration award with the local Indian court. In June 2008, Gridco filed a separate application with the local Indian court for an order enjoining the Company from selling or otherwise transferring its shares in Orissa Power Generation Corporation Ltd ("OPGC"), and requiring the Company to provide security in the amount of the contested damages in the CESCO arbitration until Gridco's challenge to the arbitration award is resolved. The Company believes that it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In early 2002, Gridco made an application to the OERC requesting that the OERC initiate proceedings regarding the terms of OPGC's existing PPA with Gridco. In response, OPGC filed a petition in the Indian courts to block any such OERC proceedings. In early 2005, the Orissa High Court upheld the OERC's jurisdiction to initiate such proceedings as requested by Gridco. OPGC appealed that High Court's decision to the Supreme Court and sought stays of both the High Court's decision and the underlying OERC proceedings regarding the PPA's terms. In April 2005, the Supreme Court granted OPGC's requests and ordered stays of the High Court's decision and the OERC proceedings with respect to the PPA's terms. The matter is awaiting further hearing. Unless the Supreme Court finds in favor of OPGC's appeal or otherwise prevents the OERC's proceedings regarding the PPA's terms, the OERC will likely lower the tariff payable to OPGC under the PPA, which would have an adverse impact on OPGC's financials. OPGC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In March 2003, the office of the Federal Public Prosecutor for the State of São Paulo, Brazil ("MPF") notified AES Eletropaulo that it had commenced an inquiry related to the Brazilian National Development Bank ("BNDES") financings provided to AES Elpa and AES Transgás and the rationing loan provided to Eletropaulo, changes in the control of Eletropaulo, sales of assets by Eletropaulo and the quality of service provided by Eletropaulo to its customers, and requested various documents from Eletropaulo relating to these matters. In July 2004, the MPF filed a public civil lawsuit in federal court alleging that BNDES violated Law 8429/92 (the Administrative Misconduct Act) and BNDES's internal rules by: (1) approving the AES Elpa and AES Transgás loans; (2) extending the payment terms on the AES Elpa and AES Transgás loans; (3) authorizing the sale of Eletropaulo's preferred shares at a stock-market auction; (4) accepting Eletropaulo's preferred shares to secure the loan provided to Eletropaulo; and (5) allowing the restructurings of Light Serviços de Eletricidade S.A. ("Light") and Eletropaulo. The MPF also named AES Elpa and AES Transgás as defendants in the lawsuit because they allegedly benefited from BNDES's alleged violations. In June 2005, AES Elpa and AES Transgás presented their preliminary answers to the charges. In May 2006, the federal court ruled that the MPF could pursue its claims based on the first, second, and fourth alleged violations noted above. The MPF subsequently filed an interlocutory appeal seeking to require the federal court to consider all five alleged violations. Also, in July 2006, AES Elpa and AES Transgás filed an interlocutory appeal seeking to enjoin the federal court from considering any of the alleged violations. The MPF's lawsuit before the federal court has been stayed pending those interlocutory appeals. AES Elpa and AES Transgás believe they have meritorious defenses to the allegations asserted against them and will defend themselves vigorously in these proceedings; however, there can be no assurances that they will be successful in their efforts.

AES Florestal, Ltd. ("Florestal"), had been operating a pole factory and had other assets, including a wooded area known as "Horto Renner," in the State of Rio Grande do Sul, Brazil (collectively, "Property"). Florestal had been under the control of AES Sul ("Sul") since October 1997, when Sul was created pursuant to a privatization by the Government of the State of Rio Grande do Sul. After it came under the control of Sul, Florestal performed an environmental audit of the entire operational cycle at the pole factory. The audit discovered 200 barrels of solid creosote waste and other contaminants at the pole factory. The audit concluded that the prior operator of the pole factory, Companhia Estadual de Energia Elétrica ("CEEE"), had been using those contaminants to treat the poles that were manufactured at the factory. Sul and Florestal subsequently took the initiative of communicating with Brazilian authorities, as well as CEEE, about the adoption of containment and remediation measures. The Public Attorney's Office has initiated a civil inquiry (Civil Inquiry n. 24/05) to investigate potential civil liability and has requested that the police station of Triunfo institute a police investigation (IP number 1041/05) to investigate potential criminal liability regarding the contamination at the pole factory. The parties filed defenses in response to the civil inquiry. The Public Attorney's Office then requested an injunction which the judge rejected on September 26, 2008. The

Public Attorney's office has a right to appeal the decision. The environmental agency ("FEPAM") has also started a procedure (Procedure n. 088200567/059) to analyze the measures that shall be taken to contain and remediate the contamination. Also, in March 2000, Sul filed suit against CEEE in the 2nd Court of Public Treasure of Porto Alegre seeking to register in Sul's name the Property that it acquired through the privatization but that remained registered in CEEE's name. During those proceedings, AES subsequently waived its claim to re-register the Property and asserted a claim to recover the amounts paid for the Property. That claim is pending. In November 2005, the 7th Court of Public Treasure of Porto Alegre ruled that the Property must be returned to CEEE. CEEE has had sole possession of Horto Renner since September 2006 and of the rest of the Property since April 2006. In February 2008, Sul and CEEE signed a "Technical Cooperation Protocol" pursuant to which they requested a new deadline from FEPAM in order to present a proposal. The proposal was delivered on April 8, 2008. FEPAM responded by indicating that the parties should undertake the first step of the proposal which would be to retain a contractor. In its response Sul indicated that such step should be undertaken by CEEE as the relevant environmental events resulted from CEEE's operations. It is estimated that remediation could cost approximately R$14.7 million ($6.3 million). Discussions between Sul and CEEE are ongoing.

In January 2004, the Company received notice of a "Formulation of Charges" filed against the Company by the Superintendence of Electricity of the Dominican Republic. In the "Formulation of Charges," the Superintendence asserts that the existence of three generation companies (Empresa Generadora de Electricidad Itabo, S.A., ("Itabo") Dominican Power Partners, and AES Andres BV) and one distribution company (Empresa Distribuidora de Electricidad del Este, S.A.) in the Dominican Republic, violates certain cross-ownership restrictions contained in the General Electricity Law of the Dominican Republic. In February 2004, the Company filed in the First Instance Court of the National District of the Dominican Republic an action seeking injunctive relief based on several constitutional due process violations contained in the "Formulation of Charges" ("Constitutional Injunction"). In February 2004, the Court granted the Constitutional Injunction and ordered the immediate cessation of any effects of the "Formulation of Charges," and the enactment by the Superintendence of Electricity of a special procedure to prosecute alleged antitrust complaints under the General Electricity Law. In March 2004, the Superintendence of Electricity appealed the Court's decision. In July 2004, the Company divested any interest in Empresa Distribuidora de Electricidad del Este, S.A. The Superintendence of Electricity's appeal is pending. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In April 2004, BNDES filed a collection suit against SEB, a subsidiary of the Company, to obtain the payment of R$3.5 billion ($1.5 billion), which includes principal, interest and penalties under the loan agreement between BNDES and SEB, the proceeds of which were used by SEB to acquire shares of CEMIG. In May 2004, the 15th Federal Circuit Court ("Circuit Court") ordered the attachment of SEB's CEMIG shares, which were given as collateral for the loan, as well as dividends paid by CEMIG to SEB. At the time of the attachment, the shares were worth approximately R$762 million ($325 million). In December 2006, SEB's defense was ruled groundless by the Circuit Court, and in January 2007, SEB filed an appeal to the relevant Federal Court of Appeals. Subsequently, BNDES has seized a total of approximately R$630 million ($269 million) in attached dividends, with the approval of the Circuit Court. Also, in April 2008, BNDES filed a plea to seize the attached CEMIG shares. The Circuit Court will consider BNDES's request to seize the attached CEMIG shares after the net value of the alleged debt is recalculated in light of BNDES's seizure of dividends. SEB believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In July 2004, the Corporación Dominicana de Empresas Eléctricas Estatales ("CDEEE") filed lawsuits against Itabo, an affiliate of the Company, located in the Dominican Republic, in the First and

Fifth Chambers of the Civil and Commercial Court of First Instance for the National District. CDEEE alleges in both lawsuits that Itabo spent more than was necessary to rehabilitate two generation units of an Itabo power plant and, in the Fifth Chamber lawsuit, that those funds were paid to affiliates and subsidiaries of AES Gener and Coastal Itabo, Ltd. ("Coastal"), a former shareholder of Itabo, without the required approval of Itabo's board of administration. In the First Chamber lawsuit, CDEEE seeks an accounting of Itabo's transactions relating to the rehabilitation. In November 2004, the First Chamber dismissed the case for lack of legal basis. On appeal, in October 2005 the Court of Appeals of Santo Domingo ruled in Itabo's favor, reasoning that it lacked jurisdiction over the dispute because the parties' contracts mandated arbitration. The Supreme Court of Justice is considering CDEEE's appeal of the Court of Appeals' decision. In the Fifth Chamber lawsuit, which also names Itabo's former president as a defendant, CDEEE seeks $15 million in damages and the seizure of Itabo's assets. In October 2005, the Fifth Chamber held that it lacked jurisdiction to adjudicate the dispute given the arbitration provisions in the parties' contracts. The First Chamber of the Court of Appeal ratified that decision in September 2006. In a related proceeding, in May 2005, Itabo filed a lawsuit in the U.S. District Court for the Southern District of New York seeking to compel CDEEE to arbitrate its claims. The petition was denied in July 2005. Itabo's appeal of that decision to the U.S. Court of Appeals for the Second Circuit has been stayed since September 2006. Further, in September 2006, in an International Chamber of Commerce arbitration, an arbitral tribunal determined that they lacked jurisdiction to decide arbitration claims concerning these disputes. Itabo believes it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In April 2006, a putative class action complaint was filed in the U.S. District Court for the Southern District of Mississippi ("District Court") on behalf of certain individual plaintiffs and all residents and/or property owners in the State of Mississippi who allegedly suffered harm as a result of Hurricane Katrina, and against the Company and numerous unrelated companies, whose alleged greenhouse gas emissions allegedly increased the destructive capacity of Hurricane Katrina. The plaintiffs assert unjust enrichment, civil conspiracy/aiding and abetting, public and private nuisance, trespass, negligence, and fraudulent misrepresentation and concealment claims against the defendants. The plaintiffs seek damages relating to loss of property, loss of business, clean-up costs, personal injuries and death, but do not quantify their alleged damages. In August 2007, the District Court dismissed the case. The plaintiffs have appealed to the U.S. Court of Appeals for the Fifth Circuit, which heard oral arguments in November 2008 and is considering the appeal. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In June 2006, AES Ekibastuz was found to have breached a local tax law by failing to obtain a license for use of local water for the period of January 1, 2005 through October 3, 2005, in a timely manner. As a result, an additional permit fee was imposed, bringing the total permit fee to approximately $135,000. The Company has appealed this decision to the Supreme Court.

In June 2007, the Competition Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan ordered AES Ust-Kamenogorsk TETS LLP ("UKT") to pay approximately 835 million KZT ($7 million) to the state for alleged antimonopoly violations in 2005 through January 2007. The Competition Committee also ordered UKT to pay approximately 235 million KZT ($2 million), as estimated by the Company, to certain customers that allegedly have paid unreasonably high power prices since January 2007. In November 2007, the economic court of first instance upheld the Competition Committee's order in part, finding that UKT had violated Kazakhstan's antimonopoly laws, but reduced the damages to be paid to the state to 833 million KZT ($7 million) and rejected the damages to be paid to customers. The court of appeals (first panel) later affirmed the economic court's decision and, therefore, in June 2008, UKT paid the damages. The court of appeals (second panel) rejected UKT's appeal in June 2008. UKT has appealed to the Supreme Court of Kazakhstan. The

Competition Committee's successor (the Antimonopoly Agency) has not indicated whether it intends to assert claims against UKT for alleged antimonopoly violations post January 2007. UKT believes it has meritorious claims and defenses; however, there can be no assurances that it will prevail in these proceedings.

In July 2007, the Competition Committee ordered Nurenergoservice, an AES subsidiary, to pay approximately 18 billion KZT ($150 million) for alleged antimonopoly violations in 2005 through the first quarter of 2007. The Competition Committee's order was affirmed by the economic court in April 2008. Nurenergoservice's subsequent appeals have been unsuccessful to date, including at the court of appeals (first panel), which rejected Nurenergoservice's appeal in July 2008. Also, the economic court has issued an injunction to secure Nurenergoservice's alleged liability, freezing Nurenergoservice's bank accounts and prohibiting Nurenergoservice from transferring or disposing of its property. In separate but related proceedings, in August 2007, the Competition Committee ordered Nurenergoservice to pay approximately 2 billion KZT (approximately $17 million) in administrative fines for its alleged antimonopoly violations. Nurenergoservice subsequently appealed to the administrative court of first instance. That appeal has been stayed since October 2007 but could resume at any time. The Antimonopoly Agency has not indicated whether it intends to assert claims against Nurenergoservice for alleged antimonopoly violations post first quarter 2007. Nurenergoservice believes it has meritorious claims and defenses; however, there can be no assurances that it will prevail in these proceedings. As Nurenergoservice did not prevail in the economic court or the court of appeals (first panel) with respect to the alleged damages, it will have to pay the alleged damages or risk seizure of its assets. In February 2009, the Antimonopoly Agency seized approximately 783 million KZT ($5 million) from a frozen Nurenergoservice bank account in partial satisfaction of Nurenergoservice's alleged damages liability. Furthermore, if Nurenergoservice does not prevail in the administrative court with respect to the fines, it will have to pay the fines or risk seizure of its assets.

In August 2007, the Competition Committee ordered Sogrinsk TETS, a thermal cogeneration plant under AES concession, to terminate its contracts with Nurenergoservice and Ust-Kamenogorsk HPP because of Sogrinsk's alleged antimonopoly violations in 2005 through January 2007. The Competition Committee did not order Sogrinsk to pay any damages or fines. The Kazakhstan courts have affirmed the order, including the Supreme Court of Kazakhstan in October 2008. The Antimonopoly Agency has not indicated whether it intends to assert claims against Sogrinsk for alleged antimonopoly violations post January 2007.

In November 2007, the Competition Committee initiated an investigation of allegations that Irtysh Power and Light, LLP ("Irtysh"), an AES company which manages the state-owned Ust-Kamenogorsk Heat Nets system, had violated Kazakhstan's antimonopoly laws in January through November 2007 by selling power at below-market prices. In February 2008, the Competition Committee determined that the allegations were baseless. The Competition Committee subsequently appeared to initiate an investigation to determine whether Irtysh had illegally coordinated with other AES companies concerning the sale of power, but its successor (the Antimonopoly Agency) has not issued an order or otherwise taken any action on any such investigation to date. Irtysh believes it has meritorious claims and defenses and will assert them vigorously in any formal proceeding; however, there can be no assurances that it will be successful in its efforts.

In December 2008, the Antimonopoly Agency ordered Ust-Kamenogorsk HPP ("UK HPP"), a hydroelectric plant under AES concession, to pay approximately 1.1 billion KZT ($9 million) for alleged antimonopoly violations in February through November 2007. The economic court has issued an injunction to secure UK HPP's alleged liability, among other things freezing UK HPP's bank accounts. Furthermore, the Antimonopoly Agency has initiated administrative proceedings against UK HPP seeking an unspecified amount of administrative fines for the alleged antimonopoly violations. UK HPP believes it has meritorious defenses and will assert them vigorously; however, there can be no assurances that it will be successful in its efforts.

In June 2007, the Company received a letter from an outside law firm purportedly representing a shareholder demanding that the Company's Board conduct a review of certain stock option plans, procedures and historical granting and exercise practices, and other matters, and that the Company commence legal proceedings against any officer and/or director who may be liable for damages to the Company. The Board has established a Special Committee, which has retained independent counsel, to consider the demands presented in the letter in light of the work undertaken by the Company in its review of share-based compensation. The Company has not received any communication from the purported shareholder who made the demand since the second half of 2007.

In July 2007, AES Energia Cartagena SRL, ("AESEC") initiated arbitration against Initec Energia SA, Mitsubishi Corporation, and MC Power Project Management, SL ("Contractor") to recover damages from the Contractor for its delay in completing the construction of AESEC's majority-owned power facility in Murcia, Spain. In October 2007, the Contractor denied AESEC's claims and asserted counterclaims to recover approximately €12 million ($17 million) for alleged unpaid milestone and scope change order payments, among other things, and an unspecified amount for an alleged early completion bonus. The final hearing is scheduled to begin in June 2009. AESEC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In November 2007, the International Brotherhood of Electrical Workers, Local Union No. 1395, and sixteen individual retirees, (the "Complainants"), filed a complaint at the Indiana Utility Regulatory Commission ("IURC") seeking enforcement of their interpretation of the 1995 final order and associated settlement agreement resolving IPL's basic rate case. The Complainants are requesting that the IURC conduct an investigation of IPL's failure to fund the Voluntary Employee Beneficiary Association Trust ("VEBA Trust"), at a level of approximately $19 million per year. The VEBA Trust was spun off to an independent trustee in 2001. The complaint seeks an IURC order requiring IPL to make contributions to place the VEBA Trust in the financial position in which it allegedly would have been had IPL not ceased making annual contributions to the VEBA Trust after its spin off. The complaint also seeks an IURC order requiring IPL to resume making annual contributions to the VEBA Trust. IPL filed a motion to dismiss and both parties are seeking summary judgment in the IURC proceeding. To date, no procedural schedule for this proceeding has been established. IPL believes it has meritorious defenses to the Complainants' claims and it will assert them vigorously in response to the complaint; however, there can be no assurances that it will be successful in its efforts.

In September 2007, the New York Attorney General issued a subpoena to the Company seeking documents and information concerning the Company's analysis and public disclosure of the potential impacts that greenhouse gas ("GHG") legislation and climate change from GHG emissions might have on the Company's operations and results. The Company has produced documents and information in response to the subpoena.

In October 2007, the Ekibastuz Tax Committee issued a notice for the assessment of certain taxes against AES Ekibastuz LLP. A portion of the assessment, approximately $1.7 million, relates to alleged environmental pollution. The review by the Ekibastuz Tax Committee is ongoing and their decision on any assessment, including the portion related to alleged environmental pollution, is not yet final. In addition, as the result of a subsequent tax audit which was completed on January 24, 2008, an additional amount of approximately 36 million KZT in principal, 20 million KZT in interest and 13 million KZT in penalty (collectively, approximately $600,000), was assessed as underpayment of taxes for the 2004 calendar year and VAT for January 2004. AES Ekibastuz appealed these assessments. However, this position was rejected by the Regional Tax Committee in a decision dated January 30, 2008. On February 29, 2008, AES Ekibastuz appealed to the Ministry of Finance of the Republic of Kazakhstan and is currently awaiting a decision.

In February 2008, the Native Village of Kivalina, Alaska, and the City of Kivalina filed a complaint in the U.S. District Court for the Northern District of California against the Company and numerous unrelated companies, claiming that the defendants' alleged greenhouse gas emissions are destroying the plaintiffs' alleged land. The plaintiffs assert nuisance and concert of action claims against the Company and the other defendants, and a conspiracy claim against a subset of the other defendants. The plaintiffs seek to recover relocation costs, indicated in the complaint to be from $95 million to $400 million, and other alleged damages from the defendants, which are not quantified. The Company has filed a motion to dismiss the case, which the plaintiffs have opposed. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

A public civil action has been asserted against Eletropaulo and Associação Desportiva Cultural Eletropaulo (the "Associação") relating to alleged environmental damage caused by construction of the Associação near Guarapiranga Reservoir. The initial decision that was upheld on the first appeal found that Eletropaulo should either repair the alleged environmental damage by demolishing certain construction and reforesting the area, pursuant to a project which would cost approximately $628,000, or pay an indemnification amount of approximately $5 million. Eletropaulo has appealed this decision to the Supreme Court and is awaiting a decision.

In 2007, a lower court issued a decision related to a 1993 claim that was filed by the Public Attorney's office against Eletropaulo, the São Paulo State Government, SABESP (a state owned company), CETESB (a state owned company) and DAEE (the municipal Water and Electric Energy Department), alleging that they were liable for pollution of the Billings Reservoir as a result of pumping water from Pinheiros River into Billings Reservoir. The events in question occurred while Eletropaulo was a state owned company. The initial lower court decision in 2007 found the parties liable for the payment of R$517.46 million ($221 million) for remediation. Eletropaulo subsequently appealed the decision and Eletropaulo is still awaiting a decision on the appeal. The filing of the appeal suspended the lower court's decision. Eletropaulo believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In September 2008, IPL received a CAA Section 114 information request. The request seeks various information regarding production levels and projects implemented at IPL's generating stations, generally for the time period from January 1, 2001 to the date of the information request. This type of information request has been used in the past to assist the EPA in determining whether a plant is in compliance with applicable standards under the CAA. At this time it is not possible to predict what impact, if any, this request may have on IPL, its results of operation or its financial position.

In November 2007, the U.S. Department of Justice ("DOJ") indicated to AES Thames, LLC ("AES Thames") that the U.S. EPA had requested that the DOJ file a federal court action against AES Thames for alleged violations of the CAA, the Clean Water Act ("CWA"), the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the Emergency Planning and Community Right-to-Know Act ("EPCRA"), in particular alleging that AES Thames had violated (i) the terms of its Prevention of Significant Deterioration ("PSD") air permits in the calculation of its steam load permit limit; and (ii) the CWA, CERCLA and EPCRA in connection with two spills of chlorinating agents. The DOJ subsequently indicated that it would like to settle this matter prior to filing a suit and negotiations are ongoing. During such discussions, the DOJ and EPA have accepted AES Thames method of operation and have asked AES Thames to seek a minor permit modification to clarify the air permit condition. On October 21, 2008, the DOJ proposed a civil penalty of $245,000 for the alleged violations. The Company believes that it has meritorious defenses to the claims asserted against it and if a settlement cannot be achieved, the Company will defend itself vigorously in any lawsuit.

In December 2008 there were press reports that the National Electricity Regulatory Entity of Argentina ("ENRE") had filed a criminal action in the National Criminal and Correctional Court of Argentina against the board of directors and administrators of EDELAP, an AES subsidiary. Although EDELAP has not been officially served with notice of the action, press reports have stated that ENRE's action concerns certain bank cancellations of EDELAP debt in 2006 and 2007, which were accomplished through transactions between the banks and related AES companies. According to press reports, ENRE claims that EDELAP should have reflected in its accounts the alleged benefits of the transactions that were allegedly obtained by the related companies. EDELAP believes that the allegations lack merit; however, there can be no assurances that its board and administrators will be successful in any formal proceedings concerning the allegations.

In January 2009 an alleged shareholder of the Company filed a shareholder derivative and putative class action in Delaware state court against the Company and certain members of its board of directors. The plaintiff claims that Section 2.17(B) of the Company's bylaws, concerning shareholder action by written consent, is illegal under Delaware law. The plaintiff does not seek damages but declarations that Section 2.17(B) is unlawful and void and that the board member defendants breached their respective fiduciary duties of loyalty by adopting that bylaw in October 2008. The plaintiff further seeks to recover his litigation costs. The Company defendants believe they have meritorious defenses and will assert them vigorously in these proceedings; however, there can be no assurances that they will be successful in their efforts.

A CAA Section 114 information request regarding Cayuga and Somerset was received in February 2009. The request seeks various operating and testing data and other information regarding certain types of projects at the Cayuga and Somerset facilities, generally for the time period from January 1, 2000 through the date of the information request. This type of information request has been used in the past to assist the EPA in determining whether a plant is in compliance with applicable standards under the CAA. At this time it is not possible to predict what impact, if any, this request may have on Cayuga and/or Somerset, their results of operation or their financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On August 7, 2008, the Company's Board of Directors approved a share repurchase plan for up to $400 million of its outstanding common stock. The Board authorization permits the Company to effect the repurchase of shares for a six month period. The stock repurchase program may be modified, extended or terminated by the Board of Directors at any time. The Company repurchased 10,691,267 shares of its common stock during the third quarter of 2008 and did not repurchase any shares of its common stock during the fourth quarter of 2008. The remaining amount authorized to be purchased under the share repurchase plan as of December 31, 2008 was $257 million. No shares were repurchased subsequent to December 31, 2008 and the board authorization of the plan expired on February 7, 2009.

Market Information

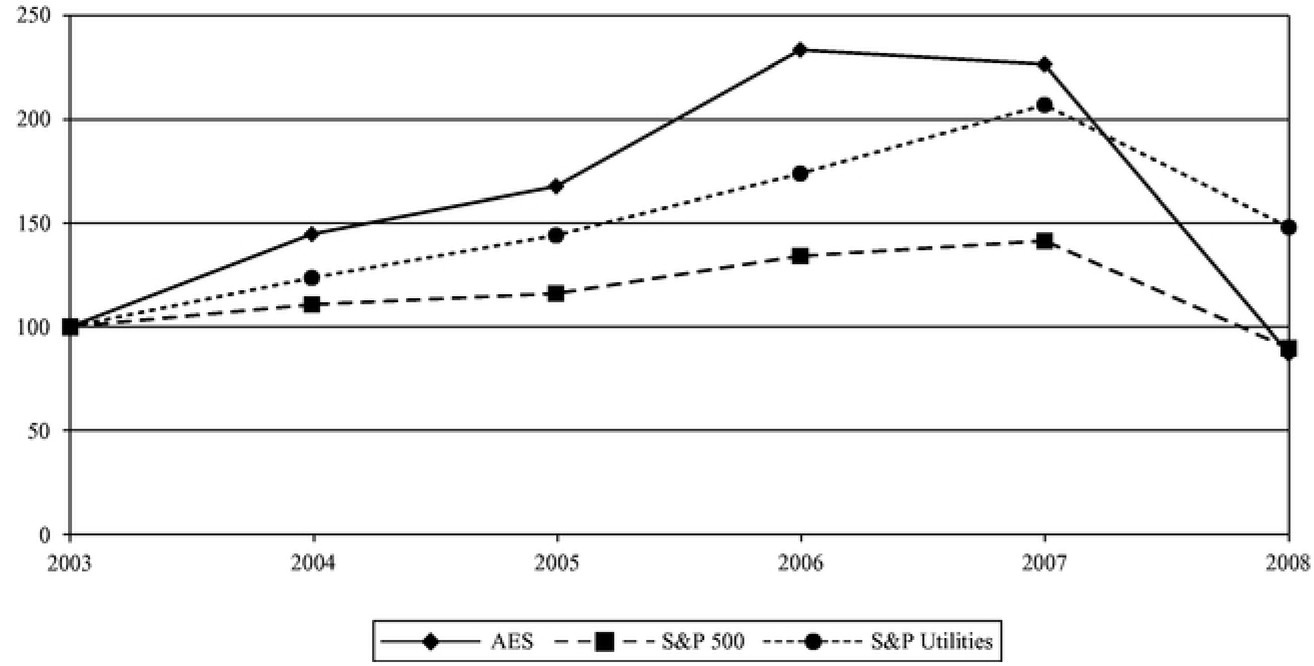
Our common stock is currently traded on the New York Stock Exchange ("NYSE") under the symbol "AES." The closing price of our common stock as reported by the NYSE on February 24, 2009, was $6.82, per share. The Company repurchased 10,691,267 shares of its common stock in 2008 and did not repurchase any of its common stock in 2007 or 2006. The following tables set forth the high and low sale prices, and performance trends for our common stock as reported by the NYSE for the periods indicated:

	2008		2007	
Price Range of Common Stock	**High**	**Low**	**High**	**Low**
First Quarter	$21.99	$15.98	$22.61	$19.78
Second Quarter	20.34	16.85	23.90	20.87
Third Quarter	19.27	11.23	23.25	17.76
Fourth Quarter	11.28	6.40	22.53	20.21

Performance Graph

THE AES CORPORATION
PEER GROUP INDEX/STOCK PRICE PERFORMANCE

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS
ASSUMES INITIAL INVESTMENT OF $100



Source: Bloomberg

We have selected the Standard and Poor's ("S&P") 500 Utilities Index as our peer group index. The S&P 500 Utilities Index is a published sector index comprising the 32 electric and gas utilities included in the S&P 500.

The five year total return chart assumes $100 invested on December 31, 2003 in AES Common Stock, the S&P 500 Index and the S&P 500 Utilities Index. The information included under the heading "Performance Graph" shall not be considered "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Holders

As of February 24, 2009, there were approximately 7,722 record holders of our common stock, par value $0.01 per share.

Dividends

We do not currently pay dividends on our common stock. We intend to retain our future earnings, if any, to finance the future development and operation of our business. Accordingly, we do not anticipate paying any dividends on our common stock in the foreseeable future.

Under the terms of our Senior Secured Credit Facilities, which we entered into with a commercial bank syndicate, we have limitations on our ability to pay cash dividends and/or repurchase stock. In addition, under the terms of a guaranty we provided to the utility customer in connection with the AES Thames project, we are precluded from paying cash dividends on our common stock if we do not meet certain net worth and liquidity tests.

Our project subsidiaries' ability to declare and pay cash dividends to us is subject to certain limitations contained in the project loans, governmental provisions and other agreements to which our project subsidiaries are subject.

See Item 12 (d) of this Form 10-K for information regarding Securities Authorized for Issuance under Equity Compensation Plans.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data as of the dates and for the periods indicated. You should read this data together with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the notes thereto included in Item 8 in this Annual Report on Form 10-K. The selected financial data for each of the years in the five year period ended December 31, 2008 have been derived from our audited Consolidated Financial Statements. Our historical results are not necessarily indicative of our future results.

Acquisitions, disposals, reclassifications and changes in accounting principles affect the comparability of information included in the tables below. Please refer to the Notes to the Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data of this Form 10-K for further explanation of the effect of such activities. Please also refer to Item 1A Risk Factors and Note 24—Risks and Uncertainties to the Consolidated Financial Statements included in Item 8 of this Form 10-K for certain risks and uncertainties that may cause the data reflected herein not to be indicative of our future financial condition or results of operations.

SELECTED FINANCIAL DATA

Statement of Operations Data	Year Ended December 31, 2008	2007	2006	2005	2004
	(in millions, except per share amounts)				
Revenues	$ 16,070	$ 13,516	$ 11,509	$ 10,183	$ 8,667
Income from continuing operations	1,216	487	168	355	172
Discontinued operations, net of tax	18	(582)	58	198	143
Extraordinary items, net of tax	—	—	21	—	—
Cumulative effect of change in accounting principle, net of tax	—	—	—	(4)	—
Net income (loss) available to common stockholders	$ 1,234	$ (95)	$ 247	$ 549	$ 315
Basic (loss) earnings per share:					
Income from continuing operations, net of tax	$ 1.82	$ 0.73	$ 0.25	$ 0.54	$ 0.27
Discontinued operations, net of tax	0.02	(0.87)	0.09	0.31	0.22
Extraordinary items, net of tax	—	—	0.03	—	—
Cumulative effect of change in accounting principle, net of tax	—	—	—	(0.01)	—
Basic earnings (loss) per share	$ 1.84	$ (0.14)	$ 0.37	$ 0.84	$ 0.49
Diluted (loss) earnings per share:					
Income from continuing operations, net of tax	$ 1.80	$ 0.72	$ 0.25	$ 0.53	$ 0.27
Discontinued operations, net of tax	0.02	(0.86)	0.09	0.31	0.22
Extraordinary items, net of tax	—	—	0.03	—	—
Cumulative effect of change in accounting principle, net of tax	—	—	—	(0.01)	—
Diluted earnings (loss) per share	$ 1.82	$ (0.14)	$ 0.37	$ 0.83	$ 0.49

Balance Sheet Data:	December 31, 2008	2007	2006	2005	2004
			(in millions)		
Total assets	$ 34,806	$ 34,453	$ 31,274	$ 29,025	$ 28,449
Non-recourse debt (long-term)	$ 11,869	$ 11,293	$ 9,840	$ 10,308	$ 10,563
Non-recourse debt (long-term)-Discontinued operations	$ —	$ 37	$ 342	$ 467	$ 750
Recourse debt (long-term)	$ 4,994	$ 5,332	$ 4,790	$ 4,682	$ 5,010
Accumulated deficit	$ (8)	$ (1,241)	$ (1,093)	$ (1,340)	$ (1,889)
Stockholders' equity	$ 3,669	$ 3,164	$ 2,979	$ 1,583	$ 997

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of Our Business

AES is a global power company. We own or operate a portfolio of electricity generation and distribution businesses with generation capacity totaling approximately 43,000 MW and distribution networks serving over 11 million people. In addition, we have more than 3,000 MW under construction in ten countries. Our global footprint includes operations in 29 countries on five continents with 83% of our revenue in 2008 generated outside the United States.

We operate two primary lines of business. The first is our Generation business, where we own and/or operate power plants to generate and sell power to wholesale customers such as utilities and other intermediaries. The second is our Utilities business, where we own and/or operate utilities to distribute, transmit and sell electricity to end-user customers in the residential, commercial, industrial and governmental sectors within a defined service area. Each of our primary lines of business generates approximately half of our revenues.

We are also continuing to expand our wind generation business and are pursuing additional renewables projects in solar, climate solutions, biomass and energy storage. These initiatives are not material contributors to our revenue, gross margin or income, but we believe that they may become material in the future.

Generation. We currently own or operate a portfolio of approximately 38,000 MW, consisting of 93 facilities in 26 countries on five continents at our generation businesses. We also have approximately 2,900 MW of capacity currently under construction in six countries. Our core Generation businesses use a wide range of technologies and fuel types including coal, combined-cycle gas turbines, hydroelectric power and biomass.

The majority of the electricity produced by our Generation businesses is sold under long-term contracts, or PPAs, to wholesale customers. Approximately 61% of the revenues from our Generation businesses during 2008 was derived from plants that operate under PPAs of five years or longer for 75% or more of their output capacity. These businesses often reduce their exposure to fuel supply risks by entering into long-term fuel supply contracts or fuel tolling contracts where the customer assumes full responsibility for purchasing and supplying the fuel to the power plant. These long-term contractual agreements result in relatively predictable cash flow and earnings and reduce exposure to volatility in the market price for electricity and fuel; however, the amount of earnings and cash flow predictability varies from business to business based on the degree to which its exposure is limited by the contracts that it has negotiated.

The balance of our Generation businesses sell power through competitive markets under short-term contracts or directly in the spot market. As a result, the cash flows and earnings associated with these businesses are more sensitive to fluctuations in the market price for electricity, natural gas, coal and other fuels. However, for a number of these facilities, including our plants in New York, which include a fleet of coal fired plants, we have hedged the majority of our exposure to fuel, energy and emissions pricing for 2009.

Utilities. Our Utilities businesses distribute power to more than 11 million people in seven countries on five continents. Our Utilities business consists primarily of 14 companies owned and/or operated under management agreements, all of which operate in a defined service area. These businesses also include 15 generation plants in two countries totaling approximately 4,400 MW. In addition, we have one generation plant under construction totaling 86 MW. These businesses have a variety of structures ranging from pure distribution businesses to fully integrated utilities, which generate, transmit and distribute power.

Renewables and Other Initiatives. In recent years, as demand for renewable sources of energy has grown, we have placed increasing emphasis on developing projects in wind, solar, energy storage and the creation of carbon offsets. We have also developed projects and investments in climate solutions and energy storage. AES Wind Generation, which is one of the largest producers of wind power in the U.S., has 16 wind generation facilities in three countries with over 1,200 MW in operation and 11 wind generation facilities under construction in four countries. AES Solar, our joint venture with Riverstone Holdings, was formed to develop, own and operate utility-scale photo voltaic (PV) solar installations. Since its launch, AES Solar has developed eight plants totaling 24 MW of solar projects in Spain. In climate solutions, we have developed and are implementing projects to produce GHG Credits. In the U.S., we formed Greenhouse Gas Services, LLC as a joint venture with GE Energy Financial Services to create high quality verifiable offsets for the voluntary U.S. market. We also have formed an initiative to develop and implement utility scale energy systems (such as batteries), which store and release power when needed. While these renewables and other initiatives are not currently material to our operations, we believe that in the future, they may become a material contributor to our revenue and gross margin. However, there are risks associated with these initiatives, which are further disclosed in Item 1A—Risk Factors of this Form 10-K.

Our Organization and Segments. As of the end of 2008, our Generation and Utilities businesses were organized within four defined geographic regions: (1) Latin America, (2) North America, (3) Europe & Africa, and (4) Asia and the Middle East, ("Asia"). Three regions, North America, Latin America and Europe & Africa, are engaged in both Generation and Utility businesses while the Asia region operates only Generation businesses. Accordingly, these businesses and regions account for seven reportable segments. "Corporate and Other" includes corporate overhead costs which are not directly associated with the operations of our seven primary reportable segments; interest income and expense; other inter-company charges such as management fees and self-insurance premiums which are fully eliminated in consolidation; and revenue, development costs and the operational results related to AES Wind Generation and our other renewables projects, which are currently not material to our operations.

Beginning in 2009, the Company began to implement certain organizational changes in an effort to streamline the organization. The new structure will continue to be organized along our two lines of business, but within three regions instead of four: (1) North America, (2) Latin America & Africa and (3) Europe, Middle East & Asia ("EMEA"). In addition, we will no longer have an alternative energy group, the operation of which was previously reported under "Corporate and other." Instead, AES Wind Generation, will be managed as part of our North America region (even though some projects are not in North America) while climate solutions projects will be managed in the region in which they are located. Management is currently evaluating the impact of the reorganization on the Company's externally reported segments in accordance with SFAS No. 131. AES Solar is accounted for using the equity method and will continue to be reflected in Corporate and Other in 2009.

Key Drivers of Our Results of Operations. Our Utilities and Generation businesses are distinguished by the nature of their customers, operational differences, cost structure, regulatory environment and risk exposure. As a result, each line of business has slightly different drivers which affect operating results. Performance drivers for our Generation businesses include, among other things, plant availability and reliability, management of fixed and operational costs and the extent to which our plants have hedged their exposure to fuel cost volatility. For our Generation businesses which sell power under short-term contract or in the spot market one of the most crucial factors is the market price of electricity and the plant's ability to generate electricity at a cost below that price. Growth in our Generation business is largely tied to securing new PPAs, expanding capacity in our existing facilities and building new power plants. Performance drivers for our Utilities businesses include, but are not limited to, reliability of service; negotiation of tariff adjustments; compliance with extensive regulatory requirements; management of working capital; and in developing countries, reduction of commercial and technical losses. The results of operations of our Utilities businesses are sensitive to changes in economic growth and weather conditions in the area in which they operate.

One of the key factors which affect both our revenue and costs of sales is changes in the cost of fuel. When fuel costs increase, many of our Generation businesses with long-term contracts and our Utilities are able to pass these costs on to the customer through fuel pass-through or fuel indexing arrangements in their contracts or through increases in tariff rates. Therefore, in a rising fuel cost environment as was the case in 2007 and much of 2008, increases in fuel costs for these businesses often resulted in increases in revenue (though not necessarily on a one-for-one basis). While these circumstances may not have a large impact on gross margin, they can significantly affect gross margin as a percentage of revenue. Other factors that can affect gross margin include our ability to expand the number of facilities we own; and in our existing plants, to sign up new customers and/or purchasing parties, collect receivables from existing customers and operate our plants more efficiently.

Another key driver of our results is the management of risk. Our assets are diverse with respect to fuel source and type of market, which helps reduce certain types of operating risk. Our portfolio employs a broad range of fuels, including coal, gas, fuel oil and renewable sources such as hydroelectric power, wind and solar, which reduces the risks associated with dependence on any one fuel source. For additional information regarding our facilities see Item 1—Our Organization and Segments. Our presence in mature markets helps reduce the volatility associated with our businesses in faster-growing emerging markets. In addition, as noted above, our Generation portfolio is largely contracted, which reduces the risk related to the market prices of electricity and fuel. We also attempt to limit risk by hedging much of our currency and commodity risk, and by matching the currency of most of our subsidiary debt to the revenue of the business that issued that debt. However, our businesses are still subject to these risks, as further described in Item 1A—Risk Factors, "*We may not be adequately hedged against our exposure to changes in commodity prices or interest rates.*"

Highlights of 2008

Results of Operations. In 2008, management continued to focus its efforts on increasing shareholder value by improving operations, executing our growth strategy and strategically managing our portfolio of businesses. Our 2008 results of operations were positively impacted by a number of factors including the gain on the sale of Ekibastuz and Maikuben in Kazakhstan, higher generation rates, utilities tariffs and favorable foreign currency translation.

- revenues of $16.1 billion and gross margin of $3.7 billion, or 23% of revenue;
- income from continuing operations of $1.2 billion, or $1.80 per diluted share; and
- cash flow from operating activities of $2.2 billion.

Our results were negatively impacted by higher fuel costs in Asia and the unfavorable impact of mark-to-market adjustments on derivative instruments. We also saw an increase in fixed costs, primarily in Brazil and Cameroon, related to maintenance, higher provisions for bad debt, contractor services and higher purchased energy costs.

In the fourth quarter of 2008, and in response to the financial market crisis, we reviewed and prioritized projects in our development pipeline. As a result, we recognized an impairment charge of approximately $75 million ($34 million, net of minority interest and income taxes). The projects determined to be impaired primarily included two liquefied natural gas projects in North America and a non-power development project at one of our facilities in North America. As the Company continues to review and streamline its project pipeline, it is possible that further impairments could be identified in the future, some of which could be material. During 2008, we also recognized additional impairment charges of $36 million related to long-lived assets at Uruguaiana, our gas-powered generation plant in Brazil. The impairment was triggered by the combination of gas curtailments and increases in the spot market price of energy in 2007 that continued in 2008. Following an initial impairment charge in the fourth quarter of 2007, further charges were incurred in 2008 due to fixed asset purchase agreements in place. During the first half of 2008, we withdrew from projects in South Africa and Israel which resulted in impairment charges of $36 million. We also recognized an impairment of $18 million related to the shutdown of the Hefei plant in China.

Investment and Financing Activities. In addition to the financial results presented above, the additional highlights for the year ended December 31, 2008 include the following:

Financing activities

- We were able to refinance recourse debt at lower interest rates and with extended maturities, reducing our 2009 recourse debt maturities from $467 million at December 31, 2007 to $154 million at December 31, 2008.
- Our consolidated subsidiaries raised approximately $2.7 billion in 2008 for the purposes of refinancing existing debt and to fund acquisitions and construction. For example, in October, the Company obtained approximately $1 billion in non-recourse financing to support the development of Angamos, a 518 MW coal-fired generation facility in Chile. Angamos is expected to begin commercial operations in 2011.
- We reduced outstanding recourse debt by $360 million and repurchased 10.7 million shares of our common stock at a total cost of $143 million.

Acquisitions

- In April, the Company completed the purchase of a 92% interest in Masinloc, a 660 gross MW coal-fired thermal power generation facility in Masinloc, Philippines. The purchase price was $930 million in cash (excluding anticipated improvements). Non-recourse financing of $665 million was obtained to fund the acquisition and improve the facilities.

Investments in Renewable Energy and Related Projects

- Wind Generation—Highlights from AES Wind Generation include the following:
  - The Company expanded its portfolio of wind generation businesses with the acquisition of Mountain View Power Partners ("Mountain View"), which consists of 111 wind turbines with a capacity of 67 MW in Palm Springs, California.
  - In July, we acquired a 49% interest in Guohua Hulunbeier Wind Farm, a 49.5 MW wind farm development in China. The Company also reached a separate agreement with Guohua to move to phase II of our jointly-owned Huanghua wind project to expand the facility, doubling the capacity to 99 MW. AES has a 49% interest in the Huanghua Project.
  - In December, the Company obtained financing to build a 156 MW wind farm in Kavarna, the largest in Bulgaria, and a 22 MW wind farm in Scotland. Additionally we acquired a 34 MW wind farm from our affiliate, InnoVent. All three are expected to commence commercial operations in 2009.
- Solar Energy—In March, the Company formed AES Solar, a joint venture with Riverstone. AES Solar will develop land-based solar photovoltaic panels that capture sunlight to convert into electricity that feed directly into power grids. AES Solar has commenced commercial operations of 24 MW solar projects in Spain. Under the terms of the agreement, the Company and Riverstone will each provide up to $500 million of capital over the next five years. Through December 31, 2008, the Company has contributed total capital of $135 million.

- Climate Solutions—Highlights from our climate solutions activities include:

  - In April, the Company acquired the rights to the gas from a landfill project in El Salvador ("Nejapa"). Nejapa produces emission reduction credits and plans to build a 6 MW generation facility that could potentially increase to 25 MW in the future.

  - In June, as a result of a financial restructuring, the Company assumed 100% ownership of AgCert International Plc, an Irish company investing in GHG projects primarily in Brazil and Mexico. AgCert currently produces approximately 1.4 million tonnes per year of CERs.

  - In September, Greenhouse Gas Services LLC, the Company's joint venture with General Electric, announced an agreement with Google to co-develop projects to reduce GHG emissions and produce GHG credits. The first project will capture methane gas in North Carolina.

Construction

As of December 31, 2008, the Company has more than 3,000 Gross MW of new generation capacity. The projects under construction include 14 core power projects totaling 2,993 MW and 11 wind power projects totaling 410 MW.

- We began construction of Angamos, a 518 MW coal-fired generation facility in Chile expected to begin commercial operations in 2011.

- We also further advanced our recent projects with the start of construction of three hydro projects in Turkey that are being developed through our investment made in May 2007 in the IC Ictas Energy Group.

- In July, the Company achieved early successful testing of simple cycle operation for the Amman East facility in Jordan, a 380 MW natural gas-fired project expected to achieve full combined-cycle operation in the first half of 2009.

- In August, the Company started commercial operations of the 170 MW Buffalo Gap III wind farm in Abilene, Texas, bringing the total wind generation capacity of the Buffalo Gap wind farm to 524 MW.

For a complete listing of the Company's projects under construction or in development please see Item 1—Our Organizations and Segments.

Portfolio Management

- In the first quarter of 2008, the Company finalized our termination agreement with the Chinese government and shut down Hefei, a 115 MW oil-fueled generation facility. The plant became the property of the Anhui Province and we received termination compensation of approximately $39 million in March 2008.

- In May 2008, the Company completed the sale of Ekibastuz and Maikuben West, a coal-fired power plant and a coal mine with operations in Kazakhstan. Proceeds from the sale of these businesses totaled approximately $1.1 billion, a portion of which was used to pay down debt in June 2008. We have the opportunity to receive additional consideration of up to approximately $380 million under performance incentives and a management agreement to continue operation and management of the plants for the next three years.

- In November 2008, the Company sold a 9.6% ownership in AES Gener for $175 million which reduced the Company's ownership percentage from 80.2% to 70.6%. As a result, the Company recognized a pre-tax loss of $31 million in the fourth quarter of 2008. The net proceeds from this transaction were used to participate in Gener's capital increase in February 2009 as discussed under *Outlook for the Future*.

- In December 2008, the Company sold its 70% interest in Jiaozuo, a 250 MW coal-fired generation plant in China for net proceeds of $73 million. Prior periods have been restated to reflect this business within Discontinued Operations for all periods presented.

Credit Crisis and the Macroeconomic Environment

In the second half of 2007, conditions in the credit markets began to deteriorate in the United States and abroad. In the third and fourth quarter of 2008, this crisis and associated market conditions worsened dramatically, with unprecedented market volatility, widening credit spreads, volatile currencies, illiquidity, and increased counterparty credit risk.

Beginning in the second half of 2007, the Company began a series of debt-related initiatives, including the refinancing of approximately $2.0 billion of recourse debt in transactions executed in the fourth quarter of 2007 and the second quarter of 2008. As a result of these transactions, The AES Corporation reduced the 2009 maturities on its recourse debt from $467 million as of June 30, 2007 to $154 million as of December 31, 2008. The AES Corporation also eliminated many of the restrictive covenants in its 8.75% Second Priority Senior Secured Notes due 2013 and modified certain covenants contained in its senior secured credit facility. The amendments made the financial covenants less restrictive and made certain other changes, such as expanding the Company's ability to repurchase its own common stock. For further information regarding these covenant changes, see the Capital Resources and Liquidity—Parent Company Liquidity section of Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, The AES Corporation successfully replaced Lehman Commercial Paper with another bank as a lender under its senior secured credit facility.

Because of the factors described above, management currently believes that it can meet its near-term liquidity requirements through a combination of existing cash and cash equivalent balances, cash provided by operating activities, financings, and, if needed, borrowings under its secured and unsecured credit facilities. Although there can be no assurance due to the challenging times currently faced by financial institutions, management believes that the participating banks under its facilities will be able to meet their funding commitments.

The Company is also subject to credit risk, which includes risk related to the ability of counterparties (such as parties to our PPAs, fuel supply agreements, hedging agreements, and other contractual arrangements) to meet their contractual payment obligations or the potential nonperformance of counterparties to deliver contracted commodities or services at the contracted price. While counterparty credit risk has increased in the current crisis and there can be no assurances regarding the future, to date the Company has not suffered any material effects related to its counterparties.

The global economic slowdown could also result in a decline in the value of our assets, which could result in material impairments of certain assets or result in an increase in our obligations which could be material to our operations. For example, as discussed above, during the fourth quarter of 2008, and in response to the financial market crisis, the Company reviewed and prioritized the projects in our development pipeline. As a result we recognized an impairment charge of approximately $75 million ($34 million, net of minority interest and income taxes). The projects that were impaired included two liquefied natural gas projects in North America and a non-power development project at one of our facilities in North America.

In addition to the decline in development assets noted above, there is a risk that the fair value of other assets could also decline, resulting in additional impairment charges and/or a material increase in our obligations. Certain subsidiaries of the Company have defined benefit pension plans. The Company periodically evaluates the value of the pension plan assets to ensure that they will be sufficient to fund their respective pension obligations. Given the declines in worldwide asset values, we are expecting an increase in pension expense and funding requirements in future periods, which may be material. As of December 31, 2008 we expect the Company to make future employer contributions to its defined benefit pension plans in 2009 of approximately $154 million, of which $21 million will be made to its U.S. plans and $133 million to foreign plans primarily in Brazil (subject to changes in foreign currency exchange rates), compared to employer contributions made in 2008 of $197 million, of which $59 million was made to U.S. plans and $138 million to foreign plans. In Brazilian real ("R$") contributions for our subsidiaries in Brazil are expected to increase from R$236 million in 2008 to R$294 million in 2009. The decline in the fair value of pension plan assets will also result in increased pension expense in 2009, currently estimated at $124 million in 2009 (subject to changes in foreign currency exchange rates) compared to $60 million in 2008. Expense at our subsidiaries in Brazil, in local currency, is expected to be R$176 million in 2009 compared to R$77 million in 2008. See Item 1A—Risk Factors, "*Some of our subsidiaries participate in defined benefit pension plans and their net pension plan obligations may require additional significant contributions.*"

To date, other than the impacts described above, the global economic slowdown has not significantly impacted the Company. However, in the event that the credit crisis and global recession deteriorate further, or are protracted, there could be a material adverse impact on the Company. The Company could be materially impacted if such events or other events occur such that participating lenders under its secured and unsecured facilities fail to meet their commitments, or the Company is unable to access the capital markets on favorable terms or at all, is unable to raise funds through the sale of assets, or is otherwise unable to finance its activities or refinance its debt, or if capital market disruptions result in increased borrowing costs (including with respect to interest payments on the Company's variable rate debt). The Company could also be adversely affected if general economic or political conditions in the markets where the Company operates deteriorate, resulting in a reduction in cash flow from operations, a reduction in the value of currencies in these markets relative to the dollar (which could cause currency losses), an increase in the price of commodities used in our operations and construction, or if the value of its assets remain depressed or decline further. If any of the foregoing events occur, such events (or a combination thereof) could have a material impact on the Company, its results of operations, liquidity, financial covenants, and/or its credit rating.

The Company could also be adversely affected if the foregoing effects are exacerbated or general economic or political conditions in the markets where the Company operates deteriorate, resulting in a reduction in cash flow from operations, a reduction in the value of currencies in these markets relative to the dollar (which could cause currency losses), an increase in the price of commodities used in our operations and construction or a decline in asset values.

Outlook for the Future

In 2008, management continued to focus its efforts on improving operations, executing our growth strategy, managing our risk and strategically managing our portfolio of businesses. As market conditions deteriorated in the second half of 2008, our strategy evolved, with an increased emphasis on preserving liquidity. We also recognized that uncertain economic conditions could potentially slow global demand for power for some period of time. Accordingly, we scaled back our development plans mid-year to focus on projects that we believe will still have attractive returns and can still attract capital in difficult financial markets and on completing our projects that are currently under construction. If the Company has capital available for investment beyond these priorities (whether for further development, reductions in debt, or repurchases of stock), it will be allocated based on management's assessment of its most effective use.

Consistent with this strategy, in the fourth quarter of 2008, management conducted a review of its development pipeline, and determined that certain projects in the pipeline may not achieve financial close, will not provide the returns originally anticipated, or are otherwise unfeasible, or that other uses of capital such as debt repayment or stock repurchases offer a better return on the Company's capital. Accordingly, management has determined it will not pursue certain projects and will delay others until the credit markets recover. Furthermore, management will continue to review its pipeline and may further reduce the number of projects it pursues. The Company is also evaluating other options with respect to its pipeline, such as the addition of partners who can contribute capital, share project risk and/or provide strategic expertise. There can be no assurance regarding the outcome of any such decisions on the Company, its results of operations or its financial condition.

The AES Corporation has $154 million in recourse debt maturing in 2009 compared with Parent Company liquidity of approximately $1.4 billion.

With regard to its projects currently under construction, the Company believes that it can complete these projects through a combination of existing cash and cash equivalent balances, cash provided by operating activities, financings, and, if needed, borrowings under its secured and unsecured credit facilities. The Company has secured the financing for the vast majority of projects under construction.

The Company is also focused on operational improvements and cost reductions to help further improve its cash flow from operations and enhance its financial flexibility. The Company has already commenced efforts to reduce costs and streamline our organization. These efforts include the reorganization of the Company from four regions to three regions, which is expected to eliminate redundancies and improve our cost structure.

Recent Events

On December 23, 2008, the local Chilean SEC approved Gener's issuance of approximately 945 million new shares at a price of $162.50 Chilean Pesos. The proceeds of the share issuance were $246 million and Gener anticipates using these proceeds for future expansion plans, working capital and other operating needs. The preemptive rights period began on January 7, 2009 remained open for 30 days and closed on February 5, 2009. During the preemptive rights period AES, through its wholly-owned subsidiary, Cachagua, paid $175 million from the proceeds of the November 2008 share sale to maintain its current ownership percentage of approximately 70.6%.

2008 Performance Highlights

	Year Ended December 31,		
	2008	2007	2006
	($'s in millions, except per share amounts)		
Revenue	$ 16,070	$ 13,516	$ 11,509
Gross Margin	$ 3,707	$ 3,392	$ 3,419
Gross Margin as a % of Revenue	23.1%	25.1%	29.7%
Diluted Earnings Per Share from Continuing Operations	$ 1.80	$ 0.72	$ 0.25
Net Cash Provided by Operating Activities	$ 2,165	$ 2,353	$ 2,348

Revenue

Revenue increased 19% to $16.1 billion in 2008 compared with $13.5 billion in 2007 primarily due to higher generation rates in Latin America, the impact of favorable foreign currency translation of approximately $350 million and utility tariffs and volume.

Gross margin

Gross margin increased 9% to $3.7 billion in 2008 compared with $3.4 billion in 2007 primarily due to higher generation rates in Latin America, favorable foreign currency impact, utility volume and tariff, partially offset by an increase in fixed costs associated with allowances for bad debts and higher purchased energy costs, primarily in Brazil and Cameroon. Gross margin as a percentage of revenue decreased to 23.1% in 2008 compared with 25.1% in 2007 driven by the increase in fixed costs.

Our gross margin remained at approximately $3.4 billion in 2006 and 2007 and increased to $3.7 billion in 2008. Gross margin however declined in the fourth quarter of 2008 due to several factors including the mix of earnings within our portfolio, foreign currency exchange rates, commodity prices, and recent acquisitions, such as Masinloc in the Philippines. We believe that it is reasonably possible that the recent trend in gross margin reported in the fourth quarter will continue. The Company's future gross margin trends may be significantly impacted by currency exchange rates, commodity prices and the impact of any significant regulatory developments in each country where the Company conducts its business. The Company is subject to extensive and complex governmental regulations which affect most aspects of our business, such as regulations governing the generation and distribution of electricity and environmental regulations, as described more fully in the Business section of the Form 10-K.

Diluted earnings per share from continuing operations

Diluted earnings per share from continuing operations increased $1.08 per share to $1.80 per share in 2008 compared to $0.72 per share in 2007. The 2008 results included a net positive impact of $0.74 per share relating to : (i) a gain from the sale of the Company's northern Kazakhstan businesses in the second quarter of 2008 of $905 million (pre-tax) or $1.31; (ii) additional tax expense of $144 million or $0.21 related to the repatriation of a portion of the Kazakhstan sale proceeds (iii) loss related to corporate debt restructuring charges of $55 million (pre-tax) or $0.05 (iv) impairment charges taken in the fourth quarter on certain LNG and other development efforts of $34 million (net of tax and minority interest) or $0.05, (v) other impairment charges in Brazil and South Africa of $45 million (net of tax and minority interest) or $0.06 and (vi) net currency translation and transaction losses of $0.20 per share. These were compared to 2007 results which included (i) a gain of approximately $0.15 per diluted share related to the acquisition of a leasehold interest at Eastern Energy in New York and the recovery of certain tax assets in Latin America; (ii) impairment charges related to Uruguaiana and AgCert of $0.33 per share and (iii) corporate debt retirement costs in 2007 of $0.08 per share. The remaining increase in diluted earnings per share from continuing operations from 2007 to 2008 of $0.08 per share is mainly the result of improved performance in 2008.

Net cash from operating activities

Net cash from operating activities decreased 8% to $2.2 billion in 2008 compared with $2.4 billion in 2007. Excluding the decrease in net cash provided by operating activities from EDC in Venezuela, which was sold in May 2007, net cash provided by operating activities would have decreased $37 million. This decrease was primarily due to increased employer pension contributions at our U.S. and foreign subsidiaries and an increase in regulatory assets related to future recoverable purchased energy costs in Brazil. These decreases were partially offset by a decrease in cash used by a Brazilian subsidiary to pay income taxes in 2008 as a result of tax credits used as the primary payment method in 2008 and improved operations in Latin America and Europe & Africa. Please refer to *Consolidated Cash Flows—Operating Activities* for further discussion.

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Consolidated Results of Operations

Results of operations	Year Ended December 31, 2008	2007	2006	$ change 2008 vs. 2007	$ change 2007 vs. 2006
	(in millions, except per share amounts)				
Revenue:					
Latin America Generation	$ 4,465	$ 3,510	$ 2,615	$ 955	$ 895
Latin America Utilities	5,911	5,172	4,552	739	620
North America Generation	2,234	2,168	1,928	66	240
North America Utilities	1,079	1,052	1,032	27	20
Europe & Africa Generation	1,160	975	852	185	123
Europe & Africa Utilities	782	660	570	122	90
Asia Generation	1,264	817	718	447	99
Corporate and Other(1)	(825)	(838)	(758)	13	(80)
Total Revenue	$ 16,070	$ 13,516	$ 11,509	$ 2,554	$ 2,007
Gross Margin:					
Latin America Generation	$ 1,394	$ 955	$ 1,052	$ 439	$ (97)
Latin America Utilities	885	865	888	20	(23)
North America Generation	657	702	610	(45)	92
North America Utilities	261	313	277	(52)	36
Europe & Africa Generation	294	275	247	19	28
Europe & Africa Utilities	57	63	103	(6)	(40)
Asia Generation	143	176	186	(33)	(10)
Total Corporate and Other Expense(2)	(355)	(336)	(245)	(19)	(91)
Interest expense	(1,844)	(1,788)	(1,769)	(56)	(19)
Interest income	540	500	434	40	66
Other expense	(163)	(255)	(451)	92	196
Other income	379	358	116	21	242
Gain on sale of investments	909	—	98	909	(98)
(Loss) gain on sale of subsidiary stock	(31)	134	(535)	(165)	669
Impairment expense	(175)	(408)	(17)	233	(391)
Foreign currency transaction (losses) gains on net monetary position	(185)	24	(80)	(209)	104
Other non-operating expense	(15)	(57)	—	42	(57)
Income tax expense	(774)	(679)	(359)	(95)	(320)
Net equity in earnings of affiliates	33	76	73	(43)	3
Minority interest expense	(794)	(431)	(460)	(363)	29
Income from continuing operations	1,216	487	168	729	319
Income from operations of discontinued businesses	12	79	115	(67)	(36)
Gain (loss) from disposal of discontinued businesses	6	(661)	(57)	667	(604)
Extraordinary items	—	—	21	—	(21)
Net income (loss)	$ 1,234	$ (95)	$ 247	$ 1,329	$ (342)
Per share data:					
Basic income per share from continuing operations	$ 1.82	$ 0.73	$ 0.25	$ 1.09	$ 0.48
Diluted income per share from continuing operations	$ 1.80	$ 0.72	$ 0.25	$ 1.08	$ 0.47

(1) Corporate and Other includes revenues from renewables and inter-segment eliminations of revenues related to transfers of electricity from Tietê (generation) to Eletropaulo (utility) in Latin America.

(2) Total Corporate and Other expenses include corporate general and administrative expenses, expenses related to our renewables initiatives as well as certain inter-segment eliminations, primarily corporate charges for management fees and self insurance premiums.

Segment Analysis

Latin America

The following table summarizes revenue and gross margin for our Generation segment in Latin America for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
Latin America Generation					
Revenue	$ 4,465	$ 3,510	$ 2,615	27%	34%
Gross Margin	$ 1,394	$ 955	$ 1,052	46%	(9)%
Gross Margin as a % of Segment Revenue	31%	27%	40%		

Fiscal Year 2008 versus 2007

Generation revenue increased $955 million, or 27%, from the previous year primarily due to higher contract and spot prices and higher volume at Gener in Chile and our businesses in Argentina of approximately $508 million and $188 million, respectively, higher contract and spot prices at our businesses in the Dominican Republic of approximately $132 million, favorable foreign currency translation of approximately $77 million and higher spot prices at our businesses in Panama of approximately $45 million.

Generation gross margin increased $439 million, or 46%, from the previous year primarily due to higher contract and spot prices and higher volume at Gener and our businesses in Argentina of approximately $318 million, higher contract and spot prices at our businesses in the Dominican Republic of approximately $86 million, favorable foreign currency translation of approximately $44 million, and higher spot prices at our businesses in Panama of approximately $30 million. These increases were partially offset by higher purchased energy prices of approximately $57 million at Uruguaiana in Brazil.

Fiscal Year 2007 versus 2006

Generation revenue increased $895 million, or 34%, from the previous year primarily due to higher rates and volume at Gener and our businesses in Argentina of approximately $443 million and $95 million, respectively; and increased volume and intercompany sales from Tietê, in Brazil, to Eletropaulo, our Brazilian utility, of approximately $130 million. Our increase in ownership of the controlling shares of Itabo, in the Dominican Republic, which resulted in a change from the equity method of accounting consolidation, contributed approximately $87 million in revenue. The increase from foreign currency translation was approximately $38 million.

Generation gross margin decreased $97 million, or 9%, from the previous year primarily due to increased cost from gas supply curtailments, drier than normal hydrology and higher spot prices for electricity in the Company's businesses in Argentina, Chile and Southern Brazil of approximately $173 million and one time transmission charges at Tietê of $39 million, offset in part, by higher sales at Itabo of $23 million and intercompany sales in Tietê of $103 million.

The following table summarizes revenue and gross margin for our Utilities segment in Latin America for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
Latin America Utilities					
Revenue	$ 5,911	$ 5,172	$ 4,552	14%	14%
Gross Margin	$ 885	$ 865	$ 888	2%	(3)%
Gross Margin as a % of Segment Revenue	15%	17%	20%		

Fiscal Year 2008 versus 2007

Utilities revenue increased $739 million, or 14%, from the previous year primarily due to favorable foreign currency translation of approximately $357 million at our businesses in Brazil, increased rates primarily associated with higher pass-through purchased energy and transmission costs at Eletropaulo of approximately $148 million, and higher volume at Eletropaulo and Sul in Brazil of approximately $162 million and $30 million, respectively.

Utilities gross margin increased $20 million, or 2%, from the previous year primarily due to higher volume at Eletropaulo of approximately $162 million and favorable foreign currency translation of approximately $67 million at our businesses in Brazil. These increases were partially offset by a decrease in the non-pass through rates at Eletropaulo as a result of the July 2007 tariff reset of approximately $74 million, increased fixed costs of approximately $71 million at Eletropaulo primarily due to higher provisions for bad debts and higher purchased energy costs at Eletropaulo of approximately $68 million.

Fiscal Year 2007 versus 2006

Utilities revenue increased $620 million, or 14%, from the previous year primarily due to favorable foreign currency translation of $493 million, and increased rates and volume at Sul and at our plants in El Salvador of $58 million and $41 million, respectively, offset by a net decrease in tariffs of $24 million at Eletropaulo.

Utilities gross margin decreased $23 million, or 3%, from the previous year primarily due to reduced tariff rates at Eletropaulo of $355 million offset by lower costs, favorable foreign currency translation of $148 million and higher volume of $74 million. Additionally, Sul had increased rates and volume of $27 million and favorable foreign currency translation of $19 million.

North America

The following table summarizes revenue and gross margin for our Generation segment in North America for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
North America Generation					
Revenue	$ 2,234	$ 2,168	$ 1,928	3%	12%
Gross Margin	$ 657	$ 702	$ 610	(6)%	15%
Gross Margin as a % of Segment Revenue	29%	32%	32%		

Fiscal Year 2008 versus 2007

Generation revenue increased $66 million, or 3%, from the previous year primarily due to higher volume of $38 million at TEG/TEP in Mexico, and net higher revenue at Merida in Mexico of $29 million primarily due to the pass-through of higher fuel costs offset by a revenue adjustment. In addition, revenue increased $8 million at Red Oak in New Jersey, due to higher pricing and availability bonuses. At Warrior Run in Maryland, revenue increased $12 million due to the pass-through of higher fuel costs and higher volume due to no significant outages in 2008. These effects were partially offset by lower volume in New York of $23 million primarily due to planned outages and lower capacity factors.

Generation gross margin decreased $45 million, or 6%, and decreased as a percentage of revenue from the previous year due to lower gross margin in New York of $46 million mainly due to a planned outage and lower volume, and higher fuel prices and outages of $16 million at Deepwater in Texas. Gross margin decreased $13 million at TEG/TEP due primarily to outages and lower rates due to changes in the sales contract rates associated with the refinancing in 2007. These decreases were partially offset by a net increase in gross margin in Hawaii of $29 million primarily due to a $22 million net mark-to-market derivative gain on a coal supply contract and a one time use tax refund of $6 million.

Fiscal Year 2007 versus 2006

Generation revenue increased $240 million, or 12%, from the previous year primarily due to approximately $200 million in new business as a result of our acquisition of TEG/TEP and approximately $96 million in higher rate and volume sales at the Company's New York facilities; offset by mark-to-market adjustments for embedded derivatives of $51 million at Deepwater and lower emission sales of $39 million.

Generation gross margin increased $92 million, or 15%, from the previous year primarily due to approximately $62 million related to our acquisition of TEG/TEP and $90 million related to higher rates and volumes and lower cost at the Company's New York facilities offset by lower sales of excess emissions allowances of approximately $39 million.

The following table summarizes revenue and gross margin for our Utilities segment in North America for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
			(Dollars in millions)		
North America Utilities					
Revenue	$ 1,079	$ 1,052	$ 1,032	3%	2%
Gross Margin	$ 261	$ 313	$ 277	(17)%	13%
Gross Margin as a % of Segment Revenue	24%	30%	27%		

Fiscal Year 2008 versus 2007

Utilities revenue increased $27 million, or 3%, from the previous year primarily due to a $42 million increase in rate adjustments at IPL in Indiana, related to environmental investments, $42 million of higher fuel and purchased power costs and an $8 million increase in wholesale prices. These increases were offset by $32 million of credits to customers established during the first six months of 2008, $16 million of lower retail volume primarily due to unfavorable weather compared to 2007 and an $18 million decrease in wholesale volume.

Utilities gross margin decreased $52 million, or 17%, from the previous year primarily due to lower variable retail margin of $42 million driven by the credits to customers established during the first six months of 2008 and lower retail volume. In addition, IPL had higher maintenance expenses of $9 million primarily due to storm restoration costs and the timing and duration of major generating unit overhauls, an increase of $6 million in labor and benefits costs and an increase of $3 million in contractor and consulting costs. These decreases to gross margin were offset by a return recovered through rates on approved environmental investments of $14 million.

Fiscal Year 2007 versus 2006

Utilities revenue increased $20 million, or 2%, from the previous year primarily due to increased volume due to weather, offset by a decrease in fuel charges passed through to customer at IPL.

Utilities gross margin increased $36 million, or 13%, from the previous year primarily due to increased volume sales and a return recovered through rates on approved environmental investments at IPL.

Europe & Africa

The following table summarizes revenue for our Generation segment in Europe & Africa for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
Europe & Africa Generation					
Revenue	$ 1,160	$ 975	$ 852	19%	14%
Gross Margin	$ 294	$ 275	$ 247	7%	11%
Gross Margin as a % of Segment Revenue	25%	28%	29%		

Fiscal Year 2008 versus 2007

Generation revenue increased $185 million, or 19%, from the previous year primarily due to an increase in capacity income and energy payments at Kilroot in Northern Ireland of approximately $105 million, rate recovery and higher volume of approximately $93 million at our businesses in Hungary and favorable foreign currency translation in Hungary of $32 million. In addition, revenue at Kilroot increased approximately $21 million compared to the previous year primarily due to the unfavorable impact of two major overhauls in 2007. These increases were partially offset by a reduction in revenue of approximately $49 million in Kazakhstan following the sale of Ekibastuz and Maikuben in the second quarter of 2008 that was partially offset by approximately $12 million in management fees earned from continuing management agreements for those businesses. In addition, revenue at Kilroot was approximately $37 million lower due to the unfavorable impact of foreign currency translation.

Generation gross margin increased $19 million, or 7%, from the previous year primarily due to higher rates and volume of $43 million at Tisza II in Hungary, and an increase in capacity income and fewer forced outages at Kilroot of approximately $32 million. These were offset by an increase in fixed costs of $24 million at Kilroot and Tisza II, unfavorable foreign currency translation of $12 million at Kilroot and a reduction in gross margin of $29 million in Kazakhstan following the sale of Ekibastuz and Maikuben in the second quarter of 2008 that was partially offset by $9 million in net gross margin from continuing management agreements for those businesses.

Fiscal Year 2007 versus 2006

Generation revenue increased $123 million, or 14%, from the previous year primarily due to favorable foreign currency translation of $77 million and increased rate and volume sales of approximately $60 million at our businesses in Kazakhstan.

Generation gross margin increased $28 million, or 11%, from the previous year primarily due to rate and volume increases at our businesses in Kazakhstan and Kilroot of $44 million and $13 million, respectively. These increases were offset by lower emission sales in Hungary and Bohemia in the Czech Republic of approximately $28 million.

The following table summarizes gross margin for our Utilities segments in Europe & Africa for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
Europe & Africa Utilities					
Revenue	$ 782	$ 660	$ 570	18%	16%
Gross Margin	$ 57	$ 63	$ 103	(10)%	(39)%
Gross Margin as a % of Segment Revenue	7%	10%	18%		

Fiscal Year 2008 versus 2007

Utilities revenue increased $122 million, or 18%, from the previous year primarily due to increased tariff rates of approximately $86 million at our businesses in Ukraine, approximately $30 million due to increased rates and volume and $26 million due to favorable foreign currency translation at Sonel in Cameroon. These increases were partially offset by an unfavorable foreign currency translation impact at our businesses in Ukraine of approximately $17 million.

Utilities gross margin decreased $6 million, or 10%, from the previous year primarily due to higher fixed costs of approximately $55 million across the region, a mark-to-market derivative adjustment at Sonel of $9 million and the favorable impact in 2007 of fuel pass-through costs under a concession agreement of $6 million, partially offset by increased rates and volume at Sonel of approximately $36 million and increased tariff rates of approximately $23 million at our businesses in Ukraine.

Fiscal Year 2007 versus 2006

Utilities revenue increased $90 million, or 16%, from the previous year primarily due to increased tariff rates and volume of approximately $57 million in the Ukraine and approximately $28 million in favorable foreign currency translation.

Utilities gross margin decreased $40 million, or 39%, from the previous year primarily due to higher non-fuel operating and maintenance costs as well as higher fuel usage at Sonel.

Asia

The following table summarizes revenue and gross margin for our Generation segment in Asia for the periods indicated:

	For the Years Ended December 31,				
	2008	2007	2006	% Change 2008 vs. 2007	% Change 2007 vs. 2006
	(Dollars in millions)				
Asia Generation					
Revenue	$ 1,264	$ 817	$ 718	55%	14%
Gross Margin	$ 143	$ 176	$ 186	(19)%	(5)%
Gross Margin as a % of Segment Revenue	11%	22%	26%		

Fiscal Year 2008 versus 2007

Generation revenue increased $447 million, or 55%, from the previous year primarily due to higher rates driven by increased pass-through fuel prices of $259 million and volume of $41 million at our Lal Pir and Pak Gen businesses in Pakistan, an increase in rates due to pass-through fuel prices at Kelanitissa in Sri Lanka, of approximately $55 million, and revenue generated from our new businesses, Masinloc in the Philippines, and Amman East in Jordan, of $148 million and $46 million, respectively. These increases were partially offset by unfavorable impact of foreign currency translation of $95 million in Pakistan.

Generation gross margin decreased $33 million, or 19%, from the previous year primarily due to the impact of increased fuel prices on heat rate losses of approximately $14 million at Lal Pir and Pak Gen and a $15 million unfavorable impact on revenue from an amended PPA accounted for as a lease, and therefore revenue was recognized on a straight-line basis in accordance with EITF No. 01-8, *Determining Whether an Arrangement Contains a Lease* at Ras Laffan in Qatar. In addition, Masinloc generated a net gross margin loss of $18 million for the year ended December 31, 2008. These unfavorable effects were partially offset by the favorable impact of $14 million from the start of commercial operations in July 2008 at Amman East.

Fiscal Year 2007 versus 2006

Generation revenue increased $99 million, or 14%, from the previous year primarily due to higher dispatch in Pakistan of $83 million and higher volume and rates at Kelanitissa of approximately $30 million offset by volume decreases of approximately $8 million at Chigen in China.

Generation gross margin decreased $10 million, or 5%, from the previous year primarily due to decreased volume at Chigen.

Corporate and Other Expense

Corporate and other expenses include general and administrative expenses, executive management, finance, legal, human resources, information systems and certain development costs which are not allocable to our business segments. In addition, this includes net operating results from AES Wind Generation and other renewables initiatives which are immaterial for the purposes of separate segment disclosure and, the effects of eliminating transactions, such as management fee arrangements and self-insurance charges, between the operating segments and corporate. For the years ended December 31, 2008, 2007 and 2006, Corporate and other expense was approximately 2 - 3% of total revenues.

Corporate and other expense increased $19 million, or 6%, to $355 million in 2008 from $336 million in 2007. The increase was primarily due to higher spending of $16 million on

SAP implementation projects and $27 million on the expansion of AES Wind Generation, climate solutions projects and our renewables initiatives, offset partially by a reduction in professional fees related to material weakness remediation efforts.

Corporate and other expense increased $91 million, or 37%, to $336 million in 2007 from $245 million in 2006. The increase was primarily due to higher spending in professional fees of approximately $24 million primarily to complete the restatement of our financial statements and for continued material weakness remediation efforts, higher spending due to headcount increases primarily related to the strengthening of our finance organization of approximately $15 million and increased spending of $18 million for our SAP implementation projects.

Interest expense

Interest expense increased $56 million, or 3%, to $1,844 million in 2008 primarily due to additional interest expense at our recently acquired subsidiary, Masinloc, interest expense associated with derivatives at Eletropaulo, Panama and Puerto Rico, as well as unfavorable foreign currency translation in Brazil. These increases were offset by decreases from the elimination of a financial transaction tax in Brazil, a decrease in regulatory liabilities at Eletropaulo, and a decrease in capitalized interest on development projects at Kilroot.

Interest expense increased $19 million, or 1%, to $1,788 million in 2007 primarily due to unfavorable impacts from foreign currency translation in Brazil and interest expense associated with derivatives. These increases were offset by the benefits of debt retirement activity at several of our subsidiaries in Latin America and lower interest rates at one of our subsidiaries in Brazil.

Interest income

Interest income increased $40 million, or 8%, to $540 million in 2008 primarily due to interest income on short-term investments and cash equivalents at two of our subsidiaries in Brazil, inflationary adjustments on accounts receivable at Gener, and interest earned on a convertible loan acquired in March 2008. These increases were offset by decreases due to lower interest income related to a gross receipts tax recovery at Tietê recorded during the second quarter of 2007 and decreased interest income related to derivatives at TEG/TEP.

Interest income increased $66 million, or 15%, to $500 million in 2007 primarily due to favorable foreign currency translation on the Brazilian Real and higher cash and short-term investment balances at certain of our subsidiaries, offset by decreases at two of our Brazilian subsidiaries due to lower interest rates.

Other income

	Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Gain on extinguishment of liabilities	$ 199	$ 22	$ 45
Insurance proceeds	40	18	30
Legal/dispute settlement	39	26	1
Gain on sale of assets	34	24	18
Contract settlement gain	—	135	—
Gross receipts tax recovery	—	93	—
Other	67	40	22
Total other income	$ 379	$ 358	$ 116

Other income increased $21 million to $379 million in 2008 primarily due to gains on the extinguishment of a gross receipts tax liability and legal contingency of $117 million and $75 million, respectively, at Eletropaulo, $29 million of insurance recoveries for damaged turbines at Uruguaiana, $32 million of cash proceeds related to a favorable legal settlement at Southland in California, and compensation of $18 million for the impairment associated with the settlement agreement to shut down Hefei. These increases were offset by a $135 million contract settlement gain in 2007 at Eastern Energy and a $93 million gross receipts tax recovery in 2007 at Eletropaulo and Tietê in 2007.

Other income increased $242 million to $358 million in 2007 primarily due to the Eastern Energy contract settlement gain and tax recoveries in Brazil noted above in addition to favorable legal settlements at Eletropaulo and Red Oak. These increases were offset by a decrease in gains on the extinguishment of debt, which were driven by debt retirement activities at several of our businesses in Latin America in 2006.

Other expense

	Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Loss on extinguishment of liabilities	$ 70	$ 106	$ 181
Loss on sale and disposal of assets	34	79	23
Legal/dispute settlement	19	36	31
Regulatory special obligations	—	—	139
Write-down of disallowed regulatory assets	—	16	36
Other	40	18	41
Total other expense	$ 163	$ 255	$ 451

Other expense decreased $92 million to $163 million in 2008, from $255 million in 2007, primarily due to a decrease in losses on sales and disposals of assets at Sul as well as an extinguishment of debt at the Parent Company. In 2008, there was a loss of $55 million on the retirement of Senior Notes at the Parent Company, compared to a loss of $90 million on a smaller debt retirement in 2007.

Other expense decreased $196 million to $255 million in 2007 primarily due to higher losses in 2006 associated with debt retirement activities at several of our Latin American businesses, special obligation charges and the write-down of disallowed regulatory assets at Eletropaulo in 2006. In 2007, there was a loss of $90 million on the retirement of Senior Notes at the Parent Company, as well as higher losses on sales and disposals of assets at Eletropaulo and Sul.

Impairment Expense

As discussed in Note 19—Impairment Expense to the Consolidated Financial Statements included in Item 8 of this Form 10-K, impairment expense for the year 2008 was $175 million and consisted primarily of the following:

In the fourth quarter of 2008, and in response to the financial market crisis, the Company reviewed and prioritized projects in the development pipeline. From this review, the Company determined that the carrying value exceeded the future discounted cash flows for certain projects. As a result, the Company recorded an impairment charge of $75 million ($34 million, net of minority interest and income taxes) related to two liquefied natural gas projects in North America and a non-power development project at one of our facilities in North America. During 2008, the Company recognized additional impairment charges of $36 million related to long-lived assets at Uruguaiana. The impairment was triggered by a combination of gas curtailments and increases in the spot market price of energy in 2007 that continued in 2008. Following an initial impairment charge in the fourth quarter of 2007, further charges were incurred in 2008 due to fixed asset purchase agreements in place. During the first half of 2008, the Company withdrew from projects in South Africa and Israel which resulted in impairment charges of $36 million. The Company also recognized an impairment of $18 million related to the shut down of the Hefei plant in China.

Impairment expense for the year 2007 was $408 million and consisted primarily of the following: In the fourth quarter of 2007, the Company recognized a pre-tax impairment charge of approximately $14 million related to a $52 million prepayment advanced to AgCert for a specified amount of future CER credits. AgCert, a United Kingdom based corporation that produces emission reduction credits, notified AES that it was not able to meet its contractual obligations to deliver CERs, which triggered an analysis of the asset's recoverability and resulted in the asset impairment charge. Also during the fourth quarter of 2007, there was a pre-tax impairment charge of approximately $352 million at Uruguaiana, a gas-fired thermoelectric plant located in Brazil. The impairment was the result of an analysis of Uruguaiana's long-lived assets, which was triggered by the combination of gas curtailments and increases in the spot market price of energy. In August 2007, there was a pre-tax impairment charge of $25 million triggered by the failure of a compressor at our Placerita subsidiary in California. The fixed asset impairment was caused by damage sustained to one of the plant's gas turbines. Also during the third quarter of 2007, a pre-tax fixed asset impairment charge of approximately $10 million was recognized related to the curtailment of operations at Coal Creek Minerals, LLC, a coal mining company owned by our subsidiary Cavanal Minerals located in the United States.

Impairment expense for the year 2006 was $17 million and consisted primarily of the following: During the fourth quarter of 2006, there was a pre-tax impairment charge of $6 million related to AES China Generating Co. Ltd. ("Chigen") equity investment in Wuhu, a coal-fired plant located in China. The equity impairment in Wuhu was required as a result of a goodwill impairment analysis at Chigen. During the third quarter of 2006, there was an impairment charge of $5 million related to a decrease in the market value of five held for sale gas turbines at our subsidiary Itabo located in the Dominican Republic.

Gain on sale of investments

Gain on sale of investments of $909 million in 2008 consisted primarily of the sale in May 2008 of our two wholly-owned subsidiaries in Kazakhstan, AES Ekibastuz LLP and Maikuben West LLP for a net gain of $905 million.

There was no gain on sale of investments for the year ended December 31, 2007.

Gain on sale of investments in 2006 of $98 million was the result of a net gain of $87 million from our sale of an equity investment in a power project in Canada (Kingston) in March 2006 and a net gain of $10 million related to our transfer of Infoenergy, a wholly owned AES subsidiary, to Brasiliana in September 2006. Brasiliana is 53.85% owned by BNDES, but controlled by AES. This transaction was part of the Company's agreement with BNDES to terminate the Sul Option.

(Loss) gain on sale of subsidiary stock

In November 2008, Cachagua, our wholly owned subsidiary, which owned 80.2% of AES Gener S.A. ("Gener") shares prior to the transaction, sold 9.6% of its ownership in Gener to a third party. After this transaction, Cachagua's new ownership in Gener was 70.6%. As a result of this transaction, the Company recorded a net loss on the sale of shares of $31 million.

Gain on sale of subsidiary stock in 2007 of $134 million was a result of net gains recognized on the sale of a 0.91% and 10.18% ownership interest in Gener in May and October of 2007, respectively.

As discussed in Note 17—Subsidiary Stock to the Consolidated Financial Statements in Item 8 of this Form 10-K, in September 2006, Brasiliana's wholly owned subsidiary, Transgás sold a 33% economic ownership in Eletropaulo, a regulated electric utility in Brazil. Despite the reduction in economic ownership, there was no change in Brasiliana's voting interest in Eletropaulo, and Brasiliana continues to control Eletropaulo. Brasiliana received $522 million in net proceeds on the sale. On October 5, 2006 Transgás, sold an additional 5% economic ownership in Eletropaulo for net proceeds of $78 million. In 2006, AES recognized a pre-tax loss of $535 million primarily as a result of the recognition of previously deferred currency translation losses.

Foreign currency transaction gains (losses) on net monetary position

The following table summarizes the gains (losses) on the Company's net monetary position from foreign currency transaction activities:

	Years Ended December 31,		
	2008	2007	2006
	(in millions)		
AES Corporation	$ 38	$31	$(17)
Chile	(102)	(4)	—
Philippines	(57)	—	—
Brazil	(44)	5	(49)
Argentina	(22)	(8)	(3)
Kazakhstan	11	10	1
Mexico	(9)	(2)	—
Colombia	5	(7)	(1)
Pakistan	(1)	(4)	(18)
Other	(4)	3	7
Total(1)	$(185)	$24	$(80)

(1) Includes $10 million, ($22) million and ($51) million of gains (losses) on foreign currency derivative contracts for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company recognized foreign currency transaction losses of $185 million for the year ended December 31, 2008. These consisted primarily of losses in Chile, the Philippines, Brazil, Argentina and Mexico partially offset by gains at The AES Corporation and in Kazakhstan.

- Losses of $102 million in Chile were primarily due to the devaluation of the Chilean Peso by 28% in 2008, resulting in losses at Gener, a U.S. Dollar functional currency subsidiary, associated with its net working capital denominated in Chilean Pesos, mainly cash, accounts receivable and VAT receivables.

- Losses of $57 million in the Philippines were primarily due to remeasurement losses at Masinloc, a Philippine Peso functional currency subsidiary, on U.S. Dollar denominated debt resulting from depreciation of the Philippine Peso of 16% in 2008.

- Losses of $44 million in Brazil were primarily due to the realization of deferred exchange variance on past energy purchases made by Eletropaulo denominated in U.S. Dollar, resulting in foreign currency transaction losses of $41 million.

- Losses of $22 million in Argentina were primarily due to the devaluation of the Argentinean Peso by 10% in 2008, resulting in losses at Alicura, an Argentine Peso functional currency subsidiary, associated with its U.S. Dollar denominated debt.

- Losses of $9 million in Mexico were primarily due to the devaluation of the Mexican Peso by 26% in 2008, resulting in losses of approximately $9 million at TEG/TEP.
- Gains of $38 million at The AES Corporation were primarily due to debt denominated in British Pounds and gains on foreign exchange derivatives, partially offset by losses on notes receivable denominated in Euro.
- Gains of $11 million in Kazakhstan were primarily due to net foreign currency transaction gains of $16 million related to energy sales denominated and fixed in the U.S. Dollar, offset by $5 million of foreign currency transaction losses on external and intercompany debt denominated in other than functional currencies.

Foreign currency transaction gains of $24 million for the year ended December 31, 2007 primarily consisted of gains at The AES Corporation and in Kazakhstan partially offset by losses in Argentina and Colombia.

- Gains of $31 million at The AES Corporation were primarily the result of favorable exchange rates for debt denominated in British Pounds and the Euro.
- Gains of $10 million in Kazakhstan were primarily due to $12 million of gains related to debt denominated in currencies other than the Kazakh Tenge functional currency, partially offset by $3 million of losses related to energy sales denominated and fixed in the U.S. Dollar.
- Losses of $8 million in Argentina were primarily due to the devaluation of the Argentine Peso by 3% in 2007, resulting in losses of $11 million at Alicura associated with its U.S. Dollar denominated debt.
- Losses of $7 million in Colombia were primarily due to the appreciation of the Colombian Peso by 11% in 2007 at Chivor, a U.S. Dollar function currency subsidiary.

Foreign currency transaction losses of $80 million for the year ended December 31, 2006 primarily consisted of losses in Brazil, Pakistan and at The AES Corporation.

- Losses of $49 million in Brazil were primarily the result of losses of $45 million at Eletropaulo from swap contracts that were paid and executed in 2006 as Eletropaulo converted U.S. Dollar debt to Brazilian Real debt.
- Losses of $18 million in Pakistan were primarily the result of the depreciation of the Pakistani Rupee.
- Losses of $17 million at AES Corporation were primarily the result of unfavorable exchange rates for debt denominated in British Pounds and the Euro.

Other non-operating expense

Other non-operating expense was $15 million in 2008 compared to $57 million in 2007. The 2008 expense related primarily to an impairment of the Company's investment in a company developing a "blue gas" (coal to gas) technology project. The Company made this investment in September 2007 and accounted for the investment in convertible preferred shares under the cost method of accounting. During the fourth quarter of 2008, the market value of the shares materially declined due to downward trends in the capital markets and management concluded that the decline was other-than-temporary and recorded an impairment charge of $10 million. Additionally, the Company recorded an other-than-temporary impairment charge of approximately $5 million related to its investments in other entities developing new energy technology and products.

Other non-operating expense in 2007 reflected the impairment in the Company's investment in AgCert, a U.K. based corporation, publicly traded on the London Stock Exchange, that produces CER credits. The Company acquired its investment in AgCert in May 2006 and, similar to the circumstances stated above, the market value of the Company's investment materially declined during the first half of 2007 and the Company recorded an other-than-temporary impairment charge of $52 million in 2007. An additional charge of $5 million was recognized for the decrease in value of the AgCert warrants also held by the Company. The Company began consolidating AgCert in January 2008 when it became the primary beneficiary.

Income taxes

Income tax expense on continuing operations increased $95 million, or 14%, to $774 million in 2008. The Company's effective tax rates were 28% for 2008 and 45% for 2007. The decrease in the 2008 effective tax rate was primarily due to the non-taxable gain of $905 million on the sale of the Kazakhstan businesses in the second quarter of 2008, offset by U.S. taxes on distributions from the Company's primary holding company to facilitate early retirement of parent debt in 2008. The decrease was also attributable to the implementation of a tax planning strategy that mitigated the impact of the Mexico Flat Rate Business Tax ("IETU") enacted in the fourth quarter of 2007. The strategy resulted in a reduction to deferred tax expense in 2008 of $24 million and $23 million at TEG and TEP, respectively.

Income tax expense related to continuing operations increased $320 million, or 89%, to $679 million in 2007. The Company's effective tax rates were 45% for 2007 and 39% for 2006. The increase in the 2007 effective tax rate was due, in part, to an impairment at Uruguaiana for which no tax benefit was recorded, the impact of an appreciating Real in certain of our Brazilian subsidiaries, and the impact of income tax law changes in Mexico, partially offset by the nontaxable gain on the sales of shares of one of the Company's Chilean subsidiaries and a release of valuation allowance at one of our subsidiaries in Argentina.

Net equity in earnings of affiliates

Net equity in earnings of affiliates decreased $43 million, or 57%, to $33 million in 2008 primarily due to the impact of increased coal prices at Yangcheng, a coal-fired plant in China, a decrease as a result of development costs related to AES Solar, formed in March 2008, and an additional write-off of three projects in Turkey that were abandoned in December 2007. Additionally, earnings decreased due to the sale of a wind project in the fourth quarter of 2007, a decrease in earnings at OPGC, in India, and decreased earnings due to a discontinuance of hedge accounting for a number of interest rate swaps at Guacolda in Chile. These losses were partially offset by a decrease in net losses at Cartagena in Spain primarily from a write-off of deferred financing costs in 2007 that did not recur in 2008.

Net equity in earnings of affiliates increased $3 million, or 4%, to $76 million in 2007 primarily due to a full year of operations at Cartagena in 2007 and the absence of liquidated damages incurred in 2006 for construction delays. The increase was partially offset by a decrease in earnings in 2007 at AES Barry compared to 2006, due to proceeds received in 2006 from the settlement of a legal claim that did not recur in 2007.

Minority interest

Minority interest expense, net of tax, increased $363 million, or 84%, to $794 million in 2008 primarily due to the decreased losses as a result of the impairment recognized at Uruguaiana during 2007, increased earnings at Eletropaulo, Gener, Itabo, Panama and Tietê, as well as an increase in minority shareholders from approximately 20% to approximately 29% as a result of the sale of shares in Gener in November 2008. These increases were partially offset by an impairment recognized in the Bahamas, a net loss at Masinloc, and decreased earnings at Ras Laffan, Sonel, and Caess-EEO & Clesa in El Salvador.

Minority interest expense, net of tax, decreased $29 million, or 6%, to $431 million in 2007 primarily due to the recognition of previously deferred currency translation losses associated with the sale of Eletropaulo shares during the third quarter 2006, resulting in a decrease of our economic ownership in

Eletropaulo from 34% to 16%. See Note 17—Subsidiary Stock to the Consolidated Financial Statements included in Item 8 of this Form 10-K for a further discussion of the sale of Eletropaulo shares and the Brasiliana restructuring. The decrease was also attributable to the minority interest impact of the impairment recognized at Uruguaiana in 2007, offset by increased earnings at Tietê.

Discontinued operations

As further discussed in Note 21—Discontinued Operations and Held for Sale Businesses to the Consolidated Financial Statements included in Item 8 of this Form 10-K, Discontinued Operations includes the results of five businesses: Jiaozuo, a generation business in China, (sold in December 2008); La Electricidad de Caracas ("EDC"), a utility business in Venezuela, (sold in May 2007); Central Valley, a generation business in California (sold in July 2007); Eden, a utility business in Argentina (sold in June 2007), and Indian Queens, a generation business in the U.K. (sold in May 2006). Prior periods have been restated to reflect these businesses within Discontinued Operations for all periods presented.

In 2008, income from operations of discontinued businesses, net of tax, was $12 million and reflected the operations of Jiaozuo, a coal-fired generation facility in China sold in December 2008. The Company received $73 million for its 70% interest in the business. The net gain on the disposition was $7 million.

In 2007, income from operations of discontinued businesses, net of tax, was $79 million and reflected the operations of Jiaozuo, EDC, Central Valley and Eden. EDC and Central Valley were sold in May 2007 and July 2007 for $739 million and $51 million, respectively, and the Eden sale was finalized in June 2007, therefore their results are reflected in the Company's results of operations through their respective sales dates. The loss on the disposal of discontinued businesses was $661 million and primarily related to the $680 million loss on the sale of EDC.

In 2006, income from operations of discontinued businesses, net of tax, was $115 million and reflected the operations of Jiaozuo, EDC, Central Valley, Eden and Indian Queens. Indian Queens was sold in May 2006 therefore its results are reflected in the Company's results of operations through the sale date. The loss on the disposal of discontinued businesses was $57 million and primarily related to the $62 million impairment charge recognized at Eden to adjust the carrying value of its assets to their estimated net realizable value when the Company reached an agreement to sell Eden in May 2006. The Eden sale was finalized in June 2007.

Extraordinary item

In May 2006, AES purchased an additional 25% interest in Itabo, a power generation business located in the Dominican Republic for approximately $23 million. Prior to May, the Company held a 25% interest in Itabo, through its Gener subsidiary, and had accounted for the investment using the equity method of accounting with a corresponding investment balance reflected in the "Investments in and advances to affiliates" line item on the Consolidated Balance Sheets. As a result of the transaction, the Company consolidates Itabo and, therefore, the investment balance has been reclassified to the appropriate line items on the Consolidated Balance Sheets with a corresponding minority interest liability for the remaining 50% interest not owned by AES. The Company realized an after-tax extraordinary gain of $21 million as a result of the transaction due to an excess of the fair value of the noncurrent assets over the purchase price.

Critical Accounting Estimates

The Consolidated Financial Statements of AES are prepared in conformity with GAAP, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. AES's significant accounting policies are described in Note 1—General and

Summary of Significant Accounting Policies to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

An accounting estimate is considered critical if:

- the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made;
- different estimates reasonably could have been used; or
- the impact of the estimates and assumptions on financial condition or operating performance is material.

Management believes that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. Management has discussed these critical accounting policies with the audit committee, as appropriate. Listed below are certain significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Income Tax Reserves

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Our worldwide income tax provision requires significant judgment and is based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other taxing authorities. The Company and certain of its subsidiaries are under examination by relevant taxing authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the provision for income taxes. The Company adopted Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN No. 48") effective January 1, 2007. The Interpretation prescribes a more-likely-than-not recognition threshold and establishes new measurement requirements for financial statement reporting of an entity's income tax positions. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted only when there is more information available or when an event occurs necessitating a change to the reserves. While the Company believes that the amount of the tax estimates are reasonable, it is possible that the ultimate outcome of current or future examinations may exceed current reserves in amounts that could be material.

Goodwill

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred. Such indicators could include a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Goodwill impairment is evaluated using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying value. Determining whether an impairment has occurred requires the valuation of the respective reporting unit. The Company uses a discounted cash flow method to estimate the fair value. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired and no further analysis is required. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data. Assumptions about operating results and growth rates are based on forecasts, future business plans, economic projections and anticipated future cash flows, among other things. Changes in any of these assumptions could result in management reaching a different conclusion regarding the potential impairment of a reporting unit. Our impairment analysis contains uncertainties from uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions.

If the carrying value exceeds the reporting unit's fair value, this could indicate potential impairment and step two of the goodwill evaluation process is required to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. The measurement of impairment requires a fair value estimate of each identified tangible and intangible asset in the same manner the fair value would be determined in a business combination. In this case, we supplement the cash flow approach discussed above with appraisals, or other observable sources of fair value, as appropriate.

Regulatory Assets and Liabilities

The Company accounts for certain of its regulated operations under the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation, (*"SFAS No. 71"*)*. As a result, AES recognizes assets and liabilities that result from the regulated ratemaking process that would not be recognized under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or included in future rate initiatives. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities and the status of any pending or potential deregulation legislation. If future recovery of costs ceases to be probable, any asset write-offs would be required to be recognized in operating income.

Fair Value

Fair Value of Financial Instruments

A significant number of the Company's financial instruments are carried at fair value with changes in fair value recognized in earnings or other comprehensive income each period. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the Consolidated Financial Statements. These assets and liabilities include short and long-term investments in debt and equity securities, included in the balance sheet line items "Short-term investments" and "Other assets (Noncurrent)", derivative assets, included in "Other current assets" and "Other assets (Noncurrent)" and derivative liabilities, included in "Accrued and other liabilities (current)" and "Other long-term liabilities". The Company uses valuation techniques and methodologies that maximize the use of observable inputs and minimize the use of unobservable inputs. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. The valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Investments are generally fair valued based on quoted market prices or other observable market data such as interest rate indices. The Company's investments are primarily certificates of deposit, government debt securities and money market funds. Derivatives are valued using observable data as inputs into internal valuation models. The Company's derivatives primarily consist of interest rate swaps, foreign currency instruments, and commodity and embedded derivatives. Additional discussion regarding the nature of these financial instruments and valuation techniques can be found in Note 6—Fair Value of Financial Instruments.

Accounting for Derivative Instruments and Hedging Activities

We enter into various derivative transactions in order to hedge our exposure to certain market risks. We primarily use derivative instruments to manage our interest rate, commodity, and foreign currency exposures. We do not enter into derivative transactions for trading purposes.

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities as amended,* ("SFAS No. 133"), we recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value except where derivatives qualify and are designated as "normal purchase/normal sale" transactions. Changes in fair value of derivatives are recognized in earnings unless specific hedge criteria are met. Income and expense related to derivative instruments are recognized in the same category as generated by the underlying asset or liability.

SFAS No. 133 enables companies to designate qualifying derivatives as hedging instruments based on the exposure being hedged. These hedge designations include fair value hedges and cash flow hedges. Changes in the fair value of a derivative that is highly effective and is designated and qualifies as a fair value hedge, are recognized in earnings as offsets to the changes in fair value of the exposure being hedged. The Company has no fair value hedges at this time. Changes in the fair value of a derivative that is highly effective and is designated as and qualifies as a cash flow hedge, are deferred in accumulated other comprehensive income and are recognized into earnings as the hedged transactions occur. Any ineffectiveness is recognized in earnings immediately. For all hedge contracts, the Company provides formal documentation of the hedge and effectiveness testing in accordance with SFAS No. 133.

The Company adopted SFAS No. 157, *Fair Value Measurement*, ("SFAS No. 157") on January 1, 2008. SFAS No. 157 provides additional guidance on the definition of fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. SFAS No. 157 requires the Company to consider and reflect the assumptions of market participants in the fair value calculation. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, both of the reporting entity (for liabilities) and of the counterparty (for assets). These factors were not previously considered in the fair value calculation. Due to the nature of the Company's interest rate swaps, which are typically associated with non-recourse debt, credit risk for AES is evaluated at the subsidiary level rather than at the Parent Company level. Nonperformance risk on the Company's derivative instruments is an adjustment to the initial asset/liability fair value position that is derived from internally developed valuation models that utilize observable market inputs.

As a result of uncertainty, complexity and judgment, accounting estimates related to derivative accounting could result in material changes to our financial statements under different conditions or utilizing different assumptions. As a part of accounting for these derivatives, we make estimates concerning nonperformance, volatilities, market liquidity, future commodity prices, interest rates, credit ratings (both ours and our counterparty's), and exchange rates.

The fair value of our derivative portfolio is generally determined using internal valuation models, most of which are based on observable market inputs including interest rate curves and forward and spot prices for currencies and commodities. The Company derives most of its financial instrument market assumptions from market efficient data sources (e.g. Bloomberg and Platt's). In some cases, where market data is not readily available, management uses comparable market sources and empirical evidence to derive market assumptions to determine a financial instrument's fair value. In certain instances, the published curve may not extend through the remaining term of the contract and management must make assumptions to extrapolate the curve. Additionally, in the absence of quoted prices, we may rely on "indicative pricing" quotes from financial institutions to input into our valuation model for certain of our foreign currency swaps. These indicative pricing quotes do not constitute either a bid or ask price and therefore are not considered observable market data. For individual contracts, the use of different valuation models or assumptions could have a material effect on the calculated fair value.

Fair Value Hierarchy

The Company uses valuation techniques and methodologies that maximize the use of observable inputs and minimize the use of unobservable inputs. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. The valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

To increase consistency and enhance disclosure of the fair value of financial instruments, SFAS No. 157 creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. For more information regarding the fair value hierarchy, see Note 1—General and Summary of Significant Accounting Policies in Item 8. Financial Statements and Supplementary Data in this Form 10-K.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities, but does not expand the application of fair value accounting to any new circumstances. The Company adopted SFAS No. 157 on January 1, 2008. See the Company's fair value policy in Note 1—General and Summary of Significant Accounting Policies in Item 8. Financial Statements and Supplementary Data in this Form 10-K.

SFAS No. 157 is applied prospectively, except for changes in fair value for existing derivative financial instruments that include an adjustment for a blockage factor, existing hybrid instruments measured at fair value and financial instruments accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF No. 02-3"), under which day one gain or loss recognition was prohibited. For these instruments, the impact of the adoption of SFAS No. 157 can be recorded as an adjustment to beginning retained earnings in the year of adoption. The Company does not have any of these financial instruments; therefore there is no cumulative impact of the adoption of SFAS No. 157 for AES. The adoption of SFAS No. 157 did not materially impact the Company's financial condition, results of operations, or cash flows.

FSP No. 157-1: Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ("FSP No. 157-1").

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*, ("FSP No. 157-1"). FSP No. 157-1 excludes SFAS No. 13, *Accounting for Leases*, ("SFAS No. 13") and most other accounting pronouncements that address fair value measurement of leases from the scope of SFAS No. 157.

FSP No. 157-2: Effective Date of FASB Statement No. 157 ("FSP No. 157-2").

In February 2008, the FASB issued FSP No. 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008, or January 1, 2009 for AES. AES continues to evaluate the future impact of SFAS No. 157 on these assets and liabilities but at this time does not believe that the impact will be material.

FSP No. 157-3: Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP No. 157-3").

In October 2008, the FASB issued FSP No. 157-3, which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance emphasizes that determining fair value in an inactive market depends on the facts and circumstances and may require the use of significant judgments. FSP No. 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for AES at September 30, 2008. The adoption of FSP No. 157-3 did not have a material impact on the Company.

SFAS No. 159: The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FAS No. 115 ("SFAS No. 159").

In February 2007, the FASB issued SFAS No. 159, which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Company adopted SFAS No. 159 effective January 1, 2008. As allowed by the standard, the Company did not elect the fair value option for the measurement of any eligible assets or liabilities. Therefore, the January 1, 2008 adoption did not have an impact on the Company.

FSP FAS 133-1 and FIN 45-4: Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No.45; and Clarification of the Effective Date of FASB Statement No. 161 ("FSP No. FAS 133-1 & FIN 45-4" or "the FSP").

In September 2008, the FASB issued the FSP to address the concerns of financial statement users that existing disclosure requirements under SFAS No. 133 do not adequately reflect the potential adverse effects of changes in credit risk on the financial statements of the sellers of credit derivatives. FSP No. FAS 133-1 & FIN 45-4 requires disclosure of additional information about these potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of sellers of credit derivatives. The disclosures are required for all credit derivatives, whether freestanding or embedded in a hybrid instrument. The FSP also amends FIN No. 45 to require additional disclosure about the current status of the payment performance risk of a guarantee. This new disclosure applies to all guarantees, not just those related to credit risk. The provisions in the FSP are effective for reporting periods ending after November 15, 2008, or December 31, 2008 for AES. AES has incorporated these additional disclosures into its Form 10-K for the year ended December 31, 2008. Comparative disclosures are required for periods subsequent to adoption. Additionally, the FSP clarifies that SFAS No. 161 is effective for all periods, including quarterly and annual periods beginning after November 15, 2008, or January 1, 2009 for AES.

FSP No. FAS 140-4 and FIN 46(R)-8: Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP No. FAS 140-4 & FIN 46(R)-8").

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, which expands the required disclosures pertaining to an enterprise's involvement with variable interest entities ("VIEs") and is intended to provide more transparent information related to that involvement. The new disclosure requirements include additional information regarding consolidated VIEs as well as a requirement for sponsors of a VIE to disclose certain information even if they do not hold a significant financial interest in the VIE. FSP No. FAS 140-4 & FIN 46(R)-8 is effective for reporting periods ending after December 15, 2008. The Company adopted FSP No. FAS 140-4 & FIN 46(R)-8 effective December 31, 2008 but there was no material change to our disclosures.

The following accounting standards have been issued, but as of December 31, 2008 are not yet effective and have not been adopted by AES.

SFAS No. 141(revised 2007): Business Combinations ("SFAS No. 141(R)") and SFAS No. 160: Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS No. 160").

In December 2007, the FASB issued SFAS No. 141(R) and SFAS No. 160. SFAS No. 141(R) will significantly change how business acquisitions are accounted for at the acquisition date and in subsequent periods. The standard changes the accounting for the business combination at the acquisition date to a fair value based approach rather than the cost allocation approach currently used. Other differences include changes in the accounting for acquisition related costs, contingencies and income taxes. SFAS No. 160 changes the accounting and reporting for minority interests, which will be classified as a component of equity and will be referred to as noncontrolling interests. SFAS No. 141(R) and SFAS No. 160 will be effective for public companies for fiscal years beginning on or after December 15, 2008, January 1, 2009 for AES. SFAS No. 141(R) and SFAS No. 160 will be applied prospectively, except for the presentation and disclosure requirements in SFAS No. 160 for existing minority interests which will require retroactive adoption. Early adoption is prohibited. AES has not completed its analysis of the potential future impact of SFAS No. 141(R) and SFAS No. 160.

SFAS No. 161: Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 ("SFAS No. 161").

In March 2008, the FASB issued SFAS No. 161, which expands the disclosure requirements under SFAS No. 133. The enhanced quantitative and qualitative disclosures will include how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company on January 1, 2009. SFAS No. 161 also amends SFAS No. 107, *Disclosures about Fair Value Instruments*, ("SFAS No. 107") to clarify that derivative instruments are subject to SFAS No. 107 disclosure requirements regarding concentration of credit risk. The Company will incorporate the additional disclosures beginning with its Form 10-Q for the three months ending March 31, 2009.

SFAS No 162: The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162").

In May 2008, the FASB issued SFAS No. 162, which identifies the framework, or hierarchy for selecting accounting principles to be used in preparing financial statements presented in conformity with U.S. GAAP. SFAS No. 162 amends the existing U.S. GAAP hierarchy established and set forth in the American Institute of Certified Public Accountants ("AICPA") Statement of Auditing Standard No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, ("SAS 69"). The framework serves as a guide in determining the appropriate accounting treatment to be used for a transaction or event. We do not expect SFAS No. 162 to have an impact on Company's current accounting practices. The Standard will become effective 60 days following the SEC's approval of Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principle*s.

FSP No. FAS 142-3: Determination of the Useful Life of Intangible Assets ("FSP No. FAS 142-3").

In April 2008, the FASB issued FSP No. FAS 142-3, which amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, ("SFAS No. 142"). FSP No. 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS No. 141(R). The FSP also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, January 1, 2009 for AES, and is to be applied prospectively. Early adoption is prohibited. AES has not completed its analysis of the potential impact of FSP No. 142-3, but does not believe the adoption will have a material impact on the Company's financial condition, results of operations, or cash flows.

FSP No. APB 14-1: Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("FSP No. APB 14-1").

In May 2008, the FASB issued FSP No. APB 14-1, which clarifies that convertible debt instruments that may be settled in cash or other assets upon conversion are not addressed by APB No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FSP APB No. 14-1 requires an entity to separately account for the liability and equity components of a convertible instrument to reflect an entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB No. 14-1 also expands the disclosure requirements regarding convertible debt instrument terms and how the instrument is reflected in an entity's financial statements. AES has reviewed the impact of FSP No. APB 14-1 and determined that FSP No. APB 14-1 is not applicable for any of the Company's instruments.

EITF 08-3: Accounting by Lessees for Maintenance Deposits ("EITF 08-3").

In June 2008, the EITF issued EITF 08-3, which clarifies how a lessee accounts for nonrefundable maintenance deposits. Under EITF 08-3 nonrefundable maintenance deposits will be recorded as a deposit asset and as reimbursable maintenance is performed by the lessee, the underlying maintenance is expensed or capitalized in accordance with the lessee's accounting policy. EITF 08-3 is effective for the Company beginning on January 1, 2009. Early adoption is not permitted. The effect of adoption will be reflected as a change in accounting principle through a cumulative effect adjustment to the opening balance of retained earnings in the year of adoption. AES is currently reviewing the potential impact of EITF 08-3, but at this time does not believe it will have a material impact on the Company's financial statements.

FSP No. FAS 132(R)-1: Employers' Disclosures about Postretirement Benefit Plan Assets ("FSP No. FAS 132(R)-1").

In December 2008, the FASB issued FSP No. FAS 132(R)-1, which provides guidance regarding an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP is effective for fiscal years ending after December 15, 2009, or the year ending December 31, 2009 for AES. The Company will incorporate the required disclosures in its Form 10-K for the year ending December 31, 2009.

EITF 08-6: Equity Method Investment Accounting Considerations ("EITF 08-6").

In November 2008 EITF 08-6 was issued. This Issue clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 makes certain amendments to APB 18, *The Equity Method of Accounting for Common Stock*. The Company does not expect EITF 08-6 to have a significant impact on current practice. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, consistent with the effective dates of Statement 141(R) and Statement 160, or January 1, 2009 for AES.

Capital Resources and Liquidity

Overview

As discussed in Highlights of 2008, the Company began a number of initiatives as early as October 2007 and continuing throughout 2008 to mitigate our refinancing risks and manage our liquidity at the Parent Company as well as our subsidiaries. These efforts included reducing our discretionary growth investments, extending and smoothing our future debt maturities, and reducing our planned spending for overhead and development expenses.

As a result of these efforts, Parent Company Liquidity at December 31, 2008 was approximately $1.4 billion. This is available to service $260 million of investment commitments over the next three years, which includes $154 million of scheduled debt maturities in 2009, before considering cash inflows and outflows related to distributions from subsidiaries, overhead and development expenses as well as cash taxes at the Parent Company.

As of December 31, 2008, the Company had unrestricted cash and cash equivalents of $0.9 billion and short term investments of $1.4 billion. In addition, we had restricted cash and debt service reserves of $1.4 billion. The Company also had non-recourse and recourse aggregate principal amounts of debt outstanding of $12.9 billion and $5.2 billion, respectively. Of the approximately $1.1 billion of our short-term non-recourse debt $945 million is presented as current because it is due in the next twelve months and $129 million relates to defaulted debt. We expect such maturities will be repaid from net cash provided by operating activities of the subsidiary to which the debt relates or through opportunistic refinancing activity or some combination thereof. Approximately $0.2 billion of our recourse debt matures within the next twelve months which we expect to repay using cash on hand at the Parent Company or through net cash provided by operating activities.

We rely mainly on long-term debt obligations to fund our project development, construction and acquisition activities. We have, to the extent achievable, utilized non-recourse debt to fund a significant portion of the capital expenditures and investments required to construct and acquire our electric power plants, distribution companies and related assets. Our non-recourse financing is designed to limit cross default risk to the Parent Company or other subsidiaries and affiliates and is generally secured by the capital stock, physical assets, contracts and cash flow of the related subsidiary or affiliate. Generally our non-recourse long-term debt is a combination of fixed and variable interest rate instruments. A portion or all of our variable rate non-recourse debt is generally fixed through the use of interest rate swaps. In addition, the debt is typically denominated in the currency that matches the currency expected to be received for revenue generated from the benefiting project thereby reducing currency risk. As of December 31, 2008, approximately 92% of the Company's non-recourse debt is denominated in currency matched to the local currency of the subsidiary that incurred the debt. In certain cases the currency is matched through the use of derivative instruments. These derivatives can require that the Company post collateral to support the currency match. As of December 31, 2008, Gener had posted $25 million in the form of a letter of credit and $46 million in bank deposits to support this type of swap. Our non-recourse debt is funded by international commercial banks, multilateral institutions and local regional banks. For more information on our long-term debt, see Note 10—Long-Term Debt to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Given its long-term debt obligations, the Company is subject to interest rate risk on debt balances that accrue interest at variable rates. When possible, the Company will borrow funds at fixed interest rates or hedge its variable rate debt to fix its interest costs on such obligations. In addition, the Company historically has tried to maintain at least 70% of its consolidated long-term obligations at fixed rates of interest including through the use of interest rate swaps and other interest rate related derivatives. These efforts apply to the notional amount of the swaps compared to the amount of related underlying debt. While the Company believes that this represents an economic hedge, the Company may be required to mark-to-market all or a portion of these interest rate swaps and other derivatives. Presently, The Parent Company's only exposure to variable interest rate debt relates to indebtedness under its senior secured and unsecured credit facilities. On a consolidated basis, of the Company's $18.1 billion of total debt outstanding as of December 31, 2008, approximately $3.4 billion bore interest at variable rates of interest that was not subject to an interest rate swap which fixed the interest rate.

In addition to utilizing non-recourse debt at a subsidiary level when available, the Parent Company provides a portion, or in certain instances all, of the remaining long-term financing or credit required to fund development, construction or acquisition of a particular project. These investments have generally taken the form of equity investments or loans, which are subordinated to the project's non-recourse loans. We generally obtain the funds for these investments from our cash flows from operations and/or the proceeds from our issuances of debt, common stock and other securities, as well as proceeds from the sales of assets. Similarly, in certain of our businesses, we may provide financial guarantees or other credit support for the benefit of counterparties who have entered into contracts for the purchase or sale of electricity with our subsidiaries or lenders. In such circumstances, if a subsidiary defaults on its payment or supply obligation, we will be responsible for the subsidiary's obligations up to the amount provided for in the relevant guarantee or other credit support. At December 31, 2008, we had provided outstanding financial and performance-related guarantees or other credit support commitments to or for the benefit of our subsidiaries, which were limited by the terms of the agreements, in an aggregate of approximately $411 million (excluding investment commitments and those collateralized by letters of credit and other obligations discussed below).

As a result of the Parent Company's below investment grade rating, as well as economic conditions that might have an effect on the appetite for corporate credit, counterparties may be unwilling to accept our general unsecured commitments to provide credit support. Accordingly, with respect to both new and existing commitments, we may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace our credit support. We may not be able to provide adequate assurances to such counterparties. In addition, to the extent we are required and able to provide letters of credit or other collateral to such counterparties; this will reduce the amount of credit available to us to meet our other liquidity needs. At December 31, 2008, we had $207 million in letters of credit outstanding, which operate to guarantee performance relating to certain project development activities and subsidiary operations. These letters of credit were provided under our revolver and senior unsecured credit facility. We paid letter of credit fees that averaged approximately 3.4% per annum in 2008 on the outstanding amounts.

We expect to continue to seek, where possible, non-recourse debt financing in connection with the assets or businesses that our affiliates or we may develop, construct or acquire. However, depending on local and global market conditions and the unique characteristics of individual businesses, non-recourse debt may not be available or may not be available on economically attractive terms. See Credit Crisis and Macroeconomic Environment discussion above. If we decide not to provide any additional funding or credit support to a subsidiary project that is under construction or has near-term debt payment obligations and that subsidiary is unable to obtain additional non-recourse debt, such subsidiary may become insolvent, and we may lose our investment in such subsidiary. Additionally, if any of our subsidiaries lose a significant customer, the subsidiary may need to withdraw from a project or restructure the non-recourse debt financing. If we or such subsidiary chooses not to proceed with a project or is unable to successfully complete a restructuring of the non-recourse debt, we may lose our investment in such subsidiary.

Many of our subsidiaries depend on timely and continued access to capital markets to manage their liquidity needs. The inability to raise capital on favorable terms, to refinance existing indebtedness or to fund operations and other commitments during times of political or economic uncertainty may have material adverse effects on the financial condition and results of operations of those subsidiaries. In addition, changes in the timing of tariff increases or delays in the regulatory determinations under the relevant concessions could affect the cash flows and results of operations of our businesses.

Capital Expenditures

The Company spent $2.8 billion, $2.4 billion and $1.5 billion on capital expenditures in 2008, 2007 and 2006, respectively. A significant majority of these costs were funded with non-recourse debt consistent with our financial strategy. At December 31, 2008, the Company had a total of $1.8 billion of availability under long-term non-recourse construction credit facilities. As more fully described in Credit Crisis and Macroeconomic Environment above, we have taken steps to dramatically decrease the amount of new discretionary capital spending. We expect to continue funding projects that are currently in the construction phase using existing capital provided by these non-recourse credit facilities as supplemented by internally generated cash flows, Parent Company liquidity, contribution from existing or new partners and other funding sources. As a result, property, plant and equipment and long-term non-recourse debt are expected to increase over the next few years even though the rate of discretionary spending has been decreased. While we believe we have the resources to continue funding the projects in construction, there can be no assurances that we will continue to fund all these existing construction efforts.

As of December 31, 2008, the Parent Company had $260 million in commitments to invest in our subsidiaries projects under construction and to purchase related equipment, excluding $151 million of such obligations already included in the letters of credits discussed above. The Company expects to fund these net investment commitments over time according to the following schedule: $166 million in 2009, $39 million in 2010 and $55 million in 2011. The exact payment schedules will be dictated by the construction milestones. We expect to fund these commitments from a combination of current liquidity and internally generated Parent Company cash flow.

The Company continues to assess the possible need for capital expenditures associated with international, federal, regional and state regulation of GHG emissions from electric power generation facilities. Legislation and regulations regarding GHG emissions, if enacted, may place significant costs on GHG emissions from fossil fuel-fired electric power generation facilities, particularly coal-fired facilities, and in order to comply, CO_2 emitting facilities may be required to purchase additional GHG emissions allowances or offsets under cap-and-trade programs, pay a carbon tax or to install new pollution-control equipment to capture and reduce the amount of GHG emitted from the facilities, in the event that reliable technology to do so is developed. The capital expenditures required to comply with any future GHG legislation and regulations could be significant and unless such costs can be passed on to customers or counterparties, such regulations could impair the profitability of some of the electric power generation facilities operated by our subsidiaries or render certain of them uneconomical to operate, either of which could have a material adverse effect on our consolidated results of operations and financial condition.

With respect to our operations outside the United States, certain of the businesses operated by the Company's subsidiaries are subject to compliance with EU ETS and the Kyoto Protocol in certain countries and other country-specific programs to regulate GHG emissions. To date, compliance with the Kyoto Protocol and EU ETS has not had a material adverse effect on the Company's consolidated results of operations, financial condition and cash flows because of, among other factors, the cost of GHG emission allowances and/or the ability of our businesses to pass the cost of purchasing such allowances on to customers or counterparties. However, in the event that such counterparties or regulatory authorities challenge our ability to pass these costs on, there can be no assurance that the Company and/or the relevant subsidiary would prevail in any such dispute. Furthermore, even if the Company and/or the relevant subsidiary does prevail, it would be subject to the cash and administrative burden associated with such dispute.

As discussed in Item 1: Business—Regulatory Matters—Environmental and Land Use Regulations, in the United States there presently are no federal laws or regulations regulating GHG emissions, although several legislative proposals are currently under consideration. In 2008, the Company's subsidiaries operated businesses which had total approximate CO_2 emissions of 83.8 million metric tonnes (ownership adjusted). Approximately 41.5 million metric tonnes of the 83.8 million metric tonnes were emitted in the United States (both figures ownership adjusted). Approximately 11.8 million metric tonnes were emitted in U.S. states participating in the RGGI. At this time, the federal legislative proposals under consideration applicable to electric power generation facilities generally incorporate market-based cap-and-trade programs which authorize facilities to comply through the acquisition of emissions allowances in lieu of capital expenditures. Certain of the states, either alone or as part of a regional initiative, in which our subsidiaries operate are in the process of developing programs to reduce GHG emissions, primarily CO_2, from the electric power generation facilities through cap-and-trade programs, which would allow CO_2 emitting facilities to comply by purchase additional GHG emissions allowances or offsets under cap-and-trade programs or by installing new pollution-control equipment to capture and reduce the amount of GHG emitted from the facilities, in the event that reliable technology to do so is developed. We believe that legislative or regulatory actions, if enacted, may require a material increase in capital expenditures at our subsidiaries.

In the future the actual impact on our subsidiaries' capital expenditures from any potential federal program to regulate and reduce GHG emissions, if enacted, and the state and regional programs in the process of development, will depend on a number of factors, including among others, the GHG reductions required under any such legislation or regulations, the price and availability of offsets, the extent to which our subsidiaries would be entitled to receive GHG emissions allowances without having to purchase them, the quantity of allowances which our subsidiaries would have to purchase, the price of allowances, our subsidiaries' ability to recover or pass through costs incurred to comply with any legislative or regulatory requirements that are ultimately imposed and the use of market-based compliance options such as cap-and-trade programs. Another factor is the success of our climate solutions business, which may generate credits that will help offset our GHG emissions. However, as set forth in the Risk Factor titled "Our renewable energy projects and other initiatives face considerable uncertainties including development, operational and regulatory challenges," there is no guarantee that the climate solutions business will be successful. Even if our climate solutions business is successful, the level of benefit is unclear with regard to the impact of legislation or litigation concerning GHG emissions.

Common Stock Repurchase Program

On August 7, 2008, the Company's Board of Directors approved a share repurchase plan of up to $400 million of its outstanding common stock over a six month period ending February 7, 2009. From the inception of the plan through December 31, 2008, the Company repurchased 10,691,267 shares at a total cost of $143 million, including commissions, using cash balances on hand. There were no share repurchases in the fourth quarter of 2008. No shares were repurchased subsequent to December 31, 2008 and the board authorization of the plan expired on February 7, 2009.

Consolidated Cash Flows

				$ Change	
Years Ended December 31,	**2008**	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
(in millions)					
Net cash provided by operating activities	$ 2,165	$ 2,353	$ 2,348	$ (188)	$ 5
Net cash used in investing activities	3,571	1,970	907	1,601	1,063
Net cash provided by (used in) financing activities	362	244	(1,317)	118	1,561

Operating Activities

Net cash provided by operating activities decreased $188 million to $2,165 million during 2008 compared to $2,353 million during 2007. Excluding the decrease in net cash provided by operating activities from EDC in Venezuela, which was sold in May 2007, net cash provided by operating activities would have decreased $37 million. This decrease was partially due to a decrease of approximately $110 million at IPL in North America primarily due to an increase in regulatory assets, higher working capital requirements and an increase in employer pension contributions; $77 million at our Latin America Utilities due to an increase in regulatory assets primarily comprised of recoverable purchased energy costs, partially offset by improved net working capital; $65 million at our Asia Generation businesses due to decreased net operating results, principally due to losses at our newly acquired business in the Philippines, and increased receivables due to delayed offtaker payments and increased commodity prices impacting our Pakistan business; $45 million at our renewables businesses due to decreased margin performance and additional working capital requirements; and additional interest related to Parent Company debt. These decreases were partially offset by an increase in net cash provided by operating activities at our Latin America Generation businesses of approximately $250 million primarily due to improved margin performance and a decrease in cash used by one Brazilian subsidiary to pay income taxes in 2008 compared to 2007 as tax credits were the primary payment method in 2008. In addition, our Europe & Africa Utilities experienced an increase in net cash provided by operating activities of approximately $65 million due to improved performance and net working capital.

Investing Activities

Net cash used for investing activities increased $1,601 million to $3,571 million during 2008 compared to net cash used of $1,970 million during 2007. This increase was largely attributable to the acquisition of Masinloc in the Philippines.

Acquisitions, net of cash acquired totaled $1,135 million in 2008 compared to $315 million during 2007, an increase of $820 million. Masinloc is a 660 gross MW coal-fired thermal power generation facility purchased during the second quarter of 2008 for cash of approximately $930 million, as discussed in Note 22—Acquisitions and Dispositions to the Consolidated Financial Statements included in Item 8 of this Form 10-K. We also acquired Mountain View in the U.S. during the first quarter of 2008. The activity in 2007 was mainly due to the purchase of two 230 MW petroleum coke-fired power plants at TEG/TEP in Mexico and the purchase of 51% interest in a joint venture with 26 MW existing capacity and a 390 MW development pipeline of hydroelectric projects in Turkey.

Other significant investing activities included:

Capital expenditures totaled $2,840 million during 2008 compared to $2,425 million during 2007, an increase of $415 million. The increase was mainly due to a net increased spending of $370 million for plant construction at Gener and $144 million for wind development projects at our U.S. businesses which were partially offset by a decrease of $154 million due to completion of a plant at Maritza in Bulgaria in 2007.

Proceeds from the sale of businesses totaled $1,328 million in 2008 and $1,136 million in 2007. The proceeds in 2008 included $1,084 million from the sale of Ekibastuz, a coal-fired generation plant, and Maikuben, a coal mine, in Kazakhstan, $171 million in net proceeds from the sale of a 10% ownership interest in AES Gener and $73 million in proceeds from the sale of Jiaozuo. In 2007 proceeds from the sale of businesses included $739 million from the sale of EDC, $331 million in proceeds from the sale of an 11% ownership interest in Gener, $51 million from the sale of Central Valley in the U.S. and $17 million for the sale of Eden in Argentina.

The purchase of short-term investments, net of sales totaled $319 million in 2008, a $171 million decrease compared to 2007. These transactions included increases in net sales of $323 million and $209 million at Eletropaulo and Uruguaiana, respectively, as a result of a change to the investment strategy to acquire public debt and government securities. This was offset by a $229 million increase in net purchases at Brasiliana Energia in Brazil related to certificates of deposit, government debt securities and money market funds, a $93 million increase in net purchases at Alicura in Argentina related to the purchase of short-term bonds in 2008 and a $56 million increase in net purchases at Tietê in Brazil as the result of a change in investment strategy to invest in Brazilian government bonds.

Restricted cash balances increased $295 million in 2008. Restricted cash balances increased $215 million at Gener, $72 million at Chigen, $70 million at Kilroot, $24 million at TEG/TEP, and $20 million at Southland. These were offset by decreases of $49 million at New York, $30 million at Maritza, $18 million at Ebute in Nigeria and $14 million at Alicura.

Cash used for advances to affiliate and equity investments was $240 million in 2008, an increase of $208 million, primarily from our investment in AES Solar. Additionally, the Company also made additional equity investments in Turkish Hydros and Asia renewables for the Huanghua joint venture wind project in Asia.

Loan advances were $173 million in 2008, which consisted primarily of the Company's acquisition of a convertible loan from a Brazilian wind development business in the first quarter of 2008.

Financing Activities

Net cash provided by financing activities increased $118 million to $362 million during 2008 compared to $244 million during 2007. This $118 million change was primarily attributable to an increase in debt, net of repayments of $138 million, a decrease in distributions to minority interests of $102 million and an increase in contributions from minority interests of $36 million offset by an increase in the purchase of treasury stock of $143 million under the Company's common stock repurchase plan.

Net borrowings under revolving credit facilities were $298 million during 2008, compared to net repayments of $85 million during 2007. This increase in net borrowings of $383 million was primarily due to a $126 million reduction in repayments at IPL, $116 million in repayments at Buffalo Gap 2 in the U.S. in 2007, an increase in borrowings of $60 million, $48 million, $23 million, and $12 million at Pak Gen, Lal Pir, our Panama business, and CAESS in El Salvador, respectively.

Issuances of recourse and non-recourse debt during 2008 were $2,783 million compared to $4,297 million during 2007. This decrease of $1,514 million was primarily due to a decrease in the issuance of recourse debt at the Parent Company of $1,375 million and issuances of non-recourse debt during 2007 of $454 million at TEG/TEP and $446 million at Eletropaulo. These decreases were offset in part by increases in the issuance of non-recourse debt of $629 million at Masinloc and $229 million at IPL.

Repayments of recourse debt and non-recourse debt during 2008 were $2,297 million compared to $3,566 million during 2007. This decrease of $1,269 million was predominately due to a decrease in repayments of non-recourse debt of $515 million at Eletropaulo and $443 million at TEG/TEP, a decrease in repayments of recourse debt of $278 million at the Parent Company, and decreases in repayments of non-recourse debt of $226 million at Gener, $96 million at Alicura, $94 million at Kilroot, and $83 million at Sonel. These decreases were offset in part by increases in repayments of non-recourse debt of $309 million at IPL and $251 million at Buffalo Gap 3 in the U.S.

Minority distributions were $597 million during 2008 compared to $699 million during 2007. This decrease of $102 million was primarily due to higher dividends paid to minorities (BNDES) at Brasiliana Energia during 2007.

Minority contributions were $410 million during 2008 compared to $374 million during 2007. This increase of $36 million was primarily due to current year contributions of $240 million at Buffalo Gap 3, $77 million at Mountain View I and II and $52 million at Gener offset by the receipt of a contribution of $313 million from the tax equity partners at Buffalo Gap 2 in 2007.

Contractual Obligations

A summary of our contractual obligations, commitments and other liabilities as of December 31, 2008 is presented in the table below (in millions):

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	5 years and more	Other	Footnote Reference
Debt Obligations(1)	$ 18,030	$ 1,219	$ 2,690	$ 2,399	$ 11,722	$ —	10
Interest Payments on Long-Term Debt(2)	$ 10,597	1,363	2,533	2,082	4,619	—	n/a
Capital Lease Obligations(3)	$ 158	11	17	14	116	—	11
Operating Lease Obligations(4)	$ 493	64	118	118	193	—	11
Sale Leaseback Obligations(5)	$ 744	39	84	90	531	—	11
Electricity Obligations(6)	$ 47,265	1,754	4,387	5,039	36,085	—	11
Fuel Obligations(7)	$ 21,841	2,113	3,260	2,728	13,740	—	11
Other Purchase Obligations(8)	$ 20,924	2,403	2,467	1,700	14,354	—	11
Other Long-term Liabilities Reflected on AES's Consolidated Balance Sheet under GAAP(9)	$ 1,055	27	162	59	641	166	n/a
Total	$ 121,107	$ 8,993	$ 15,718	$ 14,229	$ 82,001	$ 166	

(1) Includes recourse and non-recourse debt presented on the Consolidated Financial Statements. Non-recourse debt borrowings are not a direct obligation of AES, the Parent Company. Recourse debt represents the direct borrowings of AES, the Parent Company. See Note 10—Long-Term Debt to the Consolidated Financial Statements included in Item 8 of this Form 10-K which provides additional disclosure regarding these obligations. These amounts exclude capital lease obligations which are included in the capital lease category, see (3) below.

(2) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2008 and do not reflect anticipated future refinancing, early redemptions or new debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2008.

(3) Several AES subsidiaries have leases for operating and office equipment and vehicles that are classified as capital leases within Property, Plant and Equipment. Minimum contractual obligations include $96 million of imputed interest.

(4) The Company was obligated under long-term non-cancelable operating leases, primarily for office rental and site leases. These amounts exclude amounts related to the sale/leaseback discussed below in item (5).

(5) Sale/Leaseback Obligations—represent a sales/leaseback with operating lease treatment at one of our New York subsidiaries.

(6) Operating subsidiaries of the Company have entered into contracts for the purchase of electricity from third parties.

(7) Operating subsidiaries of the Company have entered into fuel purchase contracts subject to termination only in certain limited circumstances.

(8) Amounts relate to other contractual obligations where the Company has an enforceable and legally binding agreement to purchase goods or services that specifies all significant terms, including: quantity, pricing, and approximate timing. These amounts include planned capital expenditures that are contractually obligated.

(9) These amounts do not include current liabilities on the Consolidated Balance Sheet except for the current portion of FIN No. 48 obligations. See the indicated notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information on the items excluded. Derivatives (See Note 5—Derivative Instruments) and incentive compensation are excluded as the Company is not able to reasonably estimate the timing or amount of the future payments. In addition, the amounts do not include: (1) regulatory liabilities (See Note—9 Regulatory Assets and Liabilities), (2) contingencies (See Note 12—Contingencies), (3) pension and other post retirement employee benefit liabilities (see Note 13—Benefit Plans) or (4) any taxes (See Note 20—Income Taxes) except for FIN No. 48 obligations. Noncurrent FIN No. 48 obligations are reflected in the "Other" column of the table above as the Company is not able to reasonably estimate the timing of the future payments.

Parent Company Liquidity

The following discussion of "Parent Company Liquidity" has been included because we believe it is a useful measure of the liquidity available to The AES Corporation, or the Parent Company, given the non-recourse nature of most of our indebtedness. Parent Company liquidity as outlined below is a non-GAAP measure and should not be construed as an alternative to cash and cash equivalents which are determined in accordance with GAAP, as a measure of liquidity. Cash and cash equivalents are disclosed in the Consolidated Statements of Cash Flows and the parent only unconsolidated statements of cash flows in Schedule I of this Form 10-K. Parent Company liquidity may differ from similarly titled measures used by other companies. The principal sources of liquidity at the Parent Company level are:

- dividends and other distributions from our subsidiaries, including refinancing proceeds;
- proceeds from debt and equity financings at the Parent Company level, including borrowings under our credit facilities; and
- proceeds from asset sales.

Cash requirements at the Parent Company level are primarily to fund:

- interest;
- principal repayments of debt;
- acquisitions;
- construction commitments;
- other equity commitments;
- taxes; and
- Parent Company overhead and development costs.

The Company defines Parent Company Liquidity as cash available to the Parent Company plus available borrowings under existing credit facilities. 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 Company Liquidity is reconciled to its most directly comparable U.S. GAAP financial measure, "cash and cash equivalents" at December 31, 2008 and 2007 as follows:

Parent Company Liquidity	**2008**	**2007**	**2006**
		(in millions)	
Cash and cash equivalents	$ 903	$ 2,043	$ 1,347
Less: Cash and cash equivalents at subsidiaries	656	728	1,090
Parent and qualified holding companies cash and cash equivalents	247	1,315	257
Borrowing available under revolving credit facility	720	520	662
Borrowing available under senior unsecured credit facility	423	318	227
Total Parent Company Liquidity	$ 1,390	$ 2,153	$ 1,146

Recourse Debt Transactions:

Financing and Tender Offer

In the second quarter of 2008, the Company completed a number of debt-related transactions that resulted in a net reduction of approximately $360 million of recourse debt. These transactions included $223 million of debt paid at maturity, the repurchase of the tendered $762 million of senior notes maturing from 2009 to 2013, and the issuance of $625 million of 8% Senior Unsecured Notes at par value due 2020. The notes repaid at maturity included $223 million outstanding 6.0% Junior Subordinated Convertible Debentures due May 15, 2008 and 8.75% Senior Unsecured Notes due June 15, 2008. On May 15, 2008, we issued $625 million of 8% Senior Unsecured Notes due 2020 ("2020 Notes") at par value. Deferred financing costs attributable to the issuance of the 2020 Notes were approximately $10 million.

On June 19, 2008, the Company repurchased $762 million of senior notes maturing from 2009 to 2013 in connection with a tender process. Specifically, the Company repurchased $313 million of the 9.50% Senior Notes due 2009, (the "2009 Notes"), $209 million of the 9.375% Senior Notes due 2010, (the "2010 Notes"), $178 million of the 8.875% Senior Notes due 2011, (the "2011 Notes") and $62 million of the 8.75% Second Priority Senior Secured Notes due 2013 (the "2013 Notes"). The Company recognized and included a pre-tax loss on the retirement of the senior notes for the year ended December 31, 2008 of $55 million in "Other expense" which included $52 million of tender consideration.

In connection with the tender offer for the senior notes, the Company also solicited and received consents from the note holders of the 2013 Notes to amend the related indenture so that the covenants conform substantially to the covenants contained in the indenture governing the Company's senior unsecured notes, with the exception of those covenants related to security.

Amendment of Credit Agreement

On July 29, 2008, The AES Corporation and certain subsidiary guarantors amended and restated the Company's existing senior secured credit facility pursuant to the terms of the Fourth Amended and Restated Credit and Reimbursement Agreement, dated as of July 29, 2008 (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement provides for a $200 million term loan facility maturing on August 10, 2011, and $750 million revolving credit facility maturing on June 23, 2010.

The Company entered into the Amended and Restated Credit Agreement to, among other things: (i) increase the size of the Restricted Payments basket; (ii) reduce the required minimum Cash Flow Coverage Ratio (as defined therein) and increase the maximum Recourse Debt to Cash Flow Ratio (as defined therein); (iii) clarify and make modifications in the provisions that permit hedging activities; and (iv) make certain other changes, such as excluding certain equity-like securities from the definition of Recourse Debt, amending the financial reporting and environmental notice requirements, clarifying that the term "Permitted Business" includes climate solutions, carbon offsets, biofuels, battery storage and ancillary businesses, including related trading activities and amending certain other definitions and covenants.

Recourse Debt:

Our recourse debt at year-end was approximately $5.2 billion, $5.6 billion, and $4.8 billion in 2008, 2007 and 2006, respectively. The following table sets forth our Parent Company contingent contractual obligations as of December 31, 2008:

Contingent Contractual Obligations	Amount	Number of Agreements	Exposure Range for Each Agreement
	(in millions)		(in millions)
Guarantees	$ 411	34	<$1 - $53
Letters of credit under the revolving credit facility	30	4	<$1 - $28
Letters of credit under the senior unsecured credit facility	177	15	<$1 - $131
Total	$ 618	53	

As of December 31, 2008, the Company had $260 million of commitments to invest in subsidiaries under construction and to purchase related equipment, excluding $151 million of such obligations already included in the letters of credits discussed above. The Company expects to fund these net investment commitments over time according to the following schedule: $166 million in 2009, $39 million in 2010 and $55 million in 2011. The exact payment schedules will be dictated by the construction milestones. We expect to fund these commitments from a combination of current liquidity and internally generated Parent Company cash flow.

We have a diverse portfolio of performance related contingent contractual obligations. These obligations are designed to cover potential risks and only require payment if certain targets are not met or certain contingencies occur. The risks associated with these obligations include change of control, construction cost overruns, subsidiary default, political risk, tax indemnities, spot market power prices, supplies support and liquidated damages under power sales agreements for projects in development, in operation and under construction. While we do not expect that we will be required to fund any material amounts under these contingent contractual obligations during 2009 or beyond, many of the events which would give rise to such obligations are beyond our control. We can provide no assurance that we will be able to fund our obligations under these contingent contractual obligations if we are required to make substantial payments thereunder.

While we believe that our sources of liquidity will be adequate to meet our needs for the foreseeable future, this belief is based on a number of material assumptions, including, without limitation, assumptions about our ability to access the capital markets (see "Credit Crisis and the Macroeconomic Environment"), the operating and financial performance of our subsidiaries, currency exchange rates, power market pool prices, and the ability of our subsidiaries to pay dividends. In addition, our subsidiaries' ability to declare and pay cash dividends to us (at the Parent Company level) is subject to certain limitations contained in loans, governmental provisions and other agreements. We can provide no assurance that these sources will be available when needed or that the actual cash requirements will not be greater than anticipated. We have met our interim needs for shorter-term and working capital financing at the Parent Company level with our secured revolving credit facility and senior unsecured credit facility. See Item 1A Risk Factors, "*The AES Corporation is a holding company and its ability to make payments on its outstanding indebtedness, including its public debt securities, is dependent upon the receipt of funds from its subsidiaries by way of dividends, fees, interest, loans or otherwise*."

Various debt instruments at the Parent Company level, including our senior secured credit facilities, contain certain restrictive covenants. The covenants provide for, among other items:

- limitations on other indebtedness, liens, investments and guarantees;

- limitations on dividends, stock repurchases and other equity transactions;
- restrictions and limitations on mergers and acquisitions, sales of assets, leases, transactions with affiliates and off balance sheet and derivative arrangements;
- maintenance of certain financial ratios; and
- financial and other reporting requirements.

As of December 31, 2008, we were in compliance with these covenants.

Non-Recourse Debt:

While the lenders under our non-recourse debt financings generally do not have direct recourse to the Parent Company, defaults thereunder can still have important consequences for our results of operations and liquidity, including, without limitation:

- reducing our cash flows as the subsidiary will typically be prohibited from distributing cash to the parent level during the time period of any default;
- triggering our obligation to make payments under any financial guarantee, letter of credit or other credit support we have provided to or on behalf of such subsidiary;
- causing us to record a loss in the event the lender forecloses on the assets; and
- triggering defaults in our outstanding debt at the parent level.

For example, our senior secured credit facilities and outstanding debt securities at the parent level include events of default for certain bankruptcy related events involving material subsidiaries. In addition, our revolving credit agreement at the parent level includes events of default related to payment defaults and accelerations of outstanding debt of material subsidiaries.

Some of our subsidiaries are currently in default with respect to all or a portion of their outstanding indebtedness. The total non-recourse debt classified as current in the accompanying Consolidated Balance Sheets amounts to $1.1 billion. The portion of current debt related to such defaults was $129 million at December 31, 2008, all of which was non-recourse debt related to three subsidiaries—Aixi, Kelanitissa and Kilroot.

None of the subsidiaries that are currently in default are subsidiaries that currently meet the applicable definition of materiality in AES's corporate debt agreements in order for such defaults to trigger an event of default or permit acceleration under such indebtedness. At December 31, 2008 none of our subsidiaries met the definition of material subsidiary under our recourse debt agreements. However, as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations or the financial position of the individual subsidiary, it is possible that one or more of these subsidiaries could fall within the definition of a "material subsidiary" and thereby upon an acceleration trigger an event of default and possible acceleration of the indebtedness under the AES Parent Company's outstanding debt securities.

Off-Balance Sheet Arrangements

In May 1999, one of our subsidiaries acquired six electric generating plants from New York State Electric and Gas. Concurrently, the subsidiary sold two of the plants to an unrelated third party for $666 million and simultaneously entered into a leasing arrangement with the unrelated party. In May 2007, the subsidiary purchased a portion of the lessor's interest in a trust estate that holds the leased plants. Future minimum lease commitments under the lease agreement have been reduced by the subsidiary's interest in the plants. We have accounted for this transaction as a sale/leaseback transaction with operating lease treatment. We expense periodic lease payments as incurred, which amounted to $34 million, $42 million and $54 million for the years ended December 31, 2008, 2007 and 2006, respectively. We are not subject to any additional liabilities or contingencies if the arrangement terminates and we believe that the dissolution of the off-balance sheet arrangement would have minimal effects on our operating cash flows. The terms of the lease include restrictive covenants such as the maintenance of certain coverage ratios. Historically, the plants have satisfied the restrictive covenants of the lease and there are no known trends or uncertainties that would indicate that the lease will be terminated early. See Note 11—Commitments to the Consolidated Financial Statements included in Item 8 of this Form 10-K for a more complete discussion of this transaction.

IPL, a consolidated subsidiary of the Company, formed IPL Funding Corporation ("IPL Funding") in 1996 as a special-purpose entity, consolidated by IPL, to purchase retail receivables originated by IPL pursuant to a receivables sale agreement entered into with IPL. At the same time, IPL Funding entered into a purchase facility (the "Purchase Facility") with unrelated parties (the "Purchasers") pursuant to which the Purchasers agree to purchase from IPL Funding, on a revolving basis, up to $50 million, of interests in the pool of receivables purchased from IPL. As collections reduce accounts receivable included in the pool, IPL Funding sells ownership interests in additional receivables acquired from IPL to return the ownership interests sold up to a maximum of $50 million, as permitted by the Purchase Facility. During 2008, the Purchase Facility was extended through May 27, 2009. Accounts receivable on the Company's Consolidated Balance Sheets are stated net of the $50 million sold.

IPL and IPL Funding provide certain indemnities to the Purchasers, including indemnification in the event that there is a breach of representations and warranties made with respect to the purchased receivables. IPL Funding and IPL each have agreed to indemnify the Purchasers on an after-tax basis for any and all damages, losses, claims, liabilities, penalties, taxes, costs and expenses at any time imposed on or incurred by the indemnified parties arising out of or otherwise relating to the purchase facility, subject to certain limitations as defined in the Purchase Facility.

Under the Purchase Facility, if IPL fails to maintain certain financial covenants regarding interest coverage and debt-to-capital ratios, it would constitute a "termination event." As of December 31, 2008, IPL was in compliance with such covenants. In addition, as a result of IPL's current credit rating, the facility agent has the ability to (i) replace IPL as the collection agent; and (ii) declare a "lock-box" event. Under a lock-box event or a termination event, the facility agent has the ability to require all proceeds of purchased receivables of IPL to be directed to lock-box accounts within 45 days of notifying IPL. A termination event would also (i) give the facility agent the option to take control of the lock-box account, and (ii) give the Purchasers the option to discontinue the purchase of additional interests in receivables and cause all proceeds of the purchased interests to be used to reduce the Purchaser's investment and to pay other amounts owed to the Purchasers and the facility agent. This would have the effect of reducing the operating capital available to IPL by the aggregate amount of such purchased interests in receivables (currently $50 million). Please refer to Note 25—Off-Balance Sheet and Related Party Transactions to the Consolidated Financial Statements in Item 8 of this Form 10-K for further details on IPL's servicing responsibilities and indemnification requirements under the Purchase Facility.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview Regarding Market Risks

We are exposed to market risks associated with interest rates, foreign exchange rates and commodity prices. We often utilize financial instruments and other contracts to hedge against such fluctuations. We also utilize financial derivatives for the purpose of hedging exposures to market risk.

Interest Rate Risks

We are exposed to risk resulting from changes in interest rates as a result of our issuance of variable-rate debt, fixed-rate debt and trust preferred securities, as well as interest rate swap, cap and floor and option agreements.

Decisions on the fixed-floating debt ratio are made to be consistent with the risk factors faced by individual businesses or plants. Depending on whether a plant's capacity payments or revenue stream is fixed or varies with inflation, we partially hedge against interest rate fluctuations by arranging fixed-rate or variable-rate financing. In certain cases, particularly for non-recourse financing, we execute interest rate swap, cap and floor agreements to effectively fix or limit the interest rate exposure on the underlying financing.

Foreign Exchange Rate Risk

In the normal course of business, we are exposed to foreign currency risk and other foreign operations risk that arise from investments in foreign subsidiaries and affiliates. A key component of this risk stems from the fact that some of our foreign subsidiaries and affiliates utilize currencies other than our consolidated reporting currency, the U.S. Dollar. Additionally, certain of our foreign subsidiaries and affiliates have entered into monetary obligations in U.S. Dollars or currencies other than their own functional currencies. Primarily, we are exposed to changes in the exchange rate between the U.S. Dollar and the following currencies: Brazilian Real, Kazakhstani Tenge, British Pound, Euro, Colombian Peso, Chilean Peso, Hungarian Forint, Pakistani Rupee and Philippine Peso. Certain subsidiaries and affiliates have attempted to limit potential foreign exchange exposure by entering into revenue contracts that adjust to changes in foreign exchange rates. We also use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the price of electricity, fuels and environmental credits. Although we primarily consist of businesses with long-term contracts or retail sales concessions, a portion of our current and expected future revenues are derived from businesses without significant long-term revenue or supply contracts. These businesses subject our results of operations to the volatility of prices for electricity, fuels and environmental credits in competitive markets. Where appropriate, we act to hedge our financial performance against the effects of fluctuations in energy commodity prices. The implementation of this strategy can involve the use of commodity forward contracts, futures, swaps and options. Some businesses hedge certain aspects of their commodity risks using financial hedge instruments. We also enter into short-term contracts for the supply of electricity and fuel in other competitive markets in which we operate.

Value at Risk

One approach we use to assess our risk and our subsidiaries' risk is value at risk ("VaR"). VaR measures the potential loss in a portfolio's value due to market volatility, over a specified time horizon, stated with a specific degree of probability. In particular, we measure Analytic VaR, which is calculated based on the volatilities and correlations of the different risk exposures of the portfolio. The quantification of market risk using VaR provides a consistent measure of risk across diverse markets and instruments. We adopted the VaR approach because we feel that statistical models of risk measurement, such as VaR, provide an objective, independent assessment of a component of our risk exposure. Our use of VaR requires a number of key assumptions, including the selection of a confidence level for expected losses, the holding period for liquidation and the treatment of risks outside the VaR methodology, including liquidity risk and event risk. VaR, therefore, is not necessarily indicative of actual results that may occur. Additionally, VaR represents changes in fair value of financial instruments and not the economic exposure to AES and its affiliates.

Because of the inherent limitations of VaR, including those specific to Analytic VaR, in particular the assumption that values or returns are normally distributed, we rely on VaR as only one component in our risk assessment process. In addition to using VaR measures, we perform stress and scenario analyses to estimate the economic impact of market changes to our portfolio of businesses. We use these results to complement the VaR methodology.

In addition, the relevance of the VaR described herein as a measure of economic risk, is limited and needs to be considered in light of the underlying business structure. The interest rate component of VaR is due to changes in the fair value of our fixed rate debt instruments and interest rate swaps. These instruments themselves would expose a holder to market risk; however, utilizing these fixed rate debt instruments as part of a fixed price contract generation business mitigates the overall exposure to interest rates. Similarly, our foreign exchange rate sensitive instruments are often part of businesses which have revenues denominated in the same currency, thus offsetting the exposure.

We have performed a company-wide VaR analysis of all of our material financial assets, liabilities and derivative instruments. At AES, commodity derivatives are generally embedded derivatives. Embedded derivatives are not appropriately measured here and are excluded since VaR is not representative of the overall contract valuation. The VaR calculation incorporates numerous variables that could impact the fair value of our instruments, including interest rates, foreign exchange rates and commodity prices, as well as correlation within and across these variables. We express Analytic VaR herein as a dollar amount of the potential loss in the fair value of our portfolio based on a 95% confidence level and a one-day holding period. Our commodity analysis is an Analytic VaR utilizing a variance-covariance analysis within the commodity transaction management system and is reported for financially settled derivative products at AES Eastern Energy, L.P. in the state of New York as this is the only business with commodity transactions that are deemed derivatives that are not embedded and can be calculated using VaR. These commodity transactions are marked to market on a daily basis and collateral is then posted or recalled for any changes in exposures. However, not every transaction requires AES Eastern Energy, L.P. to post collateral, as several counterparties have caps defined in their transaction agreements. For those counterparties that do require AES Eastern Energy, L.P. to post collateral, two facilities that are non-recourse to The AES Corporation in the amounts of $75 million and $350 million are used to issue letters of credit. As of December 31, 2008, $20 million and $102 million have been utilized under these facilities.

One Day VaR	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	December 31, 2006
			(in millions)			
Foreign Exchange	$ 125	$ 96	$ 46	$ 56	$ 58	$ 20
Interest Rate	$ 188	$ 202	$ 141	$ 163	$ 137	$ 68
Commodity	$ 7	$ 12	$ 23	$ 27	$ 16	$ 20

For the year ended December 31, 2008, our one-day VaR at fourth quarter-end for foreign exchange rate-sensitive instruments was $125 million. This amount includes foreign currency denominated debt and hedge instruments. The amount of foreign-currency denominated debt in our portfolio has remained fairly consistent from December 31, 2007 to December 31, 2008. However, higher currency market volatilities during the second half of 2008, particularly for the Brazilian Real and Euro, led to the increase in the one-day quarter-end VaR from December 31, 2007 to December 31, 2008.

For the year ended December 31, 2008, our one-day VaR at fourth quarter-end for interest rate-sensitive instruments was $188 million. This amount includes the hedge instruments and underlying debt. The largest component of interest rate VaR is from USD-denominated, fixed-rate debt. During the second quarter of 2008, AES decreased its fixed-rate dollar-denominated debt by $170 million resulting in a lower one day interest rate VaR on June 30, 2008. Increases in one-day VaR for the third and four quarter-ends in 2008 were driven by market volatilities which sharply increased at third quarter-end but had moderated by fourth quarter-end.

For the year ended December 31, 2008, our one-day VaR at fourth quarter-end for commodity price sensitive instruments was $7 million. This amount includes only the financially-settled derivative products at our AES Eastern Energy, L.P. business in New York. In the first two quarters of 2008, one-day VaR was higher than at year-end 2007 due to higher Western New York power prices in the beginning of 2008. Quarter-end VaR decreased during the second half of 2008, as AES decreased the term and volume of hedging activity. Lower power prices in the second half of the year also contributed to the decrease in VaR.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON THE FINANCIAL STATEMENTS**

The Board of Directors and Stockholders of The AES Corporation:

We have audited the accompanying consolidated balance sheet of The AES Corporation and its subsidiaries as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedules for the year ended December 31, 2008 listed in the accompanying Index to Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The AES Corporation and its subsidiaries at December 31, 2008, and the consolidated results of their operations and their cash flows for the year ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules for the year ended December 31, 2008, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The AES Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 26, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON THE FINANCIAL STATEMENTS

To the Board of Directors and Stockholders of
The AES Corporation
Arlington, VA

We have audited the accompanying consolidated balance sheet of The AES Corporation and subsidiaries (the "Company") as of December 31, 2007 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2007. Our audits also included the 2007 and 2006 information in the financial statement schedules on pages S2 - S8. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The AES Corporation and subsidiaries as of December 31, 2007 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" in 2007 and Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" in 2006.

/s/ Deloitte & Touche LLP

McLean, Virginia
March 14, 2008
(February 26, 2009 as to the Discontinued Operations and Reclassifications section of Note 1 and Note 21)

THE AES CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

	2008	2007
	(in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 903	$ 2,043
Restricted cash	729	522
Short-term investments	1,382	1,306
Accounts receivable, net of reserves of $254 and $255, respectively	2,233	2,252
Inventory	574	476
Receivable from affiliates	31	56
Deferred income taxes—current	180	283
Prepaid expenses	177	137
Other current assets	1,117	1,076
Current assets of discontinued and held for sale businesses	—	185
Total current assets	7,326	8,336
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	854	1,041
Electric generation, distribution assets, and other	24,644	24,682
Accumulated depreciation	(7,515)	(7,519)
Construction in progress	3,410	1,770
Property, plant and equipment, net	21,393	19,974
Other assets:		
Deferred financing costs, net of accumulated amortization of $272 and $227, respectively	366	352
Investments in and advances to affiliates	901	730
Debt service reserves and other deposits	636	568
Goodwill	1,421	1,416
Other intangible assets, net of accumulated amortization of $185 and $173, respectively	500	466
Deferred income taxes—noncurrent	567	647
Other assets	1,696	1,698
Noncurrent assets of discontinued and held for sale businesses	—	266
Total other assets	6,087	6,143
TOTAL ASSETS	$ 34,806	$ 34,453
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,042	$ 1,067
Accrued interest	252	255
Accrued and other liabilities	2,660	2,626
Non-recourse debt—current portion	1,074	1,142
Recourse debt—current portion	154	223
Current liabilities of discontinued and held for sale businesses	—	169
Total current liabilities	5,182	5,482
LONG-TERM LIABILITIES		
Non-recourse debt	11,869	11,293
Recourse debt	4,994	5,332
Deferred income taxes—noncurrent	1,132	1,187
Pension and other post-retirement liabilities	1,017	921
Other long-term liabilities	3,525	3,754
Long-term liabilities of discontinued and held for sale businesses	—	79
Total long-term liabilities	22,537	22,566
MINORITY INTEREST (including discontinued businesses of $—and $—, respectively)	3,418	3,241
Commitments and Contingent Liabilities (see Notes 11 and 12)		
STOCKHOLDERS' EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 673,478,012 issued and 662,786,745 outstanding at December 31, 2008 and 670,339,855 issued and outstanding at December 31, 2007)	7	7
Additional paid-in capital	6,832	6,776
Accumulated deficit	(8)	(1,241)
Accumulated other comprehensive loss	(3,018)	(2,378)
Treasury stock, at cost (10,691,267 and 0 shares at December 31, 2008 and 2007, respectively)	(144)	—
Total stockholders' equity	3,669	3,164
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 34,806	$ 34,453

See Accompanying Notes to these Consolidated Financial Statements

THE AES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	2008	2007	2006
	(in millions, except per share amounts)		
Revenues:			
Regulated	$ 7,772	$ 6,867	$ 6,154
Non-Regulated	8,298	6,649	5,355
Total revenues	16,070	13,516	11,509
Cost of Sales:			
Regulated	(5,567)	(4,747)	(4,075)
Non-Regulated	(6,796)	(5,377)	(4,015)
Total cost of sales	(12,363)	(10,124)	(8,090)
Gross margin	3,707	3,392	3,419
General and administrative expenses	(371)	(379)	(301)
Interest expense	(1,844)	(1,788)	(1,769)
Interest income	540	500	434
Other expense	(163)	(255)	(451)
Other income	379	358	116
Gain on sale of investments	909	—	98
(Loss) gain on sale of subsidiary stock	(31)	134	(535)
Impairment expense	(175)	(408)	(17)
Foreign currency transaction (losses) gains on net monetary position	(185)	24	(80)
Other non-operating expense	(15)	(57)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	2,751	1,521	914
Income tax expense	(774)	(679)	(359)
Net equity in earnings of affiliates	33	76	73
Minority interest expense	(794)	(431)	(460)
INCOME FROM CONTINUING OPERATIONS	1,216	487	168
Income from operations of discontinued businesses, net of income tax expense of $4, $29 and $83, respectively	12	79	115
Gain (loss) from disposal of discontinued businesses, net of income tax benefit of $—, $8 and $— respectively	6	(661)	(57)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	1,234	(95)	226
Extraordinary items, net of income tax expense of $—, $— and $—	—	—	21
Net income (loss)	$ 1,234	$ (95)	$ 247
BASIC EARNINGS (LOSS) PER SHARE:			
Income from continuing operations, net of tax	$ 1.82	$ 0.73	$ 0.25
Discontinued operations, net of tax	0.02	(0.87)	0.09
Extraordinary items, net of tax	—	—	0.03
BASIC EARNINGS (LOSS) PER SHARE:	$ 1.84	$ (0.14)	$ 0.37
DILUTED EARNINGS (LOSS) PER SHARE:			
Income from continuing operations, net of tax	$ 1.80	$ 0.72	$ 0.25
Discontinued operations, net of tax	0.02	(0.86)	0.09
Extraordinary items, net of tax	—	—	0.03
DILUTED EARNINGS (LOSS) PER SHARE:	$ 1.82	$ (0.14)	$ 0.37

See Accompanying Notes to these Consolidated Financial Statements

THE AES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	2008	2007	2006
		(in millions)	
OPERATING ACTIVITIES:			
Net income (loss)	$ 1,234	$ (95)	$ 247
Adjustments to net income (loss):			
Depreciation and amortization	1,001	942	933
(Gain) loss from sale of investments and impairment expense	(712)	333	471
(Gain) loss on disposal and impairment write-down—discontinued operations	(7)	669	57
Minority interest expense	798	452	482
Provision for deferred taxes	160	210	(10)
Contingencies	52	196	173
Loss on the extinguishment of debt	56	92	148
Other	123	(34)	12
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(451)	(306)	94
(Increase) decrease in inventory	(93)	(26)	(3)
(Increase) decrease in prepaid expenses and other current assets	(47)	361	(115)
(Increase) decrease in other assets	(467)	(134)	147
Increase (decrease) in accounts payable and accrued liabilities	260	(322)	(473)
Increase (decrease) in income taxes and other income tax payables, net	226	(140)	(51)
Increase (decrease) in other liabilities	32	155	236
Net cash provided by operating activities	2,165	2,353	2,348
INVESTING ACTIVITIES:			
Capital expenditures	(2,840)	(2,425)	(1,460)
Acquisitions—net of cash acquired	(1,135)	(315)	(19)
Proceeds from the sale of businesses	1,328	1,136	898
Proceeds from the sale of assets	105	16	24
Sale of short-term investments	5,150	2,492	2,011
Purchase of short-term investments	(5,469)	(2,982)	(2,359)
(Increase) decrease in restricted cash	(295)	(28)	(8)
(Increase) decrease in debt service reserves and other assets	(100)	122	39
Affiliate advances and equity investments	(240)	(32)	(18)
Loan advances	(173)	—	—
Other investing	98	46	(15)
Net cash used in investing activities	(3,571)	(1,970)	(907)
FINANCING ACTIVITIES:			
Borrowings (repayments) under the revolving credit facilities, net	298	(85)	72
Issuance of recourse debt	625	2,000	—
Issuance of non-recourse debt	2,158	2,297	3,097
Repayments of recourse debt	(1,037)	(1,315)	(150)
Repayments of non-recourse debt	(1,260)	(2,251)	(4,059)
Payments for deferred financing costs	(82)	(97)	(86)
Distributions to minority interests	(597)	(699)	(335)
Contributions from minority interests	410	374	125
Financed capital expenditures	(47)	(35)	(52)
Purchase of treasury stock	(143)	—	—
Other financing	37	55	71
Net cash provided by (used in) financing activities	362	244	(1,317)
Effect of exchange rate changes on cash	(96)	69	62
Total increase (decrease) in cash and cash equivalents	(1,140)	696	186
Cash and cash equivalents, beginning	2,043	1,347	1,161
Cash and cash equivalents, ending	$ 903	$ 2,043	$ 1,347
SUPPLEMENTAL DISCLOSURES:			
Cash payments for interest, net of amounts capitalized	$ 1,615	$ 1,762	$ 1,718
Cash payments for income taxes, net of refunds	$ 465	$ 621	$ 479
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired in acquisition of subsidiary	$ 1,097	$ 434	$ —
Non-recourse debt assumed in acquisition of subsidiary	$ —	$ 647	$ —
Liabilities extinguished due to sale of assets	$ —	$ 134	$ 30
Liabilities assumed in acquisition of subsidiary	$ 49	$ 37	$ —
Assets acquired in noncash asset exchange	$ 18	$ —	$ —
Assets disposed of in noncash asset exchange	$ 4	$ —	$ —

See Accompanying Notes to these Consolidated Financial Statements

THE AES CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income
	Shares	Amount	Shares	Amount				
	(in millions)							
Balance at January 1, 2006	655.9	$ 7	—	$ —	$ 6,566	$ (1,340)	$ (3,650)	
Net income	—	—	—	—	—	247	—	$ 247
Effect of SFAS No. 158 recognition of funded status (net of income tax expense of $60)	—	—	—	—	—	—	94	—
Subsidiary sale of stock	—	—	—	—	(35)	—	—	—
Change in fair value of available-for-sale securities (net of income tax benefit of $2)	—	—	—	—	—	—	(3)	(3)
Foreign currency translation adjustment (net of income tax expense of $13) (Restated)(1)	—	—	—	—	—	—	691	691
Minimum pension liability adjustment (net of income tax benefit of $2)	—	—	—	—	—	—	5	5
Change in derivative fair value (including a reclassification to earnings of $(6), net of an income tax expense of $195)	—	—	—	—	—	—	269	269
Comprehensive income								$ 1,209
Issuance of common stock under benefit plans and exercise of stock options and warrants	9.2	—	—	—	97	—	—	
Stock compensation	—	—	—	—	31	—	—	
Balance at December 31, 2006	665.1	$ 7	—	$ —	$ 6,659	$ (1,093)	$ (2,594)	
Net loss	—	—	—	—	—	(95)	—	(95)
Cumulative effect of adoption of FIN No. 48	—	—	—	—	—	(53)	—	—
Change in fair value of available-for-sale securities (net of income tax expense of $3)						—	3	3
Foreign currency translation adjustment (net of income tax expense of $33)	—	—	—	—	—	—	324	324
Change in unfunded pensions obligation (net of income tax expense of $5)	—	—	—	—	—	—	8	8
Change in derivative fair value (including a reclassification to earnings of $(52), net of an income tax benefit of $70)	—	—	—	—	—	—	(119)	(119)
Comprehensive income								$ 121
Issuance of common stock under benefit plans and exercise of stock options and warrants (net of income tax benefit of $2)	5.2	—	—	—	85	—	—	
Stock compensation	—	—	—	—	32	—	—	
Balance at December 31, 2007	670.3	$ 7	—	$ —	$ 6,776	$ (1,241)	$ (2,378)	
Net income	—	—	—	—	—	1,234	—	1,234
Effect of SFAS No. 158 measurement date change	—	—	—	—	—	(1)	—	—
Foreign currency translation adjustment (net of income tax benefit of $53)	—	—	—	—	—	—	(560)	(560)
Change in unfunded pensions obligation (net of income tax benefit of $26)	—	—	—	—	—	—	(49)	(49)
Change in derivative fair value (including a reclassification to earnings of $76, net of an income tax expense of $60)	—	—	—	—	—	—	(31)	(31)
Comprehensive income								$ 594
Acquisition of treasury stock	—	—	10.7	(144)	—	—	—	
Issuance of common stock under benefit plans and exercise of stock options and warrants (net of income tax benefit of $1)	3.2	—	—	—	30	—	—	
Stock compensation	—	—	—	—	26	—	—	
Balance at December 31, 2008	673.5	$ 7	10.7	$ (144)	$ 6,832	$ (8)	$ (3,018)	

See Accompanying Notes to these Consolidated Financial Statements

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008, 2007, AND 2006

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The AES Corporation is a holding company (the "Parent Company") that through its subsidiaries and affiliates, (collectively, "AES" or "the Company") operates a geographically diversified portfolio of electricity generation and distribution businesses.

PRINCIPLES OF CONSOLIDATION—The Consolidated Financial Statements of the Company include the accounts of The AES Corporation, its subsidiaries and controlled affiliates, and variable interest entities ("VIEs") of which the Company is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

A VIE is an entity (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by any parties or (b) where the group of equity holders does not have (i) the ability to make significant decisions about the entity's activities, (ii) the obligation to absorb the entity's expected losses or (iii) the right to receive the entity's expected residual returns or (c) where the voting rights of some equity holders are not proportional to their obligations to absorb expected losses, receive expected residual returns or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights.

The Company is considered the primary beneficiary of a VIE and thus consolidates the VIE when the Company absorbs a majority of expected losses of the VIE, receives a majority of expected residual returns of the VIE (unless another enterprise receives this majority), or both. The Company performs a qualitative determination as to which variable interest holder is the primary beneficiary, but, when this is not clear, the Company will make the determination based on a computation and allocation of expected losses and expected residual returns. The primary beneficiary determination has not historically required significant judgments or assumptions to be made.

The Company determines if it is the primary beneficiary when it becomes involved in the VIE. If the Company is the primary beneficiary, it reconsiders this decision when it sells or otherwise disposes of all or part of our variable interests to unrelated parties or if the VIE issues new variable interests to parties other than the Company or its related parties. Conversely, if the Company is not the primary beneficiary, it reconsiders this decision when it acquires additional variable interests in these entities.

EQUITY METHOD INVESTMENTS—Entities (whether or not they are VIEs) over which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method. The Company periodically assesses the recoverability of its equity method investments. If an identified event or change in circumstances requires an impairment evaluation, management assesses the fair value based on valuation methodologies, including discounted cash flows, estimates of sale proceeds and external appraisals, as appropriate. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other-than-temporary and included in "other non-operating expense" on the Consolidated Statements of Operations.

In accordance with Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB No. 18") the Company discontinues the application of the equity method when an investment is reduced to zero and is not otherwise committed to provide further financial support for the investee. The Company resumes the application of the equity method if the investee subsequently reports net income to the extent that the Company's share of such net

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

income equals the share of net losses not recognized during the period the equity method was suspended.

DISCONTINUED OPERATIONS AND RECLASSIFICATIONS—Certain immaterial prior period amounts have been reclassified within the Consolidated Financial Statements to conform with current year presentation. In addition, in December 2008, the Company sold its coal-fired generation plant, Jiaozuo, in China. These operations were considered to be discontinued operations, as defined under Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), and the prior period Consolidated Financial Statements in this Form 10-K have been restated to reflect this business as a discontinued operation as discussed in Note 21—Discontinued Operations and Held for Sale Businesses.

USE OF ESTIMATES—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the Company to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Items subject to such estimates and assumptions include the carrying value and estimated useful lives of long-lived assets; impairment of goodwill and equity method investments; valuation allowances for receivables and deferred tax assets; the recoverability of deferred regulatory assets and the valuation of certain financial instruments, pension liabilities, environmental liabilities and potential litigation claims and settlements.

CASH AND CASH EQUIVALENTS—The Company considers unrestricted cash on hand, deposits in banks, certificates of deposit and short-term marketable securities with an original or remaining maturity at the date of acquisition of three months or less to be cash and cash equivalents; such balances approximate fair value.

RESTRICTED CASH—Restricted cash includes cash and cash equivalents which are restricted as to withdrawal or usage. The nature of restrictions includes restrictions imposed by the financing agreements such as security deposits kept as collateral, debt service reserves, maintenance reserves and others, as well as restrictions imposed by long-term power purchase agreements ("PPA").

ALLOWANCE FOR DOUBTFUL ACCOUNTS—The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company's assessment of known delinquent accounts, historical experience and other currently available evidence of the collectibility and the aging of accounts receivable.

INVESTMENTS IN MARKETABLE SECURITIES—Short-term investments in marketable debt and equity securities consist of securities with original or remaining maturities in excess of three months but less than one year.

Marketable debt securities that the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at historical cost. Other marketable securities that the Company does not intend to hold to maturity are classified as available-for-sale or trading and are reflected at fair value. Available-for-sale investments are marked-to-market at the end of each reporting period, with unrealized holding gains or losses, which represent changes in the market value of the investment, reflected in accumulated other comprehensive income ("AOCI") a separate component of stockholders' equity. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* ("SFAS No. 115"), when there is an other-than-temporary decline in the market value of available-for-sale or held-to-maturity investments, the Company recognizes an impairment charge which is classified as "other non-operating expense" on the Consolidated Statements of Operations. Investments classified as trading are marked-to-market on a periodic basis through the Consolidated Statements of Operations. Interest and dividends on investments are reported in interest income. Gains and losses on sales of investments are determined using the specific identification method.

See Note 6—Fair Value of Financial Instruments and the Company's Fair Value policy for additional discussion regarding the determination of the fair value of the Company's investments in marketable debt and equity securities.

PROPERTY, PLANT AND EQUIPMENT—Property, plant and equipment are stated at cost. The cost of renewals and betterments that extend the useful life of property, plant and equipment are capitalized.

Construction progress payments, engineering costs, insurance costs, salaries, interest and other costs directly relating to construction in progress are capitalized during the construction period, provided the completion of the project is deemed probable, or expensed at the time the Company determines that development of a particular project is no longer probable. The continued capitalization of such costs is subject to ongoing risks related to successful completion, including those related to government approvals, siting, financing, construction, permitting and contract compliance. Construction in progress balances are transferred to electric generation and distribution assets when each asset is ready for its intended use. Government subsidies are recorded as a reduction in fixed assets and reflected in investing activities.

Depreciation, after consideration of salvage value and asset retirement obligations, is computed primarily using the straight-line method over the estimated useful lives of the assets, which are on a composite or component basis. Maintenance and repairs are charged to expense as incurred. Capital spare parts, including rotable spare parts, are included in electric generation and distribution assets. If the part is considered a component, it is depreciated over its useful life after the part is placed in service. If the part is deemed part of a composite asset, the part is depreciated over its useful life even when being held as a spare part.

DEFERRED FINANCING COSTS—Financing costs are deferred and amortized over the related financing period using the effective interest method or the straight-line method when it does not differ materially from the effective interest method. Make-whole payments in connection with early debt retirements are classified as investing activities.

GOODWILL AND OTHER INTANGIBLES—In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), the Company recognizes goodwill for the excess of the cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. The Company evaluates goodwill and indefinite-lived intangible assets for impairment on an annual basis and whenever events or changes in circumstances trigger an analysis of its carrying value. The Company's annual impairment testing date is October 1st. The evaluation of impairment involves comparing the current fair value of each of the Company's reporting units to their carrying value as required by SFAS No. 142. The income approach using a discounted cash flow model ("DCF Model") is primarily used in determining the current fair value of its reporting units. Finite-lived intangible assets are amortized over their useful lives which range from 2 - 95 years. The Company accounts for emission allowances as intangible assets and charges them to expense when sold or used; granted allowances are valued at zero.

LONG-LIVED ASSETS—In accordance with SFAS No. 144, the Company evaluates the impairment of long-lived assets based on the projection of undiscounted cash flows when circumstances indicate that the carrying amount of such assets may not be recoverable or the assets meet the held for sale criteria under SFAS No. 144. These events or circumstances may include the relative pricing of wholesale electricity by region, anticipated demand and cost of fuel. If the carrying amount is not recoverable, an impairment charge is recognized for the amount by which the carrying value of the long-lived asset exceeds its fair value. For regulated assets, an impairment charge could be offset by the establishment of a regulatory asset, if recovery through approved rates was probable. For non-regulated assets, an impairment charge would be recognized as a charge against earnings.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for measurement, if available. In the absence of quoted market prices for identical or similar assets in active markets, fair value is estimated using various internal and external valuation methods including cash flow projections or other indicators of fair value such as bids received, comparable sales or appraisals.

In connection with the periodic evaluation of long-lived assets in accordance with the requirements of SFAS No. 144, the fair value of the asset can vary if different estimates and assumptions would have been used in our applied valuation techniques. In cases of impairment described in Note 19—Impairment Expense, we made our best estimate of fair value using valuation methods based on the most current information at that time. Fluctuations in realized sales proceeds versus the estimated fair value of the asset are generally due to a variety of factors including differences in subsequent market conditions, the level of bidder interest, timing and terms of the transactions and management's analysis of the benefits of the transaction.

ASSET RETIREMENT OBLIGATIONS—In accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"), the Company records the fair value of the liability for a legal obligation to retire an asset in the period in which the obligation is incurred. When a new liability is recognized, the Company will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, the Company eliminates the liability and, based on the actual cost to retire, may incur a gain or loss.

CONDITIONAL ASSET RETIREMENT OBLIGATIONS—Pursuant to Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN No. 47"), the Company records the estimated fair value of conditional asset retirement obligations. The Company's asset retirement obligations covered by FIN No. 47 primarily include conditional obligations to demolish assets or return assets in good working condition at the end

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the contractual or concession term, and for the removal of equipment containing asbestos and other contaminants.

GUARANTOR ACCOUNTING—Pursuant to FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others*, at the inception of a guarantee, the Company records the fair value of a guarantee as a liability, with the offset dependent on the circumstances under which the guarantee was issued.

INCOME TAXES—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities, and their respective income tax bases. The Company establishes a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. As discussed in Note 20—Income Taxes, in June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN No. 48") which applied to our financial statements beginning January 1, 2007. The Company adopted FIN No. 48 on January 1, 2007 and recognized a cumulative effect of $53 million of applying the provisions of this Interpretation as an adjustment to beginning retained earnings. FIN No. 48 applies to all tax positions accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*, ("SFAS No. 109") and requires the Company's tax positions to be evaluated under a more-likely-than-not recognition threshold and measurement analysis before they can be recognized for financial statement reporting.

Uncertain tax positions have been classified as noncurrent income tax liabilities unless expected to be paid in one year. The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the Consolidated Statements of Operations.

FOREIGN CURRENCY TRANSLATION—A business' functional currency is the currency of the primary economic environment in which the business operates and is generally the currency in which the business generates and expends cash. Subsidiaries and affiliates whose functional currency is other than the U.S. Dollar translate their assets and liabilities into U.S. Dollars at the current exchange rates in effect at the end of the fiscal period. The revenue and expense accounts of such subsidiaries and affiliates are translated into U.S. Dollars at the average exchange rates that prevailed during the period. Translation adjustments are included in accumulated other comprehensive loss, a separate component of stockholders' equity. Gains and losses on intercompany foreign currency transactions which are long-term in nature, which the Company does not intend to settle in the foreseeable future, are also recognized in accumulated other comprehensive loss. Gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in determining net income.

REVENUE RECOGNITION—The revenue of the Utilities business is classified as regulated on the Consolidated Statement of Operations. Revenues from the sale of energy are recognized in the period during which the sale occurs. The calculation of revenues earned but not yet billed is based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month. Differences between actual and estimated unbilled revenues have been immaterial. The revenues from the Generation business are classified as non-regulated and are recognized based upon output delivered and capacity provided at

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

rates as specified under contract terms or prevailing market rates. The Company has businesses wherein it makes sales and purchases of power to and from Independent System Operators ("ISOs") and Regional Transmission Organizations ("RTOs"). In those instances, the Company accounts for these transactions on a net hourly basis because the transactions are settled on a net hourly basis.

GENERAL AND ADMINISTRATIVE EXPENSES—General and administrative expenses include corporate and other expenses related to corporate staff functions and initiatives, primarily executive management, finance, legal, human resources, information systems and certain development costs which are not allocable to our business segments.

REGULATORY ASSETS AND LIABILITIES—The Company accounts for certain of its regulated operations under the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* ("SFAS No. 71"). As a result, AES records assets and liabilities that result from the regulated ratemaking process that are not recognized under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred due to the probability of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities and the status of any pending or potential deregulation legislation. If future recovery of costs previously deferred ceases to be probable, the asset write-offs are recognized in continuing operations.

DERIVATIVES—The Company enters into various derivative transactions in order to hedge its exposure to certain market risks. AES primarily uses derivative instruments to manage its interest rate, commodity and foreign currency exposures. The Company does not enter into derivative transactions for trading purposes.

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as amended, the Company recognizes all derivatives, except those designated as normal purchase or normal sales at inception as either assets or liabilities in the balance sheet and measures those instruments at fair value. Changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met. Gains and losses related to derivative instruments that qualify as hedges are recognized in the same category as generated by the underlying asset or liability. Gains or losses on derivatives that do not qualify for hedge accounting are recognized as interest income or expense for interest rate derivatives, foreign currency gains or losses on foreign currency derivatives, and revenue or cost of sales for commodity derivatives.

SFAS No. 133 enables companies to designate qualifying derivatives as hedging instruments based on the exposure being hedged. These hedge designations include fair value hedges and cash flow hedges. Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge are recognized in earnings as offsets to the changes in fair value of the exposure being hedged. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as, a cash flow hedge are deferred in accumulated other comprehensive income and are recognized into earnings as the hedged transactions affect earnings. Any ineffectiveness is recognized in earnings immediately. The ineffective portion is recognized as interest income or expense for interest rate hedges, foreign currency gains or losses on foreign currency hedges, and

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

non-regulated revenue or non-regulated cost of sales for commodity hedges. For all hedge contracts, the Company maintains formal documentation of the hedge and effectiveness testing in accordance with SFAS No. 133. If AES deems that the derivative is not highly effective as a hedge, hedge accounting will be discontinued prospectively.

For cash flow hedges of forecasted transactions, AES estimates the future cash flows represented by the forecasted transactions and evaluates the probability of the occurrence and timing of such transactions. Changes in conditions or the occurrence of unforeseen events could require discontinuance of hedge accounting or could affect the timing of the reclassification of gains or losses on cash flow hedges from accumulated other comprehensive loss into earnings.

See Note 6—Fair Value of Financial Instruments and the Company's fair value policy for additional discussion regarding the determination of the fair value of the Company's derivative assets and liabilities.

SHARE-BASED COMPENSATION—The Company accounts for stock-based compensation plans under the fair value recognition provision of SFAS No. 123, *Share-Based Payment*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* ("SFAS No. 123(R)"). Currently, the Company uses a Black-Scholes Option pricing model to estimate the fair value of stock options granted to employees.

AES adopted SFAS No. 123(R) effective January 1, 2006. For transition purposes, AES elected the modified prospective application method. Under this application method, SFAS No. 123(R) applies to new awards and to awards modified, repurchased or cancelled after January 1, 2006. The standard requires companies to recognize compensation cost relating to share-based payment transactions in their financial statements. That cost is measured on the grant date based on the fair value of the equity or liability instruments issued and is expensed on a straight-line basis over the requisite service period, net of estimated forfeitures.

In addition, effective January 1, 2006, AES adopted FASB Staff Position ("FSP") No. SFAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, which provides the Company the option to use the "short-cut method" for calculating the historical pool of windfall tax benefits upon adoption of SFAS No. 123(R).

SALES OF STOCK BY A SUBSIDIARY—The issuance or sale of previously unissued shares of stock by a subsidiary of the Company are accounted for as capital transactions as permitted by SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary* ("SAB No. 51"). Sales of stock of a subsidiary when no new shares are issued are not treated as capital transactions and may result in either a gain or loss on the sale.

PENSION AND OTHER POSTRETIREMENT PLANS—The Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), effective December 31, 2006, which requires recognition of an asset or liability in the balance sheet reflecting the funded status of pension and other postretirement benefits plans with current-year changes in the funded status recognized in accumulated other comprehensive income. The plan assets are recorded at fair value. The Company recognized a cumulative adjustment to adopt the recognition provisions of SFAS No. 158 as of December 31, 2006. AES adopted the measurement date provisions

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the standard, which require a year-end measurement date of plan assets and obligations for all defined benefit plans, for the fiscal year ended December 31, 2008, resulting in a cumulative adjustment to retained earnings of $1 million as of December 31, 2008.

MINORITY INTEREST—Where the Company's ownership percentage of a consolidated subsidiary is less than 100 percent, the minority ownership interests are reported in our Consolidated Balance Sheets as "Minority Interest". The minority ownership interest in our earnings, net of tax, is classified as "Minority interest expense" in our consolidated statements of operations. Although in general, the minority ownership interest in earnings is calculated based on ownership percentage, certain of our wind businesses use the hypothetical liquidation at book value ("HLBV") method in consolidation. HLBV uses a balance sheet approach, which measures equity in income or loss by calculating the change in the amount of net worth partners are legally able to claim based on a liquidation of the entity at the beginning of a reporting period compared to the end of that period. This method is used in AES Wind ventures which contain agreements designating different allocations of value among investors, where the allocations change in form or percentage over the life of the venture.

FAIR VALUE—The Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157") for financial assets and liabilities on January 1, 2008. SFAS No. 157 was applied prospectively, except for changes in fair value of existing derivative financial instruments that include an adjustment for a blockage factor, existing hybrid instruments measured at fair value and financial instruments accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF No. 02-3"), under which day one gain or loss recognition was prohibited. For these instruments, the impact of the adoption of SFAS No. 157 can be recorded as an adjustment to beginning retained earnings in the year of adoption. The Company did not have any of these financial instruments; therefore there is no cumulative impact of the adoption of SFAS No. 157 for AES. The adoption of SFAS No. 157 did not materially impact the Company's financial condition, results of operations, or cash flows.

The Company applies SFAS No. 157 to determine the fair value of short-term and long-term investments in marketable debt and equity securities, included in the balance sheet line items "Short-term investments" and "Other assets (Noncurrent)", derivative assets, included in "Other current assets" and "Other assets (Noncurrent)" and derivative liabilities, included in "Accrued and other liabilities (current)" and "Other long-term liabilities". Effective January 1, 2009, the Company will also apply SFAS No. 157 to nonrecurring fair value measurements of nonfinancial assets and liabilities.

Fair value, as defined in SFAS No. 157, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. The principal or most advantageous market should be considered from the perspective of the reporting entity. SFAS No. 157 requires that the Company reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Reporting entities are required to consider factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, both of the reporting entity (for liabilities) and of the counterparty (for assets). Due to the decentralization and nature of derivatives (interest rate swaps) associated with the

Company's non-recourse debt, credit risk for AES on such derivatives is assessed at the subsidiary level rather than at the Parent Company level. SFAS No. 157 also excludes transaction costs and any adjustments for blockage factors, which were allowable under previous accounting standards, from the instruments' fair value determination.

The Company uses valuation techniques and methodologies that maximize the use of observable inputs and minimize the use of unobservable inputs. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. The valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

To increase consistency and enhance disclosure of the fair value of financial instruments, SFAS No. 157 creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

Level 1—unadjusted quoted prices in active markets accessible by the reporting entity for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—pricing inputs other than quoted market prices included in Level 1 that are based on observable market data, that are directly or indirectly observable for substantially the full term of the asset or liability. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3—pricing inputs that are unobservable, or less observable, from objective sources. Unobservable inputs should only be used to the extent observable inputs are not available. These inputs maintain the concept of an exit price from the perspective of a market participant and should reflect assumptions of other market participants. An entity should consider all market participant assumptions that are available without unreasonable cost and effort. These are given the lowest priority and are generally used in internally developed methodologies to generate management's best estimate of the fair value when no observable market data is available.

The fair value of the Company's investments in marketable debt and equity securities is generally based on quoted market prices or other observable market data such as interest rate indices. The Company's marketable investments are primarily certificates of deposit, government debt securities and money market funds. Derivatives are valued using observable data as inputs into internal valuation models. Additional discussion of the Company's investments in marketable debt and equity securities can be found in Note 4—Investments in Marketable Securities. The Company's derivatives primarily consist of interest rate swaps, foreign currency instruments, and commodity and embedded derivatives. Additional discussion regarding the nature of these financial instruments and valuation techniques can be found in Note 6—Fair Value of Financial Instruments.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities, but does not expand the application of fair value accounting to any new circumstances. The Company adopted SFAS No. 157 on January 1, 2008. See the Company's Fair Value policy footnote above for additional details.

FSP No. 157-1: Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ("FSP No. 157-1").

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1. FSP No. 157-1 excludes SFAS No. 13, *Accounting for Leases*, ("SFAS No. 13") and most other accounting pronouncements that address fair value measurement of leases from the scope of SFAS No. 157.

FSP No. 157-2: Effective Date of FASB Statement No. 157 ("FSP No. 157-2").

In February 2008, the FASB issued FSP No. 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008, or January 1, 2009 for AES. AES continues to evaluate the future impact of SFAS No. 157 on these assets and liabilities but at this time does not believe the impact will be material.

FSP No. 157-3: Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP No. 157-3").

In October 2008, the FASB issued FSP No. 157-3, which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance emphasizes that determining fair value in an inactive market depends on the facts and circumstances and may require the use of significant judgments. FSP No. 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for AES at September 30, 2008. The adoption of FSP No. 157-3 did not have a material impact on the Company.

SFAS No. 159: The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FAS No. 115 ("SFAS No. 159").

In February 2007, the FASB issued SFAS No. 159, which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Company adopted SFAS No. 159 effective January 1, 2008. As allowed by the standard, the Company did not elect the fair value option for the measurement of any eligible assets or liabilities. Therefore, the January 1, 2008 adoption did not have an impact on the Company.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FSP FAS 133-1 and FIN 45-4: Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No.45; and Clarification of the Effective Date of FASB Statement No. 161 ("FSP No. FAS 133-1 & FIN 45-4" or "the FSP").

In September 2008, the FASB issued the FSP to address the concerns of financial statement users that existing disclosure requirements under SFAS No. 133 do not adequately reflect the potential adverse effects of changes in credit risk on the financial statements of the sellers of credit derivatives. FSP No. FAS 133-1 & FIN 45-4 requires disclosure of additional information about these potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of sellers of credit derivatives. The disclosures are required for all credit derivatives, whether freestanding or embedded in a hybrid instrument. The FSP also amends FIN No. 45 to require additional disclosure about the current status of the payment performance risk of a guarantee. This new disclosure applies to all guarantees, not just those related to credit risk. The provisions in the FSP are effective for reporting periods ending after November 15, 2008, or December 31, 2008 for AES. AES has incorporated these additional disclosures into its Form 10-K for the year ended December 31, 2008. Comparative disclosures are required for periods subsequent to adoption. Additionally, the FSP clarifies that SFAS No. 161 is effective for all periods, including quarterly and annual periods beginning after November 15, 2008, or January 1, 2009 for AES.

FSP No. FAS 140-4 and FIN 46(R)-8: Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP No. FAS 140-4 & FIN 46(R)-8").

In December 2008, the FASB issued FSP No. FAS 140-4 & FIN 46(R)-8, which expands the required disclosures pertaining to an enterprise's involvement with VIEs and is intended to provide more transparent information related to that involvement. The new disclosure requirements include additional information regarding consolidated VIEs as well as a requirement for sponsors of a VIE to disclose certain information even if they do not hold a significant financial interest in the VIE. FSP No. FAS 140-4 & FIN 46(R)-8 is effective for reporting periods ending after December 15, 2008 but there was no material impact to our disclosures.

The following accounting standards have been issued, but as of December 31, 2008 are not yet effective and have not been adopted by AES.

SFAS No. 141(revised 2007): Business Combinations ("SFAS No. 141(R)") and SFAS No. 160: Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS No. 160").

In December 2007, the FASB issued SFAS No. 141(R) and SFAS No. 160. SFAS No. 141(R) will significantly change how business acquisitions are accounted for at the acquisition date and in subsequent periods. The standard changes the accounting for the business combination at the acquisition date to a fair value based approach rather than the cost allocation approach currently used. Other differences include changes in the accounting for acquisition related costs, contingencies and income taxes. SFAS No. 160 changes the accounting and reporting for minority interests, which will be classified as a component of equity and will be referred to as noncontrolling interests. SFAS No. 141(R) and SFAS No. 160 will be effective for public companies for fiscal years beginning on or after December 15, 2008, January 1, 2009 for AES. SFAS No. 141(R) and SFAS No. 160 will be applied

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

prospectively, except for the presentation and disclosure requirements in SFAS No. 160 for existing minority interests which will require retroactive adoption. Early adoption is prohibited. AES has not completed its analysis of the potential future impact of SFAS No. 141(R) and SFAS No. 160.

SFAS No. 161: Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 ("SFAS No. 161").

In March 2008, the FASB issued SFAS No. 161, which expands the disclosure requirements under SFAS No. 133. The enhanced quantitative and qualitative disclosures will include how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company on January 1, 2009. SFAS No. 161 also amends SFAS No. 107, *Disclosures about Fair Value Instruments* ("SFAS No. 107"), to clarify that derivative instruments are subject to SFAS No. 107 disclosure requirements regarding concentration of credit risk. The Company will incorporate the additional disclosures beginning with its Form 10-Q for the three months ending March 31, 2009.

SFAS No 162: The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162").

In May 2008, the FASB issued SFAS No. 162, which identifies the framework, or hierarchy for selecting accounting principles to be used in preparing financial statements presented in conformity with U.S. GAAP. SFAS No. 162 amends the existing U.S. GAAP hierarchy established and set forth in the American Institute of Certified Public Accountants ("AICPA") Statement of Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* ("SAS 69"). The framework serves as a guide in determining the appropriate accounting treatment to be used for a transaction or event. We do not expect SFAS No. 162 to have an impact on the Company's current accounting practices. The Standard will become effective 60 days following the SEC's approval of Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principle*s.

FSP No. FAS 142-3: Determination of the Useful Life of Intangible Assets ("FSP No. FAS 142-3").

In April 2008, the FASB issued FSP No. FAS 142-3, which amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP No. 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS No. 141(R). The FSP also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, January 1, 2009 for AES, and is to be applied prospectively. Early adoption is prohibited. AES has not completed its analysis of the potential impact of FSP No. 142-3, but does not believe the adoption will have a material impact on the Company's financial condition, results of operations, or cash flows.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FSP No. APB 14-1: Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("FSP No. APB 14-1").

In May 2008, the FASB issued FSP No. APB 14-1, which clarifies that convertible debt instruments that may be settled in cash or other assets upon conversion are not addressed by APB No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FSP APB No. 14-1 requires an entity to separately account for the liability and equity components of a convertible instrument to reflect an entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB No. 14-1 also expands the disclosure requirements regarding convertible debt instrument terms and how the instrument is reflected in an entity's financial statements. AES has reviewed the impact of FSP No. APB 14-1 and determined that FSP No. APB 14-1 is not applicable for any of the Company's instruments.

EITF 08-3: Accounting by Lessees for Maintenance Deposits ("EITF 08-3").

In June 2008, the Emerging Issues Task Force ("EITF") issued EITF 08-3, which clarifies how a lessee accounts for nonrefundable maintenance deposits. Under EITF 08-3, nonrefundable maintenance deposits will be recorded as a deposit asset and as reimbursable maintenance is performed by the lessee, the underlying maintenance is expensed or capitalized in accordance with the lessee's accounting policy. EITF 08-3 is effective for the Company beginning on January 1, 2009. Early adoption is not permitted. The effect of adoption will be reflected as a change in accounting principle through a cumulative effect adjustment to the opening balance of retained earnings in the year of adoption. AES is currently reviewing the potential impact of EITF 08-3, but at this time does not believe it will have a material impact on the Company's financial statements.

FSP No. FAS 132(R)-1: Employers' Disclosures about Postretirement Benefit Plan Assets ("FSP No. FAS 132(R)-1").

In December 2008, the FASB issued FSP No. FAS 132(R)-1, which provides guidance regarding an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP is effective for fiscal years ending after December 15, 2009, or the year ending December 31, 2009 for AES. The Company will incorporate the required disclosures in its Form 10-K for the year ending December 31, 2009.

EITF 08-6: Equity Method Investment Accounting Considerations ("EITF 08-6").

In November 2008, EITF 08-6 was issued. This Issue clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 makes certain amendments to APB 18. The Company does not expect EITF 08-6 to have a significant impact on current practice. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, consistent with the effective dates of Statement 141(R) and Statement 160, or January 1, 2009 for AES.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

2. INVENTORY

Inventories primarily consist of coal, fuel oil and other raw materials used to generate power, and spare parts and supplies used to maintain power generation and distribution facilities. Most of the Company's inventories are reflected at the lower of cost or market using either the average cost method (81%) or the first-in, first-out ("FIFO") method (17%). The remaining 2% are valued using actual cost and specific identification.

The following table summarizes our inventory balances as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Coal, fuel oil and other raw materials	$311	$236
Spare parts and supplies	263	240
Total	$574	$476

3. PROPERTY, PLANT & EQUIPMENT

The following table summarizes the components of the electric generation and distribution assets and other and estimated useful lives:

	Estimated Useful Life	December 31,	
		2008	2007
		(in millions)	
Electric generation and distribution facilities	3 - 50 yrs.	$ 21,973	$ 21,978
Other buildings	5 - 50 yrs.	1,673	1,839
Furniture, fixtures and equipment	3 - 30 yrs.	532	593
Other	2 - 50 yrs.	466	272
Total electric generation and distribution assets and other		24,644	24,682
Accumulated depreciation		(7,515)	(7,519)
Net electric generation and distribution assets and other(1)		$ 17,129	$ 17,163

(1) Net electric generation and distribution assets and other related to Jiaozuo of $70 million and Ekibastuz and Maikuben of $151 million as of December 31, 2007 are excluded from the table above and are included in the noncurrent assets and liabilities of held for sale and discontinued businesses.

The following table summarizes interest capitalized during development and construction on qualifying assets for the years ended December 31, 2008, 2007 and 2006:

	December 31,		
	2008	2007	2006
		(in millions)	
Interest capitalized during development & construction	$ 176	$ 86	$ 50

3. PROPERTY, PLANT & EQUIPMENT (Continued)

Recoveries of liquidating damages from construction delays and government subsidies are reflected as a reduction in the related projects' construction costs. Approximately $11.5 billion of property, plant and equipment, net of accumulated depreciation, was mortgaged, pledged or subject to liens as of December 31, 2008.

Depreciation expense, including the amortization of assets recorded under capital leases, was $973 million, $898 million and $802 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Net electric generation and distribution assets and other include unamortized internal use software costs of $104 million and $35 million as of December 31, 2008 and 2007, respectively. Amortization expense associated with software costs was $41 million, $20 million and $21 million for the years ended December 31, 2008, 2007 and 2006.

The following table summarizes regulated and non-regulated generation and distribution facilities property, plant and equipment and accumulated depreciation as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Regulated assets	$ 9,751	$ 10,710
Regulated accumulated depreciation	(3,901)	(4,219)
Regulated generation, distribution assets, and other, net	5,850	6,491
Non-regulated assets	14,893	13,972
Non-regulated accumulated depreciation	(3,614)	(3,300)
Non-regulated generation, distribution assets, and other, net	11,279	10,672
Total generation and distribution assets, and other, net	$ 17,129	$ 17,163

The following table summarizes the amounts recognized, which were related to asset retirement obligations, for the years ended December 31, 2008 and 2007:

	2008	2007
	(in millions)	
Balance at January 1	$64	$51
Additional liabilities incurred	5	14
Liabilities settled	(1)	(3)
Accretion expense	5	4
Change in estimated cash flows	(2)	(3)
Translation adjustments	(1)	1
Balance at December 31	$70	$64

The Company's retirement obligations covered by SFAS No. 143 primarily include active ash landfills, water treatment basins and the removal or dismantlement of certain plant and equipment. The fair value of legally restricted assets for purposes of settling asset retirement obligations was less than $1 million as of December 31, 2008 and 2007.

4. INVESTMENTS IN MARKETABLE SECURITIES

The following table sets forth the Company's investments in marketable debt and equity securities classified as trading and available-for-sale as of December 31, 2008 and 2007 by type of investment and by level within the fair value hierarchy in accordance with SFAS No. 157. Financial assets and liabilities have been classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the determination of the fair value of the assets and liabilities and their placement within the fair value hierarchy levels.

	December 31,				
	2008				2007
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Total
	(in millions)				
AVAILABLE-FOR-SALE:					
Unsecured debentures[2]	$ —	$ 674	$ —	$ 674	$ 573
Certificates of deposit[2]	—	493	—	493	147
Government debt securities	—	32	—	32	268
Mutual funds	—	—	—	—	273
Common stock	1	—	—	1	42
Money market funds	—	21	—	21	3
Other	—	42	—	42	26
Subtotal	$ 1	$ 1,262	$ —	$1,263	$1,332
TRADING:					
Government debt securities	—	—	—	—	6
Subtotal	—	—	—	—	6
TOTAL	$ 1	$ 1,262	$ —	$1,263	$1,338

(1) See the Company's fair value policy in Note 1 for further detail regarding the fair value hierarchy and Note 6—Fair Value of Financial Instruments for further detail on types of investments held.

(2) Unsecured debentures are instruments similar to certificates of deposit that are held primarily by our subsidiaries in Brazil. The unsecured debentures and certificates of deposit included here do not qualify as cash equivalents under SFAS No. 95, *Statement of Cash Flows*, but meet the definition of a security under SFAS No. 115 and are therefore classified as available-for-sale securities.

4. INVESTMENTS IN MARKETABLE SECURITIES (Continued)

The following table sets forth the Company's investments in marketable debt securities classified as held-to-maturity as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Government debt securities	$ 93	$—
Certificates of deposit	45	36
Other	12	—
Total	$150(1)	$36(1)

(1) At December 31, 2008 and 2007, $14 million and $28 million, respectively, of investments classified as held-to-maturity were restricted or pledged as collateral for certain debt arrangements.

The amortized cost approximated fair value of the held-to-maturity investments at December 31, 2008 and 2007.

As of December 31, 2008, the stated maturities for the investments (including restricted investments) ranged from one month to three years.

The following table summarizes the unrealized gains and losses related to sales of and investments in available-for-sale securities. There were no realized gains or losses on the sale of available-for-sale securities.

	December 31,		
	2008	2007	2006
		(in millions)	
Gains (losses) included in other comprehensive income	$ (2)	$ 3	$ (3)
Proceeds from sales	$ 5,006	$ 2,345	$ 1,706
Gross realized gains on sales	$ —	$ —	$ —
Gross realized losses on sales	$ —	$ —	$ —

The Company recognized other-than-temporary impairment charges of $15 million and $52 million for the years ended December 31, 2008 and 2007, respectively. There was no other-than-temporary impairment expense in 2006. In 2008, the impairment primarily related to the Company's investment in a company developing a commercial facility for a "blue gas" (coal to gas) technology project. The Company made this investment in September 2007 and accounted for the investment in convertible preferred shares under the cost method of accounting. During the fourth quarter of 2008, the market value of the shares materially declined due to downward trends in the capital markets and management concluded that the decline was other-than-temporary and recorded an impairment charge of $10 million.

In 2007, other-than-temporary impairment related to the Company's investment in AgCert International ("AgCert"). The Company made its first significant investment in the greenhouse gas ("GHG") emission area, acquiring a 9.9% ownership interest in AgCert for $52 million in May 2006

4. INVESTMENTS IN MARKETABLE SECURITIES (Continued)

and, in accordance with SFAS No. 115, classified these securities as "available-for-sale". AgCert is an Ireland-based company which uses agricultural sources to produce GHG emission offsets under the Kyoto protocol. At that time, our investment in the stock, which was traded on the London Stock Exchange was classified as a long-term available-for-sale investment and revalued at the end of each reporting period, with changes in the market value of the investment reflected in accumulated other comprehensive income. There was a material decline in the market value of these securities, based on a continual decline in the traded market price during the year ended December 31, 2007, and the Company recognized an other-than-temporary impairment charge of $52 million.

5. DERIVATIVE INSTRUMENTS

AES utilizes derivative financial instruments to hedge interest rate risk, foreign exchange risk and commodity price risk. The Company utilizes interest rate derivatives to hedge interest rate risk on variable rate debt. Most of AES's interest rate derivatives are designated and qualify as cash flow hedges. Currency forwards, options and swap agreements are utilized by the Company to hedge foreign exchange risk. The Company utilizes electric and fuel derivative instruments, including swaps, options, forwards and futures, to hedge the risk related to electricity sales and fuel purchases.

Certain derivatives are not designated as hedging instruments. While these instruments economically hedge interest rate risk, foreign exchange risk or commodity price risk, they do not qualify for hedge accounting treatment as defined by SFAS No. 133.

The following table sets forth the Company's investments in derivative instruments as of December 31, 2008 by type of derivative and by level within the fair value hierarchy in accordance with SFAS No. 157. Financial assets and liabilities have been classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the

5. DERIVATIVE INSTRUMENTS (Continued)

determination of the fair value of the assets and liabilities and their placement within the fair value hierarchy levels.

	December 31, 2008	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Assets				
Current assets:				
Commodity derivatives	$ 132	$ —	$ 91	$ 41
Foreign currency derivatives	1	—	—	1
Interest rate swaps	1	—	1	—
Total current assets	$ 134	$ —	$ 92	$ 42
Noncurrent assets:				
Commodity derivatives	191	—	9	182
Foreign currency derivatives	16	—	—	16
Interest rate swaps	9	—	—	9
Total noncurrent assets	$ 216	$ —	$ 9	$ 207
Total assets	$ 350	$ —	$ 101	$ 249
Liabilities				
Current liabilities:				
Commodity derivatives	$ 1	$ —	$ —	$ 1
Foreign currency derivatives	3	—	3	—
Foreign currency forwards and swaps	15	—	15	—
Interest rate swaps	99	—	75	24
Interest rate caps and floors	7	—	4	3
Total current liabilities	$ 125	$ —	$ 97	$ 28
Noncurrent liabilities:				
Commodity derivatives	$ 3	—	—	3
Foreign currency derivatives	3	—	1	2
Foreign currency forwards and swaps	45	—	—	45
Interest rate swaps	340	—	118	222
Interest rate caps and floors	18	—	—	18
Total noncurrent liabilities	$ 409	$ —	$ 119	$ 290
Total liabilities	$ 534	$ —	$ 216	$ 318

5. DERIVATIVE INSTRUMENTS (Continued)

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008:

	Level 3
	(in millions)
Beginning balance at December 31, 2007[1]	$ 84
Total gains/losses (realized/unrealized)[1]	
Included in earnings	(106)
Included in other comprehensive income	75
Purchases, issuances and settlements[1]	141
Assets transferred in/(out) of Level 3	(26)
Liabilities transferred (in)/out of Level 3[2]	(237)
Ending balance at December 31, 2008[1]	$ (69)
Total gains/losses for the period included in earnings attributable to the change in unrealized gains/losses relating to assets and liabilities held at December 31, 2008 and 2007	$ (8)

(1) Derivative assets and (liabilities) are presented on a net basis.

(2) Liabilities transferred into Level 3 primarily resulted from an increase in the significance of the judgments used in applying observable inputs to credit valuation adjustments in the valuation of these derivative instruments.

The maximum length of time over which AES is hedging its exposure to variability in future cash flows for forecasted interest, foreign currency and commodity transactions is 19 years, 20 years and 2 years, respectively. For the years ended December 31, 2008, 2007 and 2006, pre-tax (losses) gains of $(35) million, $(2) million, and $3 million, respectively, were reclassified into earnings as a result of the discontinuance of a cash flow hedge because it was probable that the forecasted transaction would not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month time period. The Company recognized after-tax (losses) gains of $(8) million, $6 million, and $18 million related to the ineffective portion of derivatives qualifying as cash flow hedges for the years ended December 31, 2008, 2007 and 2006, respectively.

After-tax gains (losses) related to the changes in fair value of derivatives that do not qualify for hedge accounting were $10 million, $(21) million and $22 million for the years ended December 31, 2008, 2007 and 2006, respectively. The after-tax losses include embedded foreign currency derivatives, interest rate options, commodity derivatives and embedded derivatives. The composition and methodology for fair value determination of derivative assets and liabilities are further discussed in Note 6—Fair Value of Financial Instruments.

5. DERIVATIVE INSTRUMENTS (Continued)

Amounts recognized in accumulated other comprehensive loss due to hedges, after income taxes, during the years ended December 31, 2008, 2007 and 2006, respectively, are as follows:

December 31,	Balance, beginning of year	Reclassification to earnings	Reclassification upon sale or disposal	Change in fair value	Balance, December 31
			(in millions)		
2008	$ (232)	$ 76	$ —	$ (107)	$ (263)
2007	(113)	(52)	—	(67)	(232)
2006	(382)	(6)	(3)	278	(113)

Approximately $16 million of the pre-tax accumulated other comprehensive loss related to derivative instruments as of December 31, 2008 is expected to be recognized as a decrease to income from continuing operations before income taxes over the next twelve months. This estimate includes estimated losses of $0 million, $1 million and $15 million related to foreign currency, commodity and interest rate instruments, respectively. The estimated commodity losses of $1 million relate to a power purchase agreement where the normal purchase normal sale scope exception from derivative accounting was elected as of December 31, 2008, which will also result in an estimated $8 million decrease to income from continuing operations before income taxes over the next twelve months due to the amortization of the derivative asset of $187 million. The balance in accumulated other comprehensive loss related to derivative transactions will be reclassified into earnings as interest expense is recognized for hedges of interest rate risk, as depreciation is recognized for hedges of interest that is capitalized, as foreign currency transaction and translation gains and losses are recognized for hedges of foreign currency exposure, and as electric and gas sales and purchases are recognized for hedges of forecasted electric and fuel transactions. These balances are included in the Consolidated Statement of Cash Flows as operating and/or investing activities based on the nature of the underlying transaction.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of current financial assets, current financial liabilities, debt service reserves and other deposits is estimated to be equal to their reported carrying amounts. The fair value of non-recourse debt, excluding capital leases, is estimated differently based upon the type of loan. For variable rate loans, carrying value approximates fair value. For fixed rate loans, the fair value is estimated using quoted market prices or discounted cash flow analyses. See Note 10—Long-Term Debt for additional information on the fair value and carrying value of debt. The fair value of interest rate swap, cap and floor agreements, foreign currency forwards and swaps, and energy derivatives is the estimated net amount that the Company would receive or pay to terminate the agreements as of the balance sheet date.

The estimated fair values of the Company's assets and liabilities have been determined using available market information. The estimates are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In September 2006, the FASB issued SFAS No. 157, which provided a framework for measuring fair value and established a fair value hierarchy of the valuation techniques used to measure the fair value of financial assets and liabilities and expands disclosures about fair value measurement. The

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Company adopted the provisions of SFAS No. 157 as of January 1, 2008, for financial assets and liabilities. Although the adoption of SFAS No. 157 did not materially impact the Company's financial condition, results of operations or cash flow, additional disclosures about our fair value measurements are discussed below.

Valuation Techniques:

SFAS No. 157 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset. The Company does not currently determine the fair value of any of our financial assets and liabilities using the cost approach. Financial assets and liabilities that are measured at fair value on a recurring basis at AES fall into two broad categories: investments and derivatives. Our investments are generally measured at fair value using the market approach and our derivatives are valued using the income approach.

Investments

These investments generally consist of debt and equity securities. Equity securities are adjusted to fair value using quoted market prices. Debt securities primarily consist of certificates of deposit, government debt securities and money market funds held by our Brazilian subsidiaries. The implementation of SFAS No. 157 did not result in a material change in the fair value of these investments due to the fact that these investments are primarily held by highly rated institutions and governmental agencies and therefore, the consideration of counterparty credit risk did not have a material impact on the determination of fair value. Returns and pricing on these instruments are generally indexed to the CDI (Brazilian equivalent to LIBOR), Selic (overnight borrowing rate) or IGPM (inflation) rates in Brazil and are adjusted based on the banks' assessment of the specific businesses. Fair value is determined based on comparisons to market data obtained for similar assets and are considered Level 2 inputs. The Company holds some auction rate securities through IPALCO Enterprises Inc. ("IPALCO"), a U.S. subsidiary in Indiana. The fair value of these securities was $2 million as of December 31, 2008. Based on the current credit environment, these were evaluated for potential impairment and were determined to not be impaired at this time. For more detail regarding the fair value of investments see Note 4—Investments in Marketable Securities.

Derivatives

When deemed appropriate, the Company manages its risk from interest and foreign currency exchange rate and commodity price fluctuations through the use of derivative financial assets and liabilities. The Company's derivatives are primarily interest rate swaps on non-recourse debt to establish a fixed rate on variable rate debt, foreign exchange instruments to hedge against currency fluctuations and derivatives or embedded derivatives associated with commodity contracts. The Company's subsidiaries are counterparties to various interest rate swaps, interest rate options, foreign currency

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

swaps and commodity and embedded derivatives in certain agreements, generally PPAs. The fair value of our derivative portfolio was determined using internal valuation models, most of which are based on observable market inputs including interest rate curves and forward and spot prices for currencies and commodities. The primary pricing inputs used in determining the fair value of our interest rate swaps and our foreign currency exchange swaps are LIBOR swap rates and forward foreign exchange curves with the same duration as the instrument as reported in published information provided by pricing services. For each derivative, the projected forward swap rate is used to determine the stream of cash flows over the remaining term of the contract. The cash flows are then discounted using a spot discount rate to determine the fair value. To the extent that management can estimate the fair value of these assets or liabilities without the use of significant unobservable inputs, these derivatives are included in Level 2.

Derivative assets and liabilities included in Level 3 are also valued using the income approach. Consistent with our Level 2 financial assets and liabilities, the stream of cash flows over the remaining term of the contract is calculated. The cash flows are then discounted using a spot discount rate to determine the fair value. In certain instances, the published curve may not extend through the remaining term of the contract and management must make assumptions to extrapolate the curve. Additionally, in the absence of quoted prices, we may rely on "indicative pricing" quotes from financial institutions to input into our valuation model for certain of our foreign currency swaps. These indicative pricing quotes do not constitute either a bid or ask price and therefore are not considered observable market data. These fair value measurements also include adjustments for credit risk. The magnitude of the credit risk adjustment for contracts with certain counterparties resulted in a Level 3 classification for these contracts as of December 31, 2008.

Fair Value Considerations:

In determining the fair value of our financial instruments, the Company considers the source of observable market data inputs, liquidity of the instrument, the credit risk and risk of nonperformance of itself or the counterparty to the contract. The conditions and criteria used to assess these factors are:

Sources of Market Assumptions:

The Company derives most of its financial instrument market assumptions from market efficient data sources (e.g., Bloomberg and Platt's). In some cases, where market data is not readily available, management uses comparable market sources and empirical evidence to derive market assumptions to determine a financial instrument's fair value.

Market liquidity:

Market liquidity is assessed by the Company based on criteria as to whether the financial instrument participates in an active or inactive market. An active market can be defined as a spot market or settlement mechanism environment and also a potential forward/futures market that is based on the activity in the forward/futures market. A financial instrument is considered to be in an active market if the prices are fully transparent to the market participants, can be measured by market bid and ask quotes, the market has a relatively large proportion of trading volume as compared to the Company's current trading volume and the market has a significant number of market participants that

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

will allow the market to rapidly absorb the quantity of the assets traded without significantly affecting the market price. Other factors the Company considers when determining whether a market is active or inactive include the presence of government or regulatory control over pricing that could make it difficult to establish a market based price upon entering into a transaction.

Nonperformance risk:

The impact of nonperformance risk that includes credit risk considers changes in current market conditions, readily available information on nonperformance risk, letters of credit, collateral, other arrangements available and the nature of master netting arrangements. The Company and its subsidiaries are counterparties to various interest rate swaps, interest rate options, foreign currency swaps, derivatives and embedded derivatives which subject the Company to nonperformance risk. The financial instruments held at the subsidiary level are generally non-recourse to the Parent Company.

Nonperformance risk on the investments held by the Company is incorporated in the investment's exit price that is derived from quoted market data that is used to mark-to-market the investment.

Nonperformance risk on the Company's derivative instruments is an adjustment to the initial asset/liability fair value position that is derived from internally developed valuation models that utilize observable market inputs such as LIBOR interest swap rates, foreign exchange forward curves, and market commodity pricing or, in certain cases, utilize management assumptions to generate extrapolated inputs from observable market data. The Company adjusts for nonperformance risk by deducting a credit valuation adjustment ("CVA") that calculates counterparty risk based on the counterparty's margin or debt spread and the tenor of the respective derivative instrument. The counterparty for a derivative asset position is considered to be the bank or government sponsored banking entity or counterparty to the PPA of the respective subsidiary. The CVA for asset positions is based on the counterparty's credit ratings and debt spreads or, in the absence of readily obtainable credit information, the respective country debt spreads is used as a proxy. The counterparty for a derivative liability position is primarily the Parent Company or the subsidiary. The CVA for liability positions is based on the Parent Company's or the subsidiary's current debt spread, replacement margin with lenders, or in the absence of readily obtainable credit information, the debt spread of the subsidiary's offtaker or the respective country debt spreads are used as a proxy. If the instrument is recourse to the Parent Company, the Parent Company's current debt spread is used to adjust for nonperformance risk.

All derivative instruments are analyzed individually and are subject to unique risk exposures. The aggregate counterparty credit risk adjustments applied to the Company's derivative asset position was $39 million for the year ended December 31, 2008 decreasing the asset position. The aggregate credit risk adjustments applied to the Company's derivative liability position was $105 million for the year ended December 31, 2008 decreasing the liability position.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities at Fair Value

The following table summarizes the carrying value and fair value of the Company's financial assets and liabilities as of December 31, 2008 and 2007.

	December 31,			
	2008		2007	
	Carrying Amount	Fair Value(1)	Carrying Amount	Fair Value(1)
	(in millions)			
Assets				
Marketable securities(2)	$ 1,413	$ 1,413	$ 1,374	$ 1,374
Derivatives(3)	350	350	199	199
Total assets	$ 1,763	$ 1,763	$ 1,573	$ 1,573
Liabilities				
Debt(4)	$ 18,091	$ 15,588	$ 17,990	$ 17,691
Derivatives(3)	534	534	318	318
Total liabilities	$ 18,625	$ 16,122	$ 18,308	$ 18,009

(1) See the Company's fair value policy in Note 1 for further detail regarding the fair value hierarchy.

(2) See Note 4—Investments in Marketable Securities for additional information regarding the classification of marketable securities in the Fair Value Hierarchy in accordance with SFAS No. 157.

(3) See Note 5—Derivative Instruments for additional information regarding the classification of derivative instruments in the Fair Value Hierarchy in accordance with SFAS No. 157.

(4) See Note 10—Long-Term Debt for additional information regarding the fair value of debt.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The following table summarizes the relevant effective equity ownership interest and carrying values for the Company's investments accounted for under the equity method as of December 31, 2008 and 2007.

		December 31,			
		Carrying Value		Ownership Interest %	
Affiliate	Country	2008	2007	2008	2007
AES Solar Ltd	United States	$ 126	$ —	50	—
Barry[1]	United Kingdom	—	—	100	100
Cartagena[1]	Spain	—	34	71	71
CEMIG	Brazil	—	—	10	10
Chigen affiliates	China	179	204	27	27
Elsta	Netherlands	138	126	50	50
Guacolda	Chile	81	67	35	40
Huanghua	China	36	4	49	49
IC Ictas Energy Group	Turkey	94	78	51	51
InnoVent	France	37	28	40	40
OPGC	India	192	223	49	49
Trinidad Generation Unlimited[1]	Trinidad	16	—	60	—
Other affiliates	United States	2	4	—	—
		$ 901	$ 768		
Less: Affiliate loan receivables included above[2]		—	(38)		
Total investments in and advances to affiliates		$ 901	$ 730		

(1) Represent VIEs in which we hold a significant variable interest.

(2) Represents participative loan receivable with Cartagena, included in the Receivable from Affiliates line item in the Consolidated Balance Sheets, that absorbs the Company's share of equity method losses as a result of the initial equity investment having been reduced to zero.

AES Barry Ltd.**—**The Company holds a 100% ownership interest in AES Barry Ltd. ("Barry"), a 230 MW gas-fired combined cycle power plant in the United Kingdom. As a result of a debt agreement, no material financial or operating decisions can be made without the banks' consent, and the Company does not control Barry. As of December 31, 2008 and 2007 other long-term liabilities included $49 million and $74 million, respectively, related to this debt agreement.

Cartagena Energia**—**The Company owns 71% of Cartagena Energia ("Cartagena") a 1200 MW power plant in Cartagena, Spain completed in November 2006. The Company's initial investment in Cartagena was approximately $29 million. Cartagena was determined to be a VIE and the Company is not the primary beneficiary due to the fact that the sole customer of the plant absorbs the majority of the commodity price risk. In December 2008, the Company's basis in its investment in Cartagena was reduced to zero and the equity method of accounting was suspended.

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES (Continued)

CEMIG—The Company is a party to a joint venture/consortium agreement through which the Company has a 9.6% equity interest in Companhia Energetica de Minas Gerais ("CEMIG"), an integrated utility in Minas Gerais, Brazil. Although our interest in CEMIG is below the 20% threshold for significant influence, AES has significant influence over the operational and financial policies of CEMIG through representation on the board of directors of CEMIG. In 2002, the Company determined there was an other-than-temporary impairment of its investment in CEMIG and wrote it down to fair market value, $155 million. Additionally, AES established a valuation allowance against a deferred tax asset related to the CEMIG investment. The total amount of these charges, net of tax, was $587 million. As a result, the Company's investment in CEMIG, is a $484 million net liability at December 31, 2008 included in the Other Long-Term Liabilities line item on the Consolidated Balance Sheets. The Company has discontinued the application of the equity method in accordance with its accounting policy regarding equity method investments.

AES Solar Energy Ltd.—In March 2008, the Company formed AES Solar Energy Ltd ("AES Solar"), a joint venture with Riverstone Holdings LLC ("Riverstone"). AES Solar will develop land-based solar photovoltaic panels that capture sunlight to convert into electricity that feed directly into power grids. AES Solar is accounted for under the equity method of accounting based on the Company's 50% ownership and significant influence but not control over the joint venture. Under the terms of the agreement, the Company and Riverstone will each provide up to $500 million of capital over the next five years. As of December 31, 2008, AES had invested approximately $135 million in the joint venture.

Guohua AES (Huanghua) Wind Power Co., Ltd—In May 2007, the Company acquired a 49% interest in Guohua AES (Huanghua) Wind Power Co., Ltd. ("AES Huanghua"), a joint venture that is primarily engaged to develop, construct, own and operate wind farms in China. In the third quarter of 2008, the Company also acquired a 49% interest in three separate wind farm projects in China—Guohua AES ("Hulunbeier") Wind Power Co., Ltd.; Guohua AES ("Chenba'erhu") Wind Power Co., Ltd.; and Guohua AES ("Xinba'erhu") Wind Power Co., Ltd. The Company has invested approximately $20 million in the projects to date.

Trinidad Generation Unlimited—In 2007, the Company began pursuing a development project to construct and operate a 720 MW combined cycle power plant in Trinidad through its wholly owned subsidiary, Trinidad Generation Unlimited ("TGU.") In July 2008, a shareholder agreement was executed establishing the Company's ownership interest in TGU at 60% with the remaining 40% interest held by the Government of Trinidad and Tobago. AES is not considered the primary beneficiary of TGU.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES (Continued)

Summarized Financial Information

The following tables summarize financial information of the Company's 50%-or-less owned affiliates and majority-owned unconsolidated subsidiaries that are accounted for using the equity method.

	50%-or-less Owned Affiliates			Majority-Owned Unconsolidated Subsidiaries		
Years ended December 31,	**2008**	**2007**	**2006(1)**	**2008**	**2007**	**2006**
	(in millions)			(in millions)		
Revenues	$ 1,180	$ 988	$ 938	$ 170	$ 145	$ 16
Gross margin	274	255	275	61	57	(5)
Net income (loss)	83	194	202	(4)	(17)	(22)

December 31,	**2008**	**2007**	**2008**	**2007**
	(in millions)		(in millions)	
Current assets	$ 734	$ 541	$ 222	$ 146
Noncurrent assets	2,626	1,995	1,297	1,164
Current liabilities	563	278	181	267
Noncurrent liabilities	1,264	1,005	1,072	1,015
Minority interest	(163)	(132)	(26)	(14)
Stockholders' equity	1,696	1,385	292	42

(1) Includes information pertaining to Kingston Cogeneration Limited Partnership through March 2006 and U.S. Wind Force LLC through December 2006, the respective disposition dates, and Itabo through May 2006, at which time it became a consolidated subsidiary as a result of the Company's purchase of an additional 25% interest in Itabo. Upon consolidation of Itabo, the Company recognized an extraordinary gain of $21 million.

At December 31, 2008, retained earnings included $137 million related to the undistributed earnings of affiliates. Distributions received from affiliates were $50 million, $59 million and $44 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Refer to Item 1 of this Form 10-K for additional information on these affiliates.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

SFAS No. 142 requires that goodwill be evaluated for impairment at the reporting unit level. A reporting unit is an operating segment as defined by SFAS No. 131*, Disclosures about Segments of an Enterprise and Related Information*, ("SFAS No. 131"), or a component or combination of components within an operating segment with similar economic characteristics that are one level below an operating segment. Generally, each AES business constitutes a reporting unit. Reporting units have been acquired generally in separate transactions. In the event that more than one reporting unit is acquired in a single acquisition, the fair value of each reporting unit is determined, and that fair value is allocated to the assets and liabilities of that unit. If the determined fair value of the reporting unit exceeds the amount allocated to the net assets of the reporting unit, goodwill is assigned to that reporting unit.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

8. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The following table summarizes the changes in the carrying amount of goodwill, by segment as of December 31, 2008, 2007 and 2006:

	December 31,						
	2008			2007			2006
	Carrying amount	Acquisitions	Translation adjustments and Other	Carrying amount	Acquisitions	Translation adjustments and Other	Carrying amount
Latin America—Generation	$ 902	$ —	$ (3)	$ 905	$ —	$ (1)	$ 906
Latin America—Utilities	133	—	—	133	—	—	133
North America—Generation	101	—	(9)	110	11	(11)	110
North America—Utilities	—	—	—	—	—	—	—
Europe & Africa—Generation	166	—	(40)	206	—	3	203
Europe & Africa—Utilities	4	—	(2)	6	—	—	6
Asia—Generation	78	65(1)	(11)	24	—	—	24
Corp/Other & eliminations	37	6	(1)	32	—	—	32
Total	$ 1,421	$ 71	$ (66)	$ 1,416	$ 11	$ (9)	$ 1,414

(1) Includes goodwill acquired for the period of $65 million related to the acquisition of Masinloc.

The Company conducts its annual goodwill impairment analysis as of October 1st each year. For the years ended December 31, 2008 and 2007, the Company had no goodwill impairment. Goodwill impairment of $2 million was recognized during the year ended December 31, 2006 at one of our European generation plants. The fair value of the reporting unit was determined by the income approach using a discounted cash flow valuation model as current quoted market prices were not always available and there was not sufficient evidence that the reporting unit could be bought or sold in the market place between willing third parties. Goodwill impairment is included in "Impairment expense" on the Consolidated Statement of Operations.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

8. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The following tables summarize the balances comprising other intangibles in the accompanying Consolidated Balance Sheets for the years ending December 31, 2008 and 2007:

	December 31, 2008		
	Gross Balance	Accumulated Amortization	Net Balance
	(in millions)		
Sales concessions	$ 165	$ (77)	$ 88
All other	520[1]	(108)	412
Total	$ 685	$ (185)	$ 500

	December 31, 2007		
	Gross Balance	Accumulated Amortization	Net Balance
	(in millions)		
Sales concessions	$ 175	$ (72)	$ 103
All other	464[1]	(101)	363
Total	$ 639	$ (173)	$ 466

(1) All other consists primarily of market access, fuel sourcing and other intangible assets acquired upon the Company's acquisition of certain properties in the state of New York in 1999.

In 2008, the Company acquired intangible assets of $85 million the largest of which was the acquisition of landfill gas rights in El Salvador. The acquired intangible assets included $59 million which were subject to amortization with an average amortization period of 20 years and $26 million of intangible assets not subject to amortization.

The following table summarizes the estimated amortization expense, broken down by intangible asset category, for 2009 through 2013:

	Estimated amortization expense				
	2009	2010	2011	2012	2013
	(in millions)				
Sales concessions	$ 7	$ 7	$ 7	$ 6	$ 6
All other	14	14	14	14	13
Total	$21	$21	$21	$20	$19

Intangible asset amortization expense was $19 million, $23 million and $23 million for the years ended December 31, 2008, 2007 and 2006, respectively. Intangible assets included in the tables above that are not subject to amortization primarily consist of land use rights and emission allowances, which had a carrying value of $83 million at December 31, 2008 and $56 million at December 31, 2007.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

9. REGULATORY ASSETS & LIABILITIES

The Company has recorded regulatory assets and liabilities that it expects to pass through to its customers in accordance with, and subject to, regulatory provisions as follows:

	December 31, 2008	December 31, 2007	Recovery Period
	(in millions)		
REGULATORY ASSETS			
Current regulatory assets:			
Brazil tariff recoveries[2]			
Energy purchases	$ 76	$ 168	Over tariff reset period
Transmission costs, regulatory fees and other	121	127	Over tariff reset period
El Salvador tariff recoveries[3]	136	58	Over tariff reset period
Other[4]	18	27	Various
Total current regulatory assets	$ 351	$ 380	
Noncurrent regulatory assets:			
Defined benefit pension obligations[1][5]	281	88	Various
Deferred Income Taxes[1][6]	75	72	Various
Brazil tariff recoveries[2]			
Energy purchases	31	47	Over tariff reset period
Transmission costs, regulatory fees and other	48	39	Over tariff reset period
Other[4]	106	106	Various
Total noncurrent regulatory assets	541	352	
TOTAL REGULATORY ASSETS	$ 892	$ 732	
REGULATORY LIABILITIES			
Current regulatory liabilities:			
Efficiency program costs[7]	$ 116	$ 145	Over tariff reset period
Brazil tariff recoveries[2]			
Energy purchases	31	62	Over tariff reset period
Transmission costs, regulatory fees and other	44	62	Over tariff reset period
Other[4]	14	39	Various
Total current regulatory liabilities	$ 205	$ 308	
Noncurrent regulatory liabilities:			
Asset retirement obligations[8]	459	443	Over book life of assets
Brazil special obligations[9]	291	351	To be determined
Brazil tariff recoveries[2]			
Energy purchases	8	22	Over tariff reset period
Transmission costs, regulatory fees and other	2	7	Over tariff reset period
Deferred income taxes	10	—	Various
Other[4]	9	23	Various
Total noncurrent regulatory liabilities	$ 779	$ 846	
TOTAL REGULATORY LIABILITIES	$ 984	$ 1,154	

(1) Past expenditures on which the Company does not earn a rate of return.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

9. REGULATORY ASSETS & LIABILITIES (Continued)

(2) Recoverable per ANEEL regulations through the Annual Tariff Adjustment ("IRT"). These costs are generally non-controllable costs and primarily consist of purchased electricity, energy transmission costs, and sector costs that are considered volatile. These costs are recovered in 24 installments through the annual IRT process and are amortized over the tariff reset period.

(3) Deferred fuel costs incurred by our El Salvador subsidiaries associated with purchase of energy from El Salvador spot market and the power generation plants. In El Salvador, the deferred fuel adjustment represents the variance between the actual fuel costs and the fuel costs recovered in the tariffs. The variance is recovered semi-annually at the tariff reset period.

(4) Includes assets with and without a rate of return. Other current regulatory assets that do not earn a rate of return were $9 million and $18 million, as of December 31, 2008 and 2007, respectively. Other noncurrent regulatory assets that do not earn a rate of return were $83 million and $82 million, as of December 31, 2008 and 2007, respectively. Those without a rate of return that are recoverable based on specific rate orders primarily consist of the following:

- Deferred fuel costs: expected to be recovered through future fuel adjustment charges. In the United States, deferred fuel costs at IPL represent variances between estimated and actual fuel and purchased power costs. IPL is permitted to recover underestimated fuel and purchased power costs in future rates.

- Transmission service costs and other administrative costs from IPL's participation in the Midwest ISO market. Recovery of costs is probable, but the timing is not yet determined.

Other Current and Noncurrent Regulatory Liabilities consist of:

- Penalties and fees from regulators at our Brazil subsidiaries and financial transmission rights used to hedge exposure in the Midwest ISO market that are credited per specific rate orders.

- Costs incurred by our Brazilian subsidiaries associated with monthly energy price variances between the wholesale energy market prices owed to the power generation plants producing free energy and the capped price reimbursed by the local distribution companies which are passed through to the final customers through energy tariffs.

(5) SFAS No. 71 allows the defined pension and postretirement benefit obligation to be recorded as a regulatory asset equal to the previously unrecognized actuarial gains and losses and prior service costs that are expected to be recovered through future rates. Pension expense is recognized based on the plan's actuarially determined pension liability. Recovery of costs is probable, but not yet determined. The increase in the regulatory asset of $193 million at December 31, 2008 is primarily a result of a lower than expected return on assets in 2008.

(6) Probable of recovery through future rates, based upon established regulatory practices, which permit the recovery of current taxes. This asset is offset by a deferred tax liability and is expected to be recovered, without interest, over the period book-tax timing differences reverse and become current taxes.

(7) Payments received for costs expected to be incurred to improve the efficiency of our plants in Brazil that are recovered as part of the IRT.

(8) Non-legal asset retirement obligation for removal costs which do not have an associated legal retirement obligation as defined by SFAS No. 143.

(9) Obligations established by ANEEL in Brazil associated with electric utility concessions and represent amounts received from customers or donations not subject to return. These donations are allocated to support energy network expansion and to improve utility operations to meet customers' needs. The maturity term is established by ANEEL whose settlement shall occur when the concession ends.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

9. REGULATORY ASSETS & LIABILITIES (Continued)

The current portion of regulatory assets and liabilities are recorded in either other current assets or accrued and other liabilities, respectively, on the accompanying Consolidated Balance Sheets. The noncurrent portion of the regulatory assets and liabilities is recorded in either other assets or other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets.

The following table summarizes regulatory assets by region as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Latin America	$413	$441
North America	479	286
Europe & Africa	—	5
Total regulatory assets	$892	$732

The following table summarizes regulatory liabilities by region as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Latin America	$508	$ 709
North America	476	445
Total regulatory liabilities	$984	$1,154

10. LONG-TERM DEBT

The Company has two types of debt reported on its balance sheet: non-recourse and recourse debt. Non-recourse debt is used to fund investments and capital expenditures for construction and acquisition of our electric power plants, wind farms and distribution companies at our subsidiaries. Non-recourse debt is generally secured by the capital stock, physical assets, contracts and cash flows of the related subsidiary. The default risk is limited to the respective business and is without recourse to the Parent Company and other subsidiaries. Recourse debt is direct borrowings by the Parent Company and is used to fund development, construction or acquisition and serves as equity investments or loans to the affiliates. This debt is with recourse to the Parent Company and is structurally subordinated to the affiliates' non-recourse debt.

10. LONG-TERM DEBT (Continued)

Recourse and non-recourse debt is carried at amortized cost. The following table summarizes the carrying amount and estimated fair values of the Company's recourse and non-recourse debt as of December 31, 2008 and 2007:

	December 31,			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Non-recourse debt	$ 12,943	$ 11,200	$ 12,435	$ 12,043
Recourse debt	5,148	4,388	5,555	5,648
Total debt	$ 18,091	$ 15,588	$ 17,990	$ 17,691

The fair value of non-recourse debt, excluding capital leases, is estimated differently based upon the type of loan. For fixed rate loans, the fair value is estimated using quoted market prices or a discounted cash flow analysis. For variable rate loans, we reported that carrying value approximated fair value in 2007, as the average credit spread of AES' portfolio of variable rate notes was equivalent to the spread between LIBOR and the appropriate current yields. In late 2008, credit spreads increased significantly above historic levels. For the USD, Euro and British Pound markets where we believe the credit spread expansion is material, fair value was estimated using a discounted cash flow analysis. The increase in credit spreads was calculated as the difference between composite fair value curves published by pricing services for the appropriate issuer credit rating and LIBOR. For remaining currencies, we continue to report carrying value is equal to fair value. The estimated fair value was determined using available market information as of December 31, 2008 and 2007. The Company is not aware of any factors that would significantly affect the estimated fair value amounts since December 31, 2008.

10. LONG-TERM DEBT (Continued)

NON-RECOURSE DEBT

The following table summarizes the non-recourse debt of the Company as of December 31, 2008 and 2007:

NON-RECOURSE DEBT	Interest Rate(1)	Maturity	December 31, 2008	December 31, 2007
			(in millions)	
VARIABLE RATE: (2)				
Bank loans	4.10%	2009-2026	$ 3,401	$ 2,809
Notes and bonds(3)	16.48%	2010-2041	1,844	2,550
Debt to (or guaranteed by) multilateral, export credit agencies or development banks(4)	5.89%	2009-2027	1,093	995
Other	8.96%	2009-2028	524	212
FIXED RATE:				
Bank loans	8.48%	2009-2023	426	327
Notes and bonds	8.06%	2010-2037	5,197	5,244
Debt to (or guaranteed by) multilateral, export credit agencies or development banks(4)	6.75%	2009-2013	393	7
Other	7.21%	2009-2033	65	291
SUBTOTAL			$ 12,943	$ 12,435(5)
Less: Current maturities			(1,074)	(1,142)
TOTAL			$ 11,869	$ 11,293

(1) Weighted average interest rate at December 31, 2008.

(2) The Company has interest rate swaps and interest rate option agreements in an aggregate notional principal amount of approximately $3.6 billion on non-recourse debt outstanding at December 31, 2008. The swap agreements economically change the variable interest rates on the portion of the debt covered by the notional amounts to fixed rates ranging from approximately 1.93% to 7.00%. The option agreements fix interest rates within a range from 4.50% to 7.00%. The agreements expire at various dates from 2009 through 2027.

(3) Variable rate notes and bonds consist of approximately $1.7 billion of debt issued by our Brazilian subsidiaries with a weighted average interest rate of 16.84% at December 31, 2008, and $132 million of auction rate bonds issued by IPL. These auction rate bonds have paid the penalty rate of 12% since late September 2008 due to failed auctions of these securities. Subsequent to December 31, 2008 IPL's auction rate bonds were able to be remarketed at rates lower than these penalty rates.

(4) Multilateral loans include loans funded and guaranteed by bilaterals, multilaterals, development banks and other similar institutions.

10. LONG-TERM DEBT (Continued)

(5) Ekibastuz and Maikuben debt of $164 million and Jiaozuo debt of $3 million as of December 31, 2007 are excluded from non-recourse debt and are included in current and long-term liabilities of held for sale and discontinued businesses in the accompanying Consolidated Balance Sheets.

Future principal payments on non-recourse debt as of December 31, 2008 are set forth in the table below:

December 31,	Annual Maturities
	(in millions)
2009	$ 1,074
2010	955
2011	1,079
2012	762
2013	955
Thereafter	8,118
Total long-term debt	$ 12,943

As of December 31, 2008, AES subsidiaries in operations had approximately $1.1 billion of a number of available but unused committed revolving credit lines to support their working capital, debt service reserves and other business needs. These credit lines can be used in one or more of the following ways: solely for borrowings; solely for letters of credit; or a combination of these uses. The weighted average interest rate on borrowing from these facilities was 11.54% at December 31, 2008. In addition to the committed credit lines described above, an operating subsidiary of the Company in Brazil had credit commitments from banks to lend up to $856 million at December 31, 2008. This credit commitment is subject to certain conditions and can only be used if the Company decides to exercise its preemptive rights to acquire the minority interest shares of Brasiliana held by a third-party in response to a decision by the partner to sell and exercise its preemptive rights to include our ownership portion in the sale. In addition to the credit lines described above, AES subsidiaries with facilities under construction had a total of approximately $2.0 billion of committed but unused credit facilities available to fund construction and other related costs.

Non-Recourse Debt Covenants, Restrictions and Defaults

The terms of the Company's non-recourse debt include certain financial and non-financial covenants. These covenants are limited to subsidiary activity and vary among the subsidiaries. These covenants may include but are not limited to maintenance of certain reserves, minimum levels of working capital and limitations on incurring additional indebtedness. Compliance with certain covenants may not be objectively determinable.

As of December 31, 2008 and 2007, approximately $697 million and $614 million, respectively, of restricted cash was maintained in accordance with certain covenants of the debt agreements, and these amounts were included within restricted cash and debt service reserves and other deposits in the accompanying Consolidated Balance Sheets.

10. LONG-TERM DEBT (Continued)

Various lender and governmental provisions restrict the ability of the Company's subsidiaries to transfer their net assets to the Parent Company. Such restricted net assets of subsidiaries amounted to approximately $5 billion at December 31, 2008.

The following table summarizes the Company's subsidiary non-recourse debt in default as of December 31, 2008 and is included in the current portion of non-recourse debt unless otherwise indicated:

Subsidiary	Primary Nature of Default	December 31, 2008 Default	December 31, 2008 Net Assets
		(in millions)	
Aixi	Payment	$ 2	$ 8
Kelanitissa	Covenant	50	1
Kilroot	Covenant	77	178
Total		$ 129	

None of the subsidiaries that are currently in default is a material subsidiary under AES's corporate debt agreements whose acceleration of debt or bankruptcy would trigger an event of default or permit acceleration under such indebtedness. At December 31, 2008 none of our subsidiaries met the definition of material subsidiary under our recourse secured and unsecured bond indentures and our unsecured line of credit. All of the subsidiary guarantors under our recourse secured credit facilities are defined as material subsidiaries under that agreement. The bankruptcy or acceleration of material amounts of debt at these entities would cause a cross default under the recourse secured credit facilities. The subsidiary guarantors include the subsidiaries which own AES Eastern Energy, AES Warrior Run, AES Shady Point and AES Hawaii. However, as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations or the financial position or results of the individual subsidiary, it is possible that one or more of these subsidiaries could fall within the definition of a "material subsidiary" and thereby upon a bankruptcy or acceleration of its non-recourse debt trigger an event of default and possible acceleration of the indebtedness under the AES Parent Company's outstanding debt securities.

Sonel, our subsidiary in Cameroon, and Masinloc, our subsidiary in the Philippines, were in default on total non-recourse debt of $217 million and $598 million, respectively, at December 31, 2008 due to covenant breaches. Subsequent to December 31, 2008, both subsidiaries were able to amend the terms of their respective debt agreements and are no longer considered in default, therefore the debt was appropriately classified as long-term at December 31, 2008 and was excluded from the debt default table above.

10. LONG-TERM DEBT (Continued)

RECOURSE DEBT

The following table summarizes the recourse debt of the Company as of December 31, 2008 and 2007:

RECOURSE DEBT	Interest Rate	Maturity	December 31, 2008	December 31, 2007
			(in millions)	
Senior Unsecured Note	8.75%	2008	$ —	$ 9
Term Convertible Trust Securities	6.00%	2008	—	214
Senior Unsecured Note	9.50%	2009	154	467
Senior Unsecured Note	9.375%	2010	214	423
Senior Secured Term Loan	LIBOR + 1.75%	2011	200	200
Senior Unsecured Note	8.875%	2011	129	307
Senior Unsecured Note	8.375%	2011	124	171
Second Priority Senior Secured Note	8.75%	2013	690	752
Senior Unsecured Note	7.75%	2014	500	500
Senior Unsecured Note	7.75%	2015	500	500
Senior Unsecured Note	8.00%	2017	1,500	1,500
Senior Unsecured Note	8.00%	2020	625	—
Term Convertible Trust Securities	6.75%	2029	517	517
Unamortized discounts			(5)	(5)
SUBTOTAL			$5,148	$5,555
Less: Current maturities			(154)	(223)
Total			$4,994	$5,332

Future principal payments on recourse debt as of December 31, 2008 are set forth in the table below:

December 31,	Annual Maturities
	(in millions)
2009	$ 154
2010	214
2011	453
2012	—
2013	690
Thereafter	3,637
Total long-term debt	$ 5,148

Financing and Tender Offer

In the second quarter of 2008, the Company completed a number of debt-related transactions that resulted in a net reduction of approximately $360 million in aggregate principal of recourse debt. These transactions, described in further detail below, included $223 million of debt paid at maturity, the

10. LONG-TERM DEBT (Continued)

repurchase of the $762 million of senior notes maturing from 2009 to 2013 that were tendered in the Company's publicly announced tender offer, and the issuance of $625 million of 8% Senior Unsecured Notes due 2020 at par value.

The notes repaid at maturity included $223 million outstanding 6.0% Junior Subordinated Convertible Debentures due May 15, 2008 and 8.75% Senior Unsecured Notes due June 15, 2008.

On May 15, 2008, we issued $625 million of 8% Senior Unsecured Notes due 2020 at par value. Deferred financing costs attributable to the issuance of these senior notes were approximately $10 million.

On June 19, 2008 the Company repurchased $762 million aggregate principal of senior notes maturing from 2009 to 2013 in connection with its publicly announced tender offer. Specifically, the Company repurchased $313 million of the 9.50% Senior Notes due 2009, (the "2009 Notes"), $209 million of the 9.375% Senior Notes due 2010 (the "2010 Notes"), $178 million of the 8.875% Senior Notes due 2011 (the "2011 Notes"), and $62 million of the 8.75% Second Priority Senior Secured Notes due 2013 (the "2013 Notes"). The Company recognized and included a pre-tax loss on the retirement of the senior notes for the year ended December 31, 2008 of $55 million, in "Other expense" which included $52 million of tender consideration.

In connection with the tender offer for the senior notes in 2008, the Company solicited and received consents from the remaining holders of the 2013 Notes to amend the related indenture to conform substantially all of the covenants, except those related to security, to those contained in the indenture governing the Company's senior unsecured notes.

Amendment of Credit Agreement

On July 29, 2008, The AES Corporation and certain subsidiary guarantors amended and restated the Company's existing senior secured bank facility ("Bank Facility") pursuant to the terms of the Fourth Amended and Restated Credit and Reimbursement Agreement (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement provides for a $200 million senior secured term loan ("Term Loan") maturing on August 10, 2011, and a Revolving Credit Facility ("the Revolver") with available borrowings up to $750 million, maturing on June 23, 2010. The Amended and Restated Credit Agreement is included as an exhibit to this Form 10-K.

The Company entered into the Amended and Restated Credit Agreement primarily to accomplish the following: (i) increase the size of the Restricted Payments basket to allow the Company to repurchase or pay dividends on equity; (ii) reduce the required minimum Cash Flow Coverage Ratio (as defined therein) and increase the maximum Recourse Debt to Cash Flow Ratio (as defined therein); (iii) clarify and make modifications to the provisions that permit hedging activities; and (iv) make certain other changes, such as excluding certain equity-like securities from the definition of Recourse Debt, amending the financial reporting and environmental notice requirements, clarifying that the term "Permitted Business" includes climate solutions, carbon offsets, biofuels, battery storage and ancillary businesses, including related trading activities and amending certain other definitions and covenants.

10. LONG-TERM DEBT (Continued)

As of December 31, 2008, the Revolving Credit Facility accrued interest at LIBOR plus 1.5% and there were no outstanding borrowings against the Revolving Credit Facility. The Company had $30 million of letters of credit outstanding against the Revolving Credit Facility and $720 million was available under the Revolving Credit Facility.

The Company's senior unsecured credit facility ("Credit Facility") had available borrowings of $423 million. At December 31, 2008, the Company had no outstanding borrowings under the Credit Facility. The Company had $177 million of letters of credit outstanding against the Credit Facility as of December 31, 2008. The Credit Facility, which accrues interest at a variable rate indexed to LIBOR and matures in 2010, is being used to support the Company's ongoing share of construction obligations for AES Maritza East 1 and for general corporate purposes. AES Maritza East 1 is a coal-fired generation project in Bulgaria that began construction in the second quarter of 2006 and is expected to commence operations in 2010.

Recourse Debt Covenants and Guarantees

Certain of the Company's obligations under the Bank Facilities are guaranteed by its direct subsidiaries through which the Company owns its interests in the Shady Point, Hawaii, Warrior Run and Eastern Energy businesses. The Company's obligations under the Bank Facility and Second Priority Senior Secured Notes are, subject to certain exceptions, secured by:

(i) all of the capital stock of domestic subsidiaries owned directly by the Company and 65% of the capital stock of certain foreign subsidiaries owned directly or indirectly by the Company; and

(ii) certain intercompany receivables, certain intercompany notes and certain intercompany tax sharing agreements.

The Bank Facility is subject to mandatory prepayment under certain circumstances. The net cash proceeds from the sale of a Guarantor or any of its subsidiaries must be applied pro rata to repay the Term Loan using 60% of net cash proceeds, reduced to 50% when and if the parent's recourse debt to cash flow ratio is less than 5:1. The lenders have the option to waive their pro rata redemption. In the case of sales of assets of or equity interests in IPALCO or any of its subsidiaries, any net cash proceeds of the asset sale remaining after application to the Term Loan facility must be used to reduce commitments under the Revolver, unless the supermajority of banks otherwise agree or unless the facilities are rated at least Ba1 from Moody's and AES' corporate credit rating from S&P is at least BB-.

The Bank Facility contains customary covenants and restrictions on the Company's ability to engage in certain activities, including, but not limited to, limitations on other indebtedness, liens, investments and guarantees; limitations on restricted payments such as shareholder dividends and equity repurchases; restrictions on mergers and acquisitions, sales of assets, leases, transactions with affiliates and off-balance sheet or derivative arrangements; and other financial reporting requirements.

The Bank Facility also contains financial covenants requiring the Company to maintain certain financial ratios including a cash flow to interest coverage ratio, calculated quarterly, which provides that a minimum ratio of the Company's adjusted operating cash flow to the Company's interest charges

10. LONG-TERM DEBT (Continued)

related to recourse debt of 1.3× must be maintained at all times and a recourse debt to cash flow ratio, calculated quarterly, which provides that the ratio of the Company's total recourse debt to the Company's adjusted operating cash flow must not exceed a maximum of 8.0× at any time of calculation.

The terms of the Company's Senior Unsecured Notes, Credit Facility, and Second Priority Secured Notes contain certain covenants including, without limitation, limitation on the Company's ability to incur liens or enter into sale and leaseback transactions.

TERM CONVERTIBLE TRUST SECURITIES

In 1999, AES Trust III, a wholly owned special purpose business trust, issued 9 million of $3.375 Term Convertible Preferred Securities ("TECONS") (liquidation value $50) for total proceeds of approximately $518 million and concurrently purchased approximately $518 million of 6.75% Junior Subordinated Convertible Debentures due 2029 (the "6.75% Debentures" of the Company). The TECONS are consolidated and classified as long-term recourse debt on the Company's balance sheet.

AES, at its option, can redeem the 6.75% Debentures which would result in the required redemption of the TECONS issued by AES Trust III, currently for $50 per TECON. The TECONS must be redeemed upon maturity of the Junior Subordinated Debentures. The TECONS are convertible into the common stock of AES at each holder's option prior to October 15, 2029 at the rate of 1.4216, representing a conversion price of $35.17 per share.

Dividends on the TECONS are payable quarterly at an annual rate of 6.75%. The Trust is permitted to defer payment of dividends for up to 20 consecutive quarters, provided that the Company has exercised its right to defer interest payments under the corresponding debentures or notes. AES has not exercised the option to defer any dividends at this time. During such deferral periods, dividends on the TECONS would accumulate quarterly and accrue interest, and the Company may not declare or pay dividends on its common stock. All dividends due under the Trust have been paid.

AES Trust III is a VIE under FIN No. 46(R). AES's obligations under the Junior Subordinated Debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by AES of the TECON Trusts' obligations under the trust securities issued the respective trust. Accordingly, AES consolidates the results of AES Trust III. As of December 31, 2008 and 2007, the sole assets of AES Trust III are the Junior Subordinated Debentures.

In 2000, AES Trust VII, a wholly owned special purpose business trust and a VIE under FIN No. 46(R), issued 9.2 million of $3.00 TECONS (liquidation value $50) for total proceeds of approximately $460 million and concurrently purchased approximately $460 million of 6% Junior Subordinated Convertible Debentures due 2008 (the "6% Debentures"). In May 2008, the Company used a portion of the proceeds from the issuance of its 8% Senior Unsecured Notes due 2020 to redeem the 6% Debentures and AES Trust VII was dissolved. At December 31, 2007, the sole assets of AES Trust VII were the 6% Debentures.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

11. COMMITMENTS

OPERATING LEASES—As of December 31, 2008, the Company was obligated under long-term non-cancelable operating leases, primarily for certain transmission lines, office rental and site leases. Rental expense for lease commitments under these operating leases for the years ended December 31, 2008, 2007 and 2006 was $74 million, $64 million and $17 million, respectively.

The table below sets forth the future minimum lease commitments under these operating leases at December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Commitments for Operating Leases
	(in millions)
2009	$ 64
2010	59
2011	59
2012	59
2013	59
Thereafter	193
Total	$ 493

CAPITAL LEASES—Several AES subsidiaries lease operating and office equipment and vehicles that are considered capital lease transactions. These capital leases are recognized in Property, Plant and Equipment within "Electric generation and distribution assets" and primarily relate to transmission lines at our subsidiaries in Brazil. The gross value of the leased assets for the years ended December 31, 2008 and 2007 was $95 million and $69 million, respectively.

The following table is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Minimum Lease Payments
	(in millions)
2009	$ 11
2010	9
2011	8
2012	7
2013	7
Thereafter	116
Total	$ 158
Less: Imputed interest	96
Present value of total minimum lease payments	$ 62

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

11. COMMITMENTS (Continued)

SALE/LEASEBACK—In May 1999, a subsidiary of the Company acquired six electric generating stations from New York State Electric and Gas ("NYSEG"). Concurrently, the subsidiary sold two of the plants to an unrelated third party for $666 million and simultaneously entered into a leasing arrangement with the unrelated party. This transaction has been accounted for as a sale/leaseback with operating lease treatment. In May 2007, the subsidiary purchased a portion of the lessor's interest in a trust estate that holds the leased plants. Future minimum lease commitments under the lease agreement are reduced by the subsidiary's interest in the plants. Rental expense was $34 million, $42 million and $54 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table summarizes the future minimum lease commitments under the sale/leaseback arrangement at December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Minimum Lease Commitments
	(in millions)
2009	$ 39
2010	41
2011	43
2012	44
2013	46
Thereafter	531
Total	$ 744

CONTRACTS—Operating subsidiaries of the Company have entered into contracts for the purchase of electricity from third parties that primarily include energy auction agreements at our Brazil subsidiaries with extended terms from 2009 through 2042. Purchases in the years ended December 31, 2008, 2007 and 2006 were approximately $1.5 billion, $2.2 billion and $1.2 billion, respectively.

The table below sets forth the future commitments under these electricity purchase contracts at December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Commitments for Electricity Purchase Contracts
	(in millions)
2009	$ 1,754
2010	2,021
2011	2,366
2012	2,588
2013	2,451
Thereafter	36,085
Total	$ 47,265

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

11. COMMITMENTS (Continued)

Operating subsidiaries of the Company have entered into various long-term contracts for the purchase of fuel subject to termination only in certain limited circumstances. Purchases in the years ended December 31, 2008, 2007 and 2006 were $1.8 billion, $1.3 billion and $844 million, respectively.

The table below sets forth the future commitments under these fuel contracts as of December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Commitments for Fuel Contracts
	(in millions)
2009	$ 2,113
2010	1,798
2011	1,462
2012	1,391
2013	1,337
Thereafter	13,740
Total	$ 21,841

The Company's subsidiaries entered into other various long-term contracts. These contracts are mainly for construction projects, service and maintenance, transmission of electricity and other operation services. Payments under these contracts for the years ended December 31, 2008, 2007 and 2006 were $1.9 billion, $840 million and $596 million, respectively,

The table below sets forth the future commitments under these other purchase contracts as of December 31, 2008 for 2009 through 2013 and thereafter:

December 31,	Future Commitments for Other Purchase Contracts
	(in millions)
2009	$ 2,403
2010	1,463
2011	1,004
2012	917
2013	783
Thereafter	14,354
Total	$ 20,924

12. CONTINGENCIES

ENVIRONMENTAL—The Company reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of December 31, 2008, the Company has recognized liabilities of $30 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of

12. CONTINGENCIES (Continued)

compliance or remediation could be higher or lower than the amount currently accrued. Based on currently available information and analysis, the Company believes that it is reasonably possible that costs associated with such liabilities or as yet unknown liabilities may exceed current reserves in amounts that could be material but cannot be estimated as of December 31, 2008.

GUARANTEES, LETTERS OF CREDIT—In connection with certain project financing, acquisition, power purchase, and other agreements, AES has expressly undertaken limited obligations and commitments, most of which will only be effective or will be terminated upon the occurrence of future events. In the normal course of business, AES and certain of its subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a subsidiary on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish the subsidiaries' intended business purposes. In addition to the contingent obligations of the Parent Company identified in the table below, the Company's subsidiaries had letters of credit outstanding to support various contingent obligations. At December 31, 2008, these letters of credit at our consolidated subsidiaries totaled approximately $1.2 billion.

The following table summarizes the Parent Company's contingent contractual obligations as of December 31, 2008:

Contingent contractual obligations	Amount	Number of Agreements	Maximum Exposure Range for Each Agreement
	(in millions)		(in millions)
Guarantees	$ 411	34	<$1 - $53
Letters of credit—under the Revolving Credit Facility	30	4	<$1 - $28
Letters of credit—under the Senior Unsecured Credit Facility	177	15	<$1 - $131
Total	$ 618	53	

Most of the contingent obligations primarily relate to future performance commitments which the Company or its subsidiaries expect to fulfill within the normal course of business. Amounts presented in the above table represent the Parent Company's current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure to the Parent Company as of December 31, 2008. Guarantee termination provisions vary from less than one year to greater than 20 years. Some result from the end of a contract period, assignment, asset sale, and change in credit rating or elapsed time. The amounts above include obligations made by the Parent Company for the direct benefit of the lenders associated with the non-recourse debt of subsidiaries of $48 million.

The risks associated with these obligations include change of control, construction cost overruns, political risk, tax indemnities, spot market power prices, supplier support and liquidated damages under power purchase agreements for projects in development, under construction and operating. While the Company does not expect to be required to fund any material amounts under these contingent contractual obligations during 2009 or beyond that are not recognized on the Consolidated Balance Sheet, many of the events which would give rise to such an obligation are beyond the Parent

12. CONTINGENCIES (Continued)

Company's control. There can be no assurance that the Parent Company would have adequate sources of liquidity to fund its obligations under these contingent contractual obligations if it were required to make substantial payments thereunder.

In 2008, the Parent Company paid letter of credit fees which averaged 3.4% per annum on the outstanding amounts of letters of credit.

LITIGATION—The Company is involved in certain claims, suits and legal proceedings in the normal course of business, some of which are described below. The Company has accrued for litigation and claims where it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company's financial statements. However, it is reasonably possible that some matters could be decided unfavorably to the Company, and could require the Company to pay damages or make expenditures in amounts that could be material but cannot be estimated as of December 31, 2008. The Company has evaluated claims, in accordance with SFAS No. 5, *Accounting for Contingencies*, ("SFAS No. 5") that it deems both probable and reasonably estimable and accordingly, has recorded aggregate reserves for all claims for approximately $389 million and $486 million at December 31, 2008 and 2007, respectively.

In 1989, Centrais Elétricas Brasileiras S.A. ("Eletrobrás") filed suit in the Fifth District Court in the State of Rio de Janeiro against Eletropaulo Eletricidade de São Paulo S.A. ("EEDSP") relating to the methodology for calculating monetary adjustments under the parties' financing agreement. In April 1999, the Fifth District Court found for Eletrobrás and in September 2001, Eletrobrás initiated an execution suit in the Fifth District Court to collect approximately R$937 million ($400 million) from Eletropaulo (as estimated by Eletropaulo) and a lesser amount from an unrelated company, Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP") (Eletropaulo and CTEEP were spun off from EEDSP pursuant to its privatization in 1998). In November 2002, the Fifth District Court rejected Eletropaulo's defenses in the execution suit. Eletropaulo appealed and in September 2003, the Appellate Court of the State of Rio de Janeiro ruled that Eletropaulo was not a proper party to the litigation because any alleged liability had been transferred to CTEEP pursuant to the privatization. In June 2006, the Superior Court of Justice ("SCJ") reversed the Appellate Court's decision and remanded the case to the Fifth District Court for further proceedings, holding that Eletropaulo's liability, if any, should be determined by the Fifth District Court. Eletropaulo's subsequent appeals to the Special Court (the highest court within the SCJ) and the Supreme Court of Brazil have been dismissed. Eletrobrás may resume the execution suit in the Fifth District Court at any time. If Eletrobrás does so, Eletropaulo will be required to provide security in the amount of its alleged liability. In that case, if Eletrobrás requests the seizure of such security and the Fifth District Court grants such request, Eletropaulo's results of operations may be materially adversely affected. In addition, in February 2008, CTEEP filed a lawsuit in the Fifth District Court against Eletrobrás and Eletropaulo seeking a declaration that CTEEP is not liable for any debt under the financing agreement. Eletropaulo believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

12. CONTINGENCIES (Continued)

In September 1999, a state appellate court in Minas Gerais, Brazil, granted a temporary injunction suspending the effectiveness of a shareholders' agreement between Southern Electric Brasil Participacoes, Ltda. ("SEB") and the state of Minas Gerais concerning CEMIG, an integrated utility in Minas Gerais. The Company's investment in CEMIG is through SEB. This shareholders' agreement granted SEB certain rights and powers in respect of CEMIG ("Special Rights"). In March 2000, a lower state court in Minas Gerais held the shareholders' agreement invalid where it purported to grant SEB the Special Rights and enjoined the exercise of the Special Rights. In August 2001, the state appellate court denied an appeal of the decision and extended the injunction. In October 2001, SEB filed appeals against the state appellate court's decision with the Federal Superior Court and the Supreme Court of Justice. The state appellate court denied access of these appeals to the higher courts, and in August 2002 SEB filed interlocutory appeals against such denial with the Federal Superior Court and the Supreme Court of Justice. In December 2004, the Federal Superior Court declined to hear SEB's appeal. However, the Supreme Court of Justice is considering whether to hear SEB's appeal. SEB intends to vigorously pursue a restoration of the value of its investment in CEMIG by all legal means; however, there can be no assurances that it will be successful in its efforts. Failure to prevail in this matter may limit SEB's influence on the daily operation of CEMIG.

In August 2000, the Federal Energy Regulation Commission ("FERC") announced an investigation into the organized California wholesale power markets in order to determine whether rates were just and reasonable. Further investigations involved alleged market manipulation. FERC requested documents from each of the AES Southland, LLC plants and AES Placerita, Inc. AES Southland and AES Placerita have cooperated fully with the FERC investigations. AES Southland was not subject to refund liability because it did not sell into the organized spot markets due to the nature of its tolling agreement. AES Placerita is currently subject to refund liability of $588,000 plus interest for spot sales to the California Power Exchange from October 2, 2000 to June 20, 2001 ("Refund Period"). In September 2004, the U.S. Court of Appeals for the Ninth Circuit issued an order addressing FERC's decision not to impose refunds for the alleged failure to file rates, including transaction specific data, for sales during 2000 and 2001 ("September 2004 Decision"). Although it did not order refunds, the Ninth Circuit remanded the case to FERC for a refund proceeding to consider remedial options. In March 2008, FERC issued its order on remand, requiring the parties to engage in settlement discussions before a settlement judge and establishing procedures for an evidentiary hearing if the settlement process failed. In addition, in August 2006 in a separate case, the Ninth Circuit confirmed the Refund Period, expanded the transactions subject to refunds to include multi-day transactions, expanded the potential liability of sellers to include any pre-Refund Period tariff violations, and remanded the matter to FERC ("August 2006 Decision"). Various parties filed petitions for rehearing in November 2007. The August 2006 Decision may allow FERC to reopen closed investigations and order relief. AES Placerita made sales during the periods at issue in the September 2004 and August 2006 Decisions. Both appeals may be subject to further court review, and further FERC proceedings on remand would be required to determine potential liability, if any. Prior to the August 2006 Decision, AES Placerita's potential liability for the Refund and pre-Refund Periods could have approximated $23 million plus interest. However, given the September 2004 and August 2006 Decisions, it is unclear whether AES Placerita's potential liability is less than or exceeds that amount. AES Placerita believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

12. CONTINGENCIES (Continued)

In August 2001, the Grid Corporation of Orissa, India ("Gridco"), filed a petition against the Central Electricity Supply Company of Orissa Ltd. ("CESCO"), an affiliate of the Company, with the Orissa Electricity Regulatory Commission ("OERC"), alleging that CESCO had defaulted on its obligations as an OERC-licensed distribution company, that CESCO management abandoned the management of CESCO, and asking for interim measures of protection, including the appointment of an administrator to manage CESCO. Gridco, a state-owned entity, is the sole wholesale energy provider to CESCO. Pursuant to the OERC's August 2001 order, the management of CESCO was replaced with a government administrator who was appointed by the OERC. The OERC later held that the Company and other CESCO shareholders were not necessary or proper parties to the OERC proceeding. In August 2004, the OERC issued a notice to CESCO, the Company and others giving the recipients of the notice until November 2004 to show cause why CESCO's distribution license should not be revoked. In response, CESCO submitted a business plan to the OERC. In February 2005, the OERC issued an order rejecting the proposed business plan. The order also stated that the CESCO distribution license would be revoked if an acceptable business plan for CESCO was not submitted to and approved by the OERC prior to March 31, 2005. In its April 2, 2005 order, the OERC revoked the CESCO distribution license. CESCO has filed an appeal against the April 2, 2005 OERC order and that appeal remains pending in the Indian courts. In addition, Gridco asserted that a comfort letter issued by the Company in connection with the Company's indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO's financial obligations to Gridco. In December 2001, Gridco served a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 on the Company, AES Orissa Distribution Private Limited ("AES ODPL"), and Jyoti Structures ("Jyoti") pursuant to the terms of the CESCO Shareholders Agreement between Gridco, the Company, AES ODPL, Jyoti and CESCO (the "CESCO arbitration"). In the arbitration, Gridco appeared to be seeking approximately $189 million in damages, plus undisclosed penalties and interest, but a detailed alleged damage analysis was not filed by Gridco. The Company counterclaimed against Gridco for damages. In June 2007, a 2-to-1 majority of the arbitral tribunal rendered its award rejecting Gridco's claims and holding that none of the respondents, the Company, AES ODPL, or Jyoti, had any liability to Gridco. The respondents' counterclaims were also rejected. The Company subsequently filed an application to recover its costs of the arbitration, which is under consideration by the tribunal. In addition, in September 2007, Gridco filed a challenge of the arbitration award with the local Indian court. In June 2008, Gridco filed a separate application with the local Indian court for an order enjoining the Company from selling or otherwise transferring its shares in Orissa Power Generation Corporation Ltd's ("OPGC"), and requiring the Company to provide security in the amount of the contested damages in the CESCO arbitration until Gridco's challenge to the arbitration award is resolved. The Company believes that it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In early 2002, Gridco made an application to the OERC requesting that the OERC initiate proceedings regarding the terms of OPGC's existing PPA with Gridco. In response, OPGC filed a petition in the Indian courts to block any such OERC proceedings. In early 2005, the Orissa High Court upheld the OERC's jurisdiction to initiate such proceedings as requested by Gridco. OPGC appealed that High Court's decision to the Supreme Court and sought stays of both the High Court's decision and the underlying OERC proceedings regarding the PPAs terms. In April 2005, the Supreme

Court granted OPGC's requests and ordered stays of the High Court's decision and the OERC proceedings with respect to the PPA's terms. The matter is awaiting further hearing. Unless the Supreme Court finds in favor of OPGC's appeal or otherwise prevents the OERC's proceedings regarding the PPA's terms, the OERC will likely lower the tariff payable to OPGC under the PPA, which would have an adverse impact on OPGC's financials. OPGC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In March 2003, the office of the Federal Public Prosecutor for the State of Sao Paulo, Brazil ("MPF") notified AES Eletropaulo that it had commenced an inquiry related to the Brazilian National Development Bank ("BNDES") financings provided to AES Elpa and AES Transgás and the rationing loan provided to Eletropaulo, changes in the control of Eletropaulo, sales of assets by Eletropaulo and the quality of service provided by Eletropaulo to its customers, and requested various documents from Eletropaulo relating to these matters. In July 2004, the MPF filed a public civil lawsuit in federal court alleging that BNDES violated Law 8429/92 (the Administrative Misconduct Act) and BNDES's internal rules by: (1) approving the AES Elpa and AES Transgás loans; (2) extending the payment terms on the AES Elpa and AES Transgás loans; (3) authorizing the sale of Eletropaulo's preferred shares at a stock-market auction; (4) accepting Eletropaulo's preferred shares to secure the loan provided to Eletropaulo; and (5) allowing the restructurings of Light Serviços de Eletricidade S.A. ("Light") and Eletropaulo. The MPF also named AES Elpa and AES Transgás as defendants in the lawsuit because they allegedly benefited from BNDES's alleged violations. In June 2005, AES Elpa and AES Transgás presented their preliminary answers to the charges. In May 2006, the federal court ruled that the MPF could pursue its claims based on the first, second, and fourth alleged violations noted above. The MPF subsequently filed an interlocutory appeal seeking to require the federal court to consider all five alleged violations. Also, in July 2006, AES Elpa and AES Transgás filed an interlocutory appeal seeking to enjoin the federal court from considering any of the alleged violations. The MPF's lawsuit before the federal court has been stayed pending those interlocutory appeals. AES Elpa and AES Transgás believe they have meritorious defenses to the allegations asserted against them and will defend themselves vigorously in these proceedings; however, there can be no assurances that they will be successful in their efforts.

AES Florestal, Ltd. ("Florestal"), had been operating a pole factory and had other assets, including a wooded area known as "Horto Renner," in the State of Rio Grande do Sul, Brazil (collectively, "Property"). Florestal had been under the control of AES Sul ("Sul") since October 1997, when Sul was created pursuant to a privatization by the Government of the State of Rio Grande do Sul. After it came under the control of Sul, Florestal performed an environmental audit of the entire operational cycle at the pole factory. The audit discovered 200 barrels of solid creosote waste and other contaminants at the pole factory. The audit concluded that the prior operator of the pole factory, Companhia Estadual de Energia Elétrica ("CEEE"), had been using those contaminants to treat the poles that were manufactured at the factory. Sul and Florestal subsequently took the initiative of communicating with Brazilian authorities, as well as CEEE, about the adoption of containment and remediation measures. The Public Attorney's Office has initiated a civil inquiry (Civil Inquiry n. 24/05) to investigate potential civil liability and has requested that the police station of Triunfo institute a police investigation (IP number 1041/05) to investigate potential criminal liability regarding the contamination at the pole factory. The parties filed defenses in response to the civil inquiry. The Public

12. CONTINGENCIES (Continued)

Attorney's Office then requested an injunction which the judge rejected on September 26, 2008. The Public Attorney's office has a right to appeal the decision. The environmental agency ("FEPAM") has also started a procedure (Procedure no. 088200567/059) to analyze the measures that shall be taken to contain and remediate the contamination. Also, in March 2000, Sul filed suit against CEEE in the 2nd Court of Public Treasure of Porto Alegre seeking to register in Sul's name the Property that it acquired through the privatization but that remained registered in CEEE's name. During those proceedings, AES subsequently waived its claim to re-register the Property and asserted a claim to recover the amounts paid for the Property. That claim is pending. In November 2005, the 7th Court of Public Treasure of Porto Alegre ruled that the Property must be returned to CEEE. CEEE has had sole possession of Horto Renner since September 2006 and of the rest of the Property since April 2006. In February 2008, Sul and CEEE signed a "Technical Cooperation Protocol" pursuant to which they requested a new deadline from FEPAM in order to present a proposal. The proposal was delivered on April 8, 2008. FEPAM responded by indicating that the parties should undertake the first step of the proposal which would be to retain a contractor. In its response Sul indicated that such step should be undertaken by CEEE as the relevant environmental events resulted from CEEE's operations. It is estimated that remediation could cost approximately R$14.7 million ($6.3 million). Discussions between Sul and CEEE are ongoing.

In January 2004, the Company received notice of a "Formulation of Charges" filed against the Company by the Superintendence of Electricity of the Dominican Republic. In the "Formulation of Charges," the Superintendence asserts that the existence of three generation companies (Empresa Generadora de Electricidad Itabo, S.A., ("Itabo") Dominican Power Partners, and AES Andres BV) and one distribution company (Empresa Distribuidora de Electricidad del Este, S.A. ("Este")) in the Dominican Republic, violates certain cross-ownership restrictions contained in the General Electricity Law of the Dominican Republic. In February 2004, the Company filed in the First Instance Court of the National District of the Dominican Republic an action seeking injunctive relief based on several constitutional due process violations contained in the "Formulation of Charges" ("Constitutional Injunction"). In February 2004, the Court granted the Constitutional Injunction and ordered the immediate cessation of any effects of the "Formulation of Charges," and the enactment by the Superintendence of Electricity of a special procedure to prosecute alleged antitrust complaints under the General Electricity Law. In March 2004, the Superintendence of Electricity appealed the Court's decision. In July 2004, the Company divested any interest in Este. The Superintendence of Electricity's appeal is pending. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In April 2004, BNDES filed a collection suit against SEB, a subsidiary of the Company, to obtain the payment of R$3.5 billion ($1.5 billion), which includes principal, interest and penalties under the loan agreement between BNDES and SEB, the proceeds of which were used by SEB to acquire shares of CEMIG. In May 2004, the 15th Federal Circuit Court ("Circuit Court") ordered the attachment of SEB's CEMIG shares, which were given as collateral for the loan, as well as dividends paid by CEMIG to SEB. At the time of the attachment, the shares were worth approximately R$762 million ($325 million). In December 2006, SEB's defense was ruled groundless by the Circuit Court, and in January 2007, SEB filed an appeal to the relevant Federal Court of Appeals. Subsequently, BNDES has seized a total of approximately R$630 million ($269 million) in attached dividends, with the approval of

12. CONTINGENCIES (Continued)

the Circuit Court. Also, in April 2008, BNDES filed a plea to seize the attached CEMIG shares. The Circuit Court will consider BNDES's request to seize the attached CEMIG shares after the net value of the alleged debt is recalculated in light of BNDES's seizure of dividends. SEB believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In July 2004, the Corporación Dominicana de Empresas Eléctricas Estatales ("CDEEE") filed lawsuits against Itabo, an affiliate of the Company, in the First and Fifth Chambers of the Civil and Commercial Court of First Instance for the National District. CDEEE alleges in both lawsuits that Itabo spent more than was necessary to rehabilitate two generation units of an Itabo power plant and, in the Fifth Chamber lawsuit, that those funds were paid to affiliates and subsidiaries of AES Gener and Coastal Itabo, Ltd. ("Coastal"), a former shareholder of Itabo, without the required approval of Itabo's board of administration. In the First Chamber lawsuit, CDEEE seeks an accounting of Itabo's transactions relating to the rehabilitation. In November 2004, the First Chamber dismissed the case for lack of legal basis. On appeal, in October 2005 the Court of Appeals of Santo Domingo ruled in Itabo's favor, reasoning that it lacked jurisdiction over the dispute because the parties' contracts mandated arbitration. The Supreme Court of Justice is considering CDEEE's appeal of the Court of Appeals' decision. In the Fifth Chamber lawsuit, which also names Itabo's former president as a defendant, CDEEE seeks $15 million in damages and the seizure of Itabo's assets. In October 2005, the Fifth Chamber held that it lacked jurisdiction to adjudicate the dispute given the arbitration provisions in the parties' contracts. The First Chamber of the Court of Appeal ratified that decision in September 2006. In a related proceeding, in May 2005, Itabo filed a lawsuit in the U.S. District Court for the Southern District of New York seeking to compel CDEEE to arbitrate its claims. The petition was denied in July 2005. Itabo's appeal of that decision to the U.S. Court of Appeals for the Second Circuit has been stayed since September 2006. Further, in September 2006, in an International Chamber of Commerce arbitration, an arbitral tribunal determined that they lacked jurisdiction to decide arbitration claims concerning these disputes. Itabo believes it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In April 2006, a putative class action complaint was filed in the U.S. District Court for the Southern District of Mississippi ("District Court") on behalf of certain individual plaintiffs and all residents and/or property owners in the State of Mississippi who allegedly suffered harm as a result of Hurricane Katrina, and against the Company and numerous unrelated companies, whose alleged greenhouse gas emissions allegedly increased the destructive capacity of Hurricane Katrina. The plaintiffs assert unjust enrichment, civil conspiracy/aiding and abetting, public and private nuisance, trespass, negligence, and fraudulent misrepresentation and concealment claims against the defendants. The plaintiffs seek damages relating to loss of property, loss of business, clean-up costs, personal injuries and death, but do not quantify their alleged damages. In August 2007, the District Court dismissed the case. The plaintiffs have appealed to the U.S. Court of Appeals for the Fifth Circuit, which heard oral arguments in November 2008 and is considering the appeal. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

12. CONTINGENCIES (Continued)

In June 2006, AES Ekibastuz was found to have breached a local tax law by failing to obtain a license for use of local water for the period of January 1, 2005 through October 3, 2005, in a timely manner. As a result, an additional permit fee was imposed, bringing the total permit fee to approximately $135,000. The Company has appealed this decision to the Supreme Court.

In June 2007, the Competition Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan ordered AES Ust-Kamenogorsk TETS LLP ("UKT") to pay approximately 835 million KZT ($7 million) to the state for alleged antimonopoly violations in 2005 through January 2007. The Competition Committee also ordered UKT to pay approximately 235 million KZT ($2 million), as estimated by the Company, to certain customers that allegedly have paid unreasonably high power prices since January 2007. In November 2007, the economic court of first instance upheld the Competition Committee's order in part, finding that UKT had violated Kazakhstan's antimonopoly laws, but reduced the damages to be paid to the state to 833 million KZT ($7 million) and rejected the damages to be paid to customers. The court of appeals (first panel) later affirmed the economic court's decision and, therefore, in June 2008, UKT paid the damages. The court of appeals (second panel) rejected UKT's appeal in June 2008. UKT has appealed to the Supreme Court of Kazakhstan. The Competition Committee's successor (the Antimonopoly Agency) has not indicated whether it intends to assert claims against UKT for alleged antimonopoly violations post January 2007. UKT believes it has meritorious claims and defenses; however, there can be no assurances that it will prevail in these proceedings.

In July 2007, the Competition Committee ordered Nurenergoservice, an AES subsidiary, to pay approximately 18 billion KZT ($150 million) for alleged antimonopoly violations in 2005 through the first quarter of 2007. The Competition Committee's order was affirmed by the economic court in April 2008. Nurenergoservice's subsequent appeals have been unsuccessful to date, including at the court of appeals (first panel), which rejected Nurenergoservice's appeal in July 2008. Also, the economic court has issued an injunction to secure Nurenergoservice's alleged liability, freezing Nurenergoservice's bank accounts and prohibiting Nurenergoservice from transferring or disposing of its property. In separate but related proceedings, in August 2007, the Competition Committee ordered Nurenergoservice to pay approximately 2 billion KZT (approximately $17 million) in administrative fines for its alleged antimonopoly violations. Nurenergoservice subsequently appealed to the administrative court of first instance. That appeal has been stayed since October 2007 but could resume at any time. The Antimonopoly Agency has not indicated whether it intends to assert claims against Nurenergoservice for alleged antimonopoly violations post first quarter 2007. Nurenergoservice believes it has meritorious claims and defenses; however, there can be no assurances that it will prevail in these proceedings. As Nurenergoservice did not prevail in the economic court or the court of appeals (first panel) with respect to the alleged damages, it will have to pay the alleged damages or risk seizure of its assets. In February 2009, the Antimonopoly Agency seized approximately 783 million KZT ($5 million) from a frozen Nurenergoservice bank account in partial satisfaction of Nurenergoservice alleged damages liability. Furthermore, if Nurenergoservice does not prevail in the administrative court with respect to the fines, it will have to pay the fines or risk seizure of its assets.

In August 2007, the Competition Committee ordered Sogrinsk TETS, a thermal cogeneration plant under AES concession, to terminate its contracts with Nurenergoservice and Ust-Kamenogorsk HPP because of Sogrinsk's alleged antimonopoly violations in 2005 through January 2007. The Competition

12. CONTINGENCIES (Continued)

Committee did not order Sogrinsk to pay any damages or fines. The Kazakhstan courts have affirmed the order, including the Supreme Court of Kazakhstan in October 2008. The Antimonopoly Agency has not indicated whether it intends to assert claims against Sogrinsk for alleged antimonopoly violations post January 2007.

In November 2007, the Competition Committee initiated an investigation of allegations that Irtysh Power and Light, LLP ("Irtysh"), an AES company which manages the state-owned Ust-Kamenogorsk Heat Nets system, had violated Kazakhstan's antimonopoly laws in January through November 2007 by selling power at below-market prices. In February 2008, the Competition Committee determined that the allegations were baseless. The Competition Committee subsequently appeared to initiate an investigation to determine whether Irtysh had illegally coordinated with other AES companies concerning the sale of power, but its successor (the Antimonopoly Agency) has not issued any order or otherwise taken any action on any such investigation to date. Irtysh believes it has meritorious claims and defenses and will assert them vigorously in any formal proceeding; however, there can be no assurances that it will be successful in its efforts.

In December 2008, the Antimonopoly Agency ordered Ust-Kamenogorsk HPP ("UK HPP"), a hydroelectric plant under AES concession, to pay approximately 1.1 billion KZT ($9 million) for alleged antimonopoly violations in February through November 2007. The economic court has issued an injunction to secure UK HPP's alleged liability, among other things freezing UK HPP's bank accounts. Furthermore, the Antimonopoly Agency has initiated administrative proceedings against UK HPP seeking an unspecified amount of administrative fines for the alleged antimonopoly violations. UK HPP believes it has meritorious defenses and will assert them vigorously; however, there can be no assurances that it will be successful in its efforts.

In June 2007, the Company received a letter from an outside law firm purportedly representing a shareholder demanding that the Company's Board conduct a review of certain stock option plans, procedures and historical granting and exercise practices, and other matters, and that the Company commence legal proceedings against any officer and/or director who may be liable for damages to the Company. The Board has established a Special Committee, which has retained independent counsel, to consider the demands presented in the letter in light of the work undertaken by the Company in its review of share-based compensation. The Company has not received any communication from the purported shareholder who made the demand since the second half of 2007.

In July 2007, AES Energia Cartagena SRL, ("AESEC") initiated arbitration against Initec Energia SA, Mitsubishi Corporation, and MC Power Project Management, SL ("Contractor") to recover damages from the Contractor for its delay in completing the construction of AESEC's majority-owned power facility in Murcia, Spain. In October 2007, the Contractor denied AESEC's claims and asserted counterclaims to recover approximately €12 million ($17 million) for alleged unpaid milestone and scope change order payments, among other things, and an unspecified amount for an alleged early completion bonus. The final hearing is scheduled to begin in June 2009. AESEC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In November 2007, the International Brotherhood of Electrical Workers, Local Union No. 1395, and sixteen individual retirees, (the "Complainants"), filed a complaint at the Indiana Utility

Regulatory Commission ("IURC") seeking enforcement of their interpretation of the 1995 final order and associated settlement agreement resolving IPL's basic rate case. The Complainants are requesting that the IURC conduct an investigation of IPL's failure to fund the Voluntary Employee Beneficiary Association Trust ("VEBA Trust"), at a level of approximately $19 million per year. The VEBA Trust was spun off to an independent trustee in 2001. The complaint seeks an IURC order requiring IPL to make contributions to place the VEBA Trust in the financial position in which it allegedly would have been had IPL not ceased making annual contributions to the VEBA Trust after its spin off. The complaint also seeks an IURC order requiring IPL to resume making annual contributions to the VEBA Trust. IPL filed a motion to dismiss and both parties are seeking summary judgment in the IURC proceeding. To date, no procedural schedule for this proceeding has been established. IPL believes it has meritorious defenses to the Complainants' claims and it will assert them vigorously in response to the complaint; however, there can be no assurances that it will be successful in its efforts.

In September 2007, the New York Attorney General issued a subpoena to the Company seeking documents and information concerning the Company's analysis and public disclosure of the potential impacts that greenhouse gas ("GHG") legislation and climate change from GHG emissions might have on the Company's operations and results. The Company has produced documents and information in response to the subpoena.

In October 2007, the Ekibastuz Tax Committee issued a notice for the assessment of certain taxes against AES Ekibastuz LLP. A portion of the assessment, approximately $1.7 million, relates to alleged environmental pollution. The review by the Ekibastuz Tax Committee is ongoing and their decision on any assessment, including the portion related to alleged environmental pollution, is not yet final. In addition, as the result of a subsequent tax audit which was completed on January 24, 2008, an additional amount of approximately 36 million KZT in principal, 20 million KZT in interest and 13 million KZT in penalty (collectively, approximately $600,000), was assessed as underpayment of taxes for the 2004 calendar year and VAT for January 2004. AES Ekibastuz appealed these assessments. However, this position was rejected by the Regional Tax Committee in a decision dated January 30, 2008. On February 29, 2008, AES Ekibastuz appealed to the Ministry of Finance of the Republic of Kazakhstan and is currently awaiting a decision.

In February 2008, the Native Village of Kivalina, Alaska, and the City of Kivalina filed a complaint in the U.S. District Court for the Northern District of California against the Company and numerous unrelated companies, claiming that the defendants' alleged GHG emissions are destroying the plaintiffs' alleged land. The plaintiffs assert nuisance and concert of action claims against the Company and the other defendants, and a conspiracy claim against a subset of the other defendants. The plaintiffs seek to recover relocation costs, indicated in the complaint to be from $95 million to $400 million, and other alleged damages from the defendants, which are not quantified. The Company has filed a motion to dismiss the case, which the plaintiffs have opposed. The Company believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

A public civil action has been asserted against Eletropaulo and Associação Desportiva Cultural Eletropaulo (the "Associação") relating to alleged environmental damage caused by construction of the Associação near Guarapiranga Reservoir. The initial decision that was upheld on the first appeal found

12. CONTINGENCIES (Continued)

that Eletropaulo should either repair the alleged environmental damage by demolishing certain construction and reforesting the area, pursuant to a project which would cost approximately $628,000, or pay an indemnification amount of approximately $5 million. Eletropaulo has appealed this decision to the Supreme Court and is awaiting a decision.

In 2007, a lower court issued a decision related to a 1993 claim that was filed by the Public Attorney's office against Eletropaulo, the Sao Paulo State Government, SABESP (a state owned company), CETESB (a state owned company) and DAEE (the municipal Water and Electric Energy Department), alleging that they were liable for pollution of the Billings Reservoir as a result of pumping water from Pinheiros River into Billings Reservoir. The events in question occurred while Eletropaulo was a state owned company. The initial lower court decision in 2007 found the parties liable for the payment of R$517.46 million ($221 million) for remediation. Eletropaulo subsequently appealed the decision and Eletropaulo is still awaiting a decision on the appeal. The filing of the appeal suspended the lower court's decision. Eletropaulo believes it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In September 2008, IPL received a Clean Air Act Section 114 information request. The request seeks various information regarding production levels and projects implemented at IPL's generating stations, generally for the time period from January 1, 2001 to the date of the information request. This type of information request has been used in the past to assist the EPA in determining whether a plant is in compliance with applicable standards under the Clean Air Act. At this time it is not possible to predict what impact, if any, this request may have on IPL, its results of operation or its financial position.

In November 2007, the U.S. Department of Justice ("DOJ") indicated to AES Thames, LLC ("AES Thames") that the U.S. EPA had requested that the DOJ file a federal court action against AES Thames for alleged violations of the Clean Air Act ("CAA"), the Clean Water Act ("CWA"), the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the Emergency Planning and Community Right-to-Know Act ("EPCRA"), in particular alleging that AES Thames had violated (i) the terms of its Prevention of Significant Deterioration ("PSD") air permits in the calculation of its steam load permit limit; and (ii) the CWA, CERCLA and EPCRA in connection with two spills of chlorinating agents. The DOJ subsequently indicated that it would like to settle this matter prior to filing a suit and negotiations are ongoing. During such discussions, the DOJ and EPA have accepted AES Thames method of operation and have asked AES Thames to seek a minor permit modification to clarify the air permit condition. On October 21, 2008, the DOJ proposed a civil penalty of $245,000 for the alleged violations. The Company believes that it has meritorious defenses to the claims asserted against it and if a settlement cannot be achieved, the Company will defend itself vigorously in any lawsuit.

In December 2008, there were press reports that the National Electricity Regulatory Entity of Argentina ("ENRE") had filed a criminal action in the National Criminal and Correctional Court of Argentina against the board of directors and administrators of EDELAP, an AES subsidiary. Although EDELAP has not been officially served with notice of the action, press reports have stated that ENRE's action concerns certain bank cancellations of EDELAP debt in 2006 and 2007, which were accomplished through transactions between the banks and related AES companies. According to press

12. CONTINGENCIES (Continued)

reports, ENRE claims that EDELAP should have reflected in its accounts the alleged benefits of the transactions that were allegedly obtained by the related companies. EDELAP believes that the allegations lack merit; however, there can be no assurances that its board and administrators will be successful in any formal proceedings concerning the allegations.

In January 2009, an alleged shareholder of the Company filed a shareholder derivative and putative class action in Delaware state court against the Company and certain members of its board of directors. The plaintiff claims that Section 2.17(B) of the Company's bylaws, concerning shareholder action by written consent, is illegal under Delaware law. The plaintiff does not seek damages but declarations that Section 2.17(B) is unlawful and void and that the board member defendants breached their respective fiduciary duties of loyalty by adopting that bylaw in October 2008. The plaintiff further seeks to recover his litigation costs. The Company defendants believe they have meritorious defenses and will assert them vigorously in these proceedings; however, there can be no assurances that they will be successful in their efforts.

A CAA Section 114 information request regarding Cayuga and Somerset was received in February 2009. The request seeks various operating and testing data and other information regarding certain types of projects at the Cayuga and Somerset facilities, generally for the time period from January 1, 2000 through the date of the information request. This type of information request has been used in the past to assist the EPA in determining whether a plant is in compliance with applicable standards under the CAA. At this time it is not possible to predict what impact, if any, this request may have on Cayuga and/or Somerset, their results of operation or their financial position.

13. BENEFIT PLANS

DEFINED CONTRIBUTION PLAN—The Company sponsors one defined contribution plan, qualified under section 401 of the Internal Revenue Code. All employees of the Company are eligible to participate in the plan except for those employees who are not covered by their collective bargaining agreement. The plan provides for Company matching contributions in Company stock, other Company contributions at the discretion of the Compensation Committee of the Board of Directors in Company stock, and discretionary tax deferred contributions from the participants. Participants are fully vested in their own contributions and the Company's matching contributions. Participants vest in other Company contributions ratably over a five-year period ending on the fifth anniversary of their hire date. Company contributions to the plans were approximately $21 million, $22 million, and $21 million for the years ended December 31, 2008, 2007, and 2006, respectively.

DEFINED BENEFIT PLANS—Certain of the Company's subsidiaries have defined benefit pension plans covering substantially all of their respective employees. Pension benefits are based on years of credited service, age of the participant and average earnings. Of the 24 defined benefit plans, three are at U.S. subsidiaries and the remaining plans are at foreign subsidiaries. In May 2007, the Company sold EDC; the impact of this disposition is reflected in the tables below in the Plan settlements line item for the year ended December 31, 2007.

The Company adopted the recognition provisions of SFAS No. 158, effective December 31, 2006, which requires recognition of an asset or liability in the balance sheet reflecting the funded status of pension and other post-retirement benefits plans with current-year changes in the funded status

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

13. BENEFIT PLANS (Continued)

recognized in stockholders' equity. The Company recognized a cumulative adjustment to adopt the recognition provisions of SFAS No. 158 as of December 31, 2006. AES adopted the measurement date provisions of the standard, which require a year-end measurement date of plan assets and obligations for all defined benefit plans, for the fiscal year ended December 31, 2008 and accordingly, recognized a cumulative adjustment of $1 million to retained earnings as of December 31, 2008. Prior to the year ended December 31, 2008, seven of the Company's defined benefit plans used an early measurement date to value their plan assets and obligations.

The following table reconciles the Company's funded status, both domestic and foreign, as of December 31, 2008 and 2007:

	December 31,			
	2008		2007	
	U.S.	Foreign	U.S.	Foreign
	(in millions)			
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 513	$ 4,358	$ 555	$ 3,213
Adjustments due to adoption of SFAS No. 158 measurment date provisions	3	1	—	—
Service cost	6	11	7	9
Interest cost	32	453	30	393
Employee contributions	—	20	—	15
Plan amendments	10	—	2	—
Plan settlements	(1)	—	—	(58)
Benefits paid	(32)	(377)	(29)	(344)
Net transfer in	—	—	—	2
Actuarial loss (gain)	26	138	(52)	459
Effect of foreign currency exchange rate change	—	(1,106)	—	669
Benefit obligation as of December 31	$ 557	$ 3,498	$ 513	$ 4,358
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	$ 430	$ 3,587	$ 422	$ 2,538
Actual return on plan assets	(129)	268	34	762
Employer contributions	59	138	3	113
Employee contributions	—	20	—	15
Plan settlements	(1)	—	—	(40)
Benefits paid	(32)	(377)	(29)	(344)
Acquisitions/divestitures	—	—	—	1
Effect of foreign currency exchange rate change	—	(884)	—	542
Fair value of plan assets as of December 31	$ 327	$ 2,752	$ 430	$ 3,587
RECONCILIATION OF FUNDED STATUS				
Funded status as of December 31	$ (230)	$ (746)	$ (83)	$ (771)

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

13. BENEFIT PLANS (Continued)

The following table summarizes the amounts recognized on the Consolidated Balance Sheets, both domestic and foreign, as of December 31, 2008 and 2007:

	December 31,			
	2008		2007	
	U.S.	Foreign	U.S.	Foreign
	(in millions)			
AMOUNTS RECOGNIZED ON THE CONSOLIDATED BALANCE SHEETS				
Noncurrent assets	$ —	$ 22	$ —	$ 50
Accrued benefit liability—current	—	(3)	—	(2)
Accrued benefit liability—long-term	(230)	(765)	(83)	(819)
Net amount recognized at end of year	$ (230)	$ (746)	$ (83)	$ (771)

The following table summarizes the Company's accumulated benefit obligation, both domestic and foreign, as of December 31, 2008 and 2007:

	December 31,			
	2008		2007	
	U.S.	Foreign	U.S.	Foreign
	(in millions)			
Accumulated Benefit Obligation	$ 541	$ 3,335	$ 510	$ 4,323
Information for pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	$ 557	$ 3,336	$ 513	$ 4,173
Accumulated benefit obligation	541	3,179	510	4,143
Fair value of plan assets	327	2,570	430	3,351
Information for pension plans with a projected benefit obligation in excess of plan assets:				
Projected benefit obligation	$ 557	$ 3,339	$ 513	$ 4,173
Fair value of plan assets	327	2,571	430	3,351

13. BENEFIT PLANS (Continued)

The table below demonstrates the significant weighted average assumptions used in the calculation of benefit obligation and net periodic benefit cost, both domestic and foreign, as of December 31, 2008 and 2007:

	December 31,			
	2008		2007	
	U.S.	Foreign	U.S.	Foreign
Benefit Obligation:				
Discount rates	6.26%	11.78%	6.48%	11.25%
Rates of compensation increase	4.75%	5.97%	4.75%	6.93%
Periodic Benefit Cost:				
Discount rate	6.48%	11.25%	5.64%	11.73%
Expected long-term rate of return on plan assets	7.77%	12.31%	8.00%	12.41%
Rate of compensation increase	4.75%	6.93%	4.75%	6.98%

A subsidiary of the Company has a defined benefit obligation of $528 million and $482 million at December 31, 2008 and 2007, respectively, and uses salary bands to determine future benefit costs rather than a rate of compensation increases. Rates of compensation increases in the table above do not include amounts related to this specific defined benefit plan.

The Company establishes its estimated long-term return on plan assets considering various factors, which include the targeted asset allocation percentages, historic returns and expected future returns.

The measurement of pension obligations, costs and liabilities is dependent on a variety of assumptions. These assumptions include estimates of the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- Discount rates;
- Salary growth;
- Retirement rates;
- Inflation;
- Expected return on plan assets; and
- Mortality rates.

The effects of actual results differing from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods.

Sensitivity of our pension funded status and stockholders' equity to the indicated increase or decrease in the discount rate and long-term rate of return on plan assets assumptions is shown below. Note that these sensitivities may be asymmetric, and are specific to the base conditions at year-end

13. BENEFIT PLANS (Continued)

2008. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The December 31, 2008 funded status is affected by December 31, 2008 assumptions. Pension expense for 2008 is affected by December 31, 2007 assumptions. The impact on pension expense from a one percentage point change in these assumptions is shown in the table below (in millions):

Increase of 1% in the discount rate	$ (10)
Decrease of 1% in the discount rate	$ 15
Increase of 1% in the long-term rate of return on plan assets	$ (39)
Decrease of 1% in the long-term rate of return on plan assets	$ 39

The following table summarizes the components of the net periodic benefit cost, both domestic and foreign, for the years ended December 31, 2008 through 2006:

	December 31,					
	2008		2007		2006	
Components of Net Periodic Benefit Cost:	**U.S.**	**Foreign**	**U.S.**	**Foreign**	**U.S.**	**Foreign**
	(in millions)					
Service cost	$ 6	$ 11	$ 7	$ 9	$ 6	$ 7
Interest cost	32	453	30	393	30	356
Expected return on plan assets	(34)	(412)	(33)	(333)	(29)	(255)
Amortization of initial net asset	—	(3)	—	(3)	—	(3)
Amortization of prior service cost	3	—	3	—	2	—
Amortization of net loss	1	2	6	2	5	2
Curtailment gain recognized	—	—	—	(3)	—	—
Settlement gain recognized	1	—	—	(6)	—	—
Total pension cost	$ 9	$ 51	$ 13	$ 59	$ 14	$ 107

For the year ended December 31, 2006, $(102) million (prior to the adjustment for the adoption of SFAS No. 158), was included in other comprehensive income arising from a change in the additional minimum pension liability.

13. BENEFIT PLANS (Continued)

The following table summarizes the amounts reflected in Accumulated Other Comprehensive Income on the Consolidated Balance Sheet as of December 31, 2008 that have not yet been recognized as components of net periodic benefit cost:

	December 31, 2008			
	Accumluated Other Comprehensive Income		Amounts expected to be reclassified to earnings in next fiscal year	
	U.S.	Foreign	U.S.	Foreign
	(in millions)			
Initial net transition asset	$ —	$ 3	$ —	$ 2
Prior service cost	—	(2)	—	—
Unrecognized net actuarial loss	—	(393)	—	(6)
Total	$ —	$ (392)	$ —	$ (4)

The following table summarizes the Company's target allocation for 2008 and pension plan asset allocation, both domestic and foreign, as of December 31, 2008 and 2007:

			Percentage of Plan Assets as of December 31,			
	Target Allocations		2008		2007	
Asset Category	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Equity securities	27% - 74%	29% - 30%	54.57%	22.24%	60.89%	24.64%
Debt securities	26% - 54%	65%	37.08%	72.30%	28.87%	69.40%
Real estate	0% - 9%	1%	1.91%	1.23%	2.84%	1.28%
Other	0% - 9%	4% - 5%	6.44%	4.23%	7.40%	4.68%
Total pension cost			100.00%	100.00%	100.00%	100.00%

The U.S. plans seek to achieve the following long-term investment objectives:

- Maintenance of sufficient income and liquidity to pay retirement benefits and other lump sum payments;
- Long-term rate of return in excess of the annualized inflation rate;
- Long-term rate of return (net of relevant fees that meet or exceed the assumed actuarial rate);
- Long-term competitive rate of return on investments, net of expenses, that is equal to or exceeds various benchmark rates.

Consistent with the above, the allocation is reviewed periodically to determine a suitable asset allocation which seeks to control risk through portfolio diversification and takes into account, among other possible factors, the above-stated objectives, in conjunction with current funding levels, cash flow conditions and economic and industry trends.

The investment strategy of the foreign plans seeks to maximize return on investment while minimizing risk. Our assumed asset allocation uses a lower exposure to equities to closely match

13. BENEFIT PLANS (Continued)

market conditions and near term forecasts. Some of the Company's plans hold investments that are illiquid. These assets are held by our subsidiaries in Brazil and total $279 million and represent 9% of total plan assets at December 31, 2008.

The following table summarizes the scheduled cash flows for U.S. and foreign expected employer contributions and expected future benefit payments, both domestic and foreign:

	U.S.	Foreign
	(in millions)	
Expected employer contribution in 2009	$ 21	$ 133
Expected benefit payments for fiscal year ending:		
2009	32	297
2010	32	324
2011	33	339
2012	34	352
2013	36	366
2014 - 2018	202	2,034

14. STOCKHOLDERS' EQUITY

STOCK REPURCHASE

On August 7, 2008, the Company's Board of Directors approved a share repurchase plan for up to $400 million of its outstanding common stock. The Board authorization permits the Company to repurchase shares over a six month period ending February 7, 2009. Shares of common stock repurchased under this plan through December 31, 2008 totaled 10,691,267 at a total cost of $143 million plus commissions of $0.3 million (average of $13.41 per share including commissions). The remaining amount authorized to be purchased under the share repurchase plan as of December 31, 2008 was $257 million. The shares of stock repurchased have been classified as treasury stock and accounted for using the cost method. A total of 10,691,267 shares were held in treasury stock at December 31, 2008. At December 31, 2007, there were no shares of common stock held in treasury stock. The Company did not retire any shares of treasury stock during the year ended December 31, 2008. No shares of common stock were repurchased subsequent to December 31, 2008 and the Board authorization of the plan expired on February 7, 2009.

14. STOCKHOLDERS' EQUITY (Continued)

ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the balances comprising accumulated other comprehensive loss net of tax, as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Foreign currency translation adjustment	$2,584	$2,023
Unrealized derivative losses	263	232
Unfunded pension obligation	171	123
Total	$3,018	$2,378

15. SEGMENT AND GEOGRAPHIC INFORMATION

Through the end of 2008, the Company organized its operations along two primary lines of business (Generation and Utilities) within four geographic regions: Latin America; North America; Europe & Africa; and Asia & the Middle East ("Asia"). The reportable segments included:

- Latin America Generation;
- Latin America Utilities;
- North America Generation;
- North America Utilities;
- Europe & Africa Generation;
- Europe & Africa Utilities;
- Asia Generation.

The Company's segment reporting reflects how AES managed its operations internally in terms of decision making and evaluating performance through the end of 2008. The Company managed its business primarily on a geographic basis in two distinct lines of business—the generation of electricity ("Generation") and the distribution of electricity ("Utilities"). These businesses are distinguished by the nature of their customers, operational differences, cost structure, regulatory environment and risk exposure. Given the geographic dispersion of our operating units, we further disaggregated the lines of business by region into separate segments to provide further transparency to our shareholders and other external constituents.

Three regions, North America, Latin America and Europe & Africa, are engaged in both Generation and Utility businesses. Our Asia region only has Generation businesses. Accordingly, these businesses and regions accounted for seven segments. In 2008, AES Wind Generation, climate solutions, and certain other initiatives were managed by our alternative energy group. The associated revenue, development costs and operational costs were reported under "Corporate and Other" since its results were not material to the presentation of our operating segments. "Corporate and Other" also included corporate overhead costs which are not directly associated with the operations of our seven

15. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

primary operating segments; interest income and expense; other intercompany charges such as management fees and self-insurance premiums which are fully eliminated in consolidation.

In early 2009, the Company began to implement certain organizational changes in an effort to streamline the organization. The new structure will continue to be organized along our two lines of business, but within three regions instead of four: (1) North America, (2) Latin America & Africa and (3) Europe, Middle East & Asia ("EMEA"). In addition, we will no longer have an alternative energy group. Instead, AES Wind Generation, will be managed as part of our North America region while climate solutions projects will be managed in the region in which they are located. Management is currently evaluating the impact of the reorganization on the Company's externally reported segments beginning with our Quarterly Report on Form 10-Q for the quarter ending March 31, 2009, as required under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS No. 131").

The Company uses both revenue and gross margin as key measures to evaluate the performance of its segments. Segment revenue includes inter-segment sales related to the transfer of electricity from generation plants to utilities within Latin America. No inter-segment revenue relationships exist in other segments. Gross margin is defined as total revenue less operating expenses including depreciation and amortization and local fixed operating and other overhead costs. Corporate allocations include certain management fees and self insurance activity which are reflected within segment gross margin. All intra-segment activity has been eliminated with respect to revenue and gross margin within the segment; inter-segment activity has been eliminated within the total consolidated results. All balance sheet information for businesses that were discontinued is segregated and is shown in the line "Discontinued Businesses" in the accompanying segment tables.

The tables below present the breakdown of business segment balance sheet and income statement data as of and for the years ended December 31, 2008 through 2006:

	Total Revenue			Intersegment			External Revenue		
Revenue	2008	2007	2006	2008	2007	2006	2008	2007	2006
					(in millions)				
Latin America—Generation	$ 4,465	$ 3,510	$ 2,615	$ (990)	$ (885)	$ (789)	$ 3,475	$ 2,625	$ 1,826
Latin America—Utilities	5,911	5,172	4,552	—	(17)	—	5,911	5,155	4,552
North America—Generation	2,234	2,168	1,928	—	—	—	2,234	2,168	1,928
North America—Utilities	1,079	1,052	1,032	—	—	—	1,079	1,052	1,032
Europe & Africa—Generation	1,160	975	852	—	—	—	1,160	975	852
Europe & Africa—Utilities	782	660	570	—	—	—	782	660	570
Asia—Generation	1,264	817	718	—	—	—	1,264	817	718
Corp/Other & eliminations	(825)	(838)	(758)	990	902	789	165	64	31
Total Revenue	$ 16,070	$ 13,516	$ 11,509	$ —	$ —	$ —	$ 16,070	$ 13,516	$ 11,509

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

15. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

Gross Margin	Total Gross Margin 2008	Total Gross Margin 2007	Total Gross Margin 2006	Intersegment 2008	Intersegment 2007	Intersegment 2006	External Gross Margin 2008	External Gross Margin 2007	External Gross Margin 2006
					(in millions)				
Latin America—Generation	$ 1,394	$ 955	$ 1,052	$ (975)	$ (853)	$ (773)	$ 419	102	$ 279
Latin America—Utilities	885	865	888	998	875	808	1,883	1,740	1,696
North America—Generation	657	702	610	17	18	13	674	720	623
North America—Utilities	261	313	277	4	3	2	265	316	279
Europe & Africa—Generation	294	275	247	3	4	6	297	279	253
Europe & Africa—Utilities	57	63	103	—	1	1	57	64	104
Asia—Generation	143	176	186	3	4	5	146	180	191
Corp/Other & eliminations	16	43	56	(50)	(52)	(62)	(34)	(9)	(6)
Total Gross Margin	$ 3,707	$ 3,392	$ 3,419	$ —	$ —	$ —	$ 3,707	$ 3,392	$ 3,419

	Total Assets 2008	Total Assets 2007	Total Assets 2006	Depreciation and Amortization 2008	Depreciation and Amortization 2007	Depreciation and Amortization 2006	Capital Expenditures 2008	Capital Expenditures 2007	Capital Expenditures 2006
					(in millions)				
Latin America—Generation	$ 8,229	$ 7,659	$ 6,909	$ 168	$ 169	$ 154	$ 889	$ 393	$ 126
Latin America—Utilities	7,181	8,780	7,297	221	199	182	437	394	313
North America—Generation	6,412	6,272	5,303	195	190	167	133	165	125
North America—Utilities	3,093	2,836	2,807	152	142	136	107	202	196
Europe & Africa—Generation	2,856	2,773	2,112	61	74	61	425	662	308
Europe & Africa—Utilities	988	1,020	795	64	58	49	161	87	48
Asia—Generation	3,239	2,180	2,072	69	53	55	152	62	9
Discontinued businesses	—	451	2,830	8	17	105	6	46	100
Corp/Other & eliminations	2,810	2,482	1,149	63	40	24	577	449	287
Total	$ 34,808	$ 34,453	$ 31,274	$ 1,001	$ 942	$ 933	$ 2,887	$ 2,460	$ 1,512

	Investment in and Advances to Affiliates 2008	Investment in and Advances to Affiliates 2007	Investment in and Advances to Affiliates 2006	Equity in Earnings (Loss) 2008	Equity in Earnings (Loss) 2007	Equity in Earnings (Loss) 2006
			(in millions)			
Latin America—Generation	$ 81	$ 67	$ 59	$ 9	$ 17	$ 16
Latin America—Utilities	—	—	—	—	—	—
North America—Generation	—	—	—	—	—	3
North America—Utilities	1	1	1	—	—	—
Europe & Africa—Generation	230	200	131	28	11	8
Europe & Africa—Utilities	—	—	—	—	—	—
Asia—Generation	407	431	376	12	43	47
Discontinued businesses	—	—	—	—	—	—
Corp/Other & eliminations	182	31	24	(16)	5	(1)
Total	$ 901	$ 730	$ 591	$ 33	$ 76	$ 73

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

15. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

The table below presents information about the Company's consolidated operations and long-lived assets, by country, for years ended December 31, 2008 through 2006 and as of December 31, 2008 and 2007, respectively. Revenues are recorded in the country in which they are earned and assets are recorded in the country in which they are located.

	Revenues			Property, Plant & Equipment, net	
	2008	2007	2006	2008	2007
			(in millions)		
United States	$ 2,745	$ 2,641	$ 2,573	$ 6,926	$ 6,448
Non-U.S.					
Brazil	5,501	4,748	4,119	4,206	5,369
Chile	1,349	1,011	594	1,540	968
Argentina	949	678	542	446	450
Pakistan	607	396	318	204	265
Dominican Republic	601	476	357	634	651
El Salvador	484	479	437	255	249
Hungary	466	344	304	211	241
Mexico	463	399	185	819	838
Ukraine	403	330	269	78	104
Cameroon	379	330	300	579	504
United Kingdom	342	235	222	308	383
Colombia	291	213	184	395	393
Puerto Rico	251	245	234	622	620
Kazakhstan	234	284	215	56	52
Panama	210	175	144	715	582
Sri Lanka	184	123	92	79	83
Qatar	161	178	169	526	552
Philippines(1)	148	—	—	731	—
Oman	105	105	114	321	331
Bulgaria(2)	—	—	1	1,329	542
Other Non-U.S.	197	126	136	413	349
Total Non-U.S.	13,325	10,875	8,936	14,467	13,526
Total	$ 16,070	$ 13,516	$ 11,509	$ 21,393	$ 19,974

(1) Acquired in May 2008, revenues represent results for a partial year.

(2) Currently under development, facility is not operational at this time.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

16. SHARE-BASED COMPENSATION

STOCK OPTIONS—AES grants options to purchase shares of common stock under stock option plans. Under the terms of the plans, the Company may issue options to purchase shares of the Company's common stock at a price equal to 100% of the market price at the date the option is granted. Stock options are generally granted based upon a percentage of an employee's base salary. Stock options issued under these plans in 2008, 2007 and 2006 have a three-year vesting schedule and vest in one-third increments over the three-year period. The stock options have a contractual term of ten years. At December 31, 2008, approximately 19 million shares were remaining for award under the plans. In all circumstances, stock options granted by AES do not entitle the holder the right, or obligate AES, to settle the stock option in cash or other assets of AES.

The weighted average fair value of each option grant has been estimated, as of the grant date, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	December 31,		
	2008	2007	2006
Expected volatility	37%	29%	30%
Expected annual dividend yield	0%	0%	0%
Expected option term (years)	6	6	6
Risk-free interest rate	3.04%	4.67%	4.63%

Beginning January 1, 2006, the Company exclusively relies on implied volatility as the expected volatility to determine the fair value using the Black-Scholes option-pricing model. The implied volatility may be exclusively relied upon due to the following factors:

- The Company utilizes a valuation model that is based on a constant volatility assumption to value its employee share options;
- The implied volatility is derived from options to purchase AES common stock that are actively traded;
- The market prices of both the traded options and the underlying share are measured at a similar point in time to each other and on a date reasonably close to the grant date of the employee share options;
- The traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and
- The remaining maturities of the traded options on which the estimate is based are at least one year.

Pursuant to SAB No. 107, the Company used a simplified method to determine the expected term based on the average of the original contractual term and the pro rata vesting term. This simplified method was used for stock options granted during the years ended December 31, 2007 and 2006. In 2008, the Company continued to use the simplified method pursuant to SAB No. 110, which amends SAB No. 107 and allows for the continued use of the simplified method under certain circumstances for stock options accounted for under SFAS No. 123(R). This is appropriate given a lack of relevant

16. SHARE-BASED COMPENSATION (Continued)

stock option exercise data. This simplified method may be used as the Company's stock options have the following characteristics:

- The stock options are granted at-the-money;
- Exercisability is conditional only on performing service through the vesting date;
- If an employee terminates service prior to vesting, the employee forfeits the stock options;
- If an employee terminates service after vesting, the employee has a limited time to exercise the stock option; and
- The stock option is nonhedgeable and not transferable.

The Company does not discount the grant date fair values determined to estimate post-vesting restrictions. Post-vesting restrictions include black-out periods when the employee is not able to exercise stock options based on their potential knowledge of information prior to the release of that information to the public. The assumptions that the Company has made in determining the grant date fair value of its stock options and the estimated forfeiture rates represent its best estimate.

Using the above assumptions, the weighted average fair value of each stock option granted was $7.65, $8.49 and $6.82, for the years ended December 31, 2008, 2007, and 2006, respectively.

The following table summarizes the components of stock-based compensation related to employee stock options recognized in the Company's financial statements:

	December 31,		
	2008	2007	2006
		(in millions)	
Pre-tax compensation expense	$ 12	$ 15	$ 17
Tax benefit	(3)	(4)	(5)
Stock options expense, net of tax	$ 9	$ 11	$ 12
Total intrinsic value of options exercised	$ 9	$ 41	$ 78
Total grant date fair value of options vested	13	14	12
Cash received from the exercise of stock options	17	50	78
Windfall tax benefits realized from the exercised stock options	1	2	—

There was no cash used to settle stock options or compensation cost capitalized as part of the cost of an asset for the years ended December 31, 2008, 2007 and 2006. As of December 31, 2008, $16 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of approximately 1.7 years. There were no modifications to stock option awards during the year ended December 31, 2008.

16. SHARE-BASED COMPENSATION (Continued)

A summary of the option activity for year ended December 31, 2008 follows (number of options in thousands, dollars in millions except per option amounts):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	24,737	$ 18.23		
Exercised year to date	(1,595)	10.50		
Forfeited and expired year to date	(990)	24.72		
Granted year to date	2,156	18.86		
Outstanding at December 31, 2008	24,308	$ 18.52	4.1	$ 10
Vested and expected to vest at December 31, 2008	23,652	$ 18.48	4.0	$ 10
Eligible for exercise at December 31, 2008	20,563	$ 18.30	3.2	$ 10

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. The amount of the aggregate intrinsic value will change based on the fair market value of the Company's stock.

The Company initially recognizes compensation cost on the estimated number of instruments for which the requisite service is expected to be rendered. In 2008, AES has estimated a forfeiture rate of 16.87% and 10.19% for stock options granted to non-officer employees and officer employees of AES, respectively. In 2007, based on actual experience, AES reevaluated the forfeiture rates for non-officer employees for its prior year grants and adjusted the rate to 14.70% from 8.55% for the plan year ended December 31, 2006. Those estimates will be revised if subsequent information indicates that the actual number of instruments forfeited is likely to differ from previous estimates. Based on the estimated forfeiture rates, the Company expects to expense $14 million on a straight-line basis over a three year period (approximately $4.6 million per year) related to stock options granted during the year ended December 31, 2008.

RESTRICTED STOCK

Restricted Stock Units Without Market Conditions—The Company issues restricted stock units ("RSUs") without market conditions under its long-term compensation plan. The RSUs are generally granted based upon a percentage of the participant's base salary. The units have a three-year vesting schedule and vest in one-third increments over the three-year period. The units are then required to be held for an additional two years before they can be redeemed for shares, and thus become transferable.

For the years ended December 31, 2008, 2007, and 2006, RSUs issued without a market condition had a grant date fair value equal to the closing price of the Company's stock on the grant date. The Company does not discount the grant date fair values to reflect any post-vesting restrictions. RSUs

16. SHARE-BASED COMPENSATION (Continued)

without a market condition granted to non-executive employees during the years ended December 31, 2008, 2007, and 2006 had grant date fair values per RSU of $18.87, $22.28 and $17.57, respectively.

The following table summarizes the components of the Company's stock-based compensation related to its employee RSUs issued without market conditions recognized in the Company's financial statements:

	December 31,		
	2008	2007	2006
	(in millions)		
RSU expense before income tax	$10	$10	$10
Tax benefit	(2)	(3)	(2)
RSU expense, net of tax	$ 8	$ 7	$ 8
Total intrinsic value of RSUs converted[(1)]	$—	$—	$—
Total fair value of RSUs vested	$10	$10	$ 7

(1) 59,000 RSUs were converted during the year ended December 31, 2008. No RSUs were converted during the years ended December 31, 2007 and 2006.

There was no cash used to settle RSUs or compensation cost capitalized as part of the cost of an asset for the years ended December 31, 2008, 2007 and 2006. As of December 31, 2008, $16 million of total unrecognized compensation cost related to RSUs without the market condition is expected to be recognized over a weighted average period of approximately 1.8 years. There were no modifications to RSU awards during the year ended December 31, 2008.

A summary of the RSUs activity for the year ended December 31, 2008 follows (number of RSUs in thousands, dollars in millions except per unit amounts):

	RSUs	Weighted Average Grant-date Fair Values	Weighted Average Remaining Vesting Term
Nonvested at December 31, 2007	1,311	$ 20.17	
Vested year to date	(597)	19.26	
Forfeited and expired year to date	(153)	19.83	
Granted year to date	974	18.87	
Nonvested at December 31, 2008	1,535	$ 19.73	1.7
Vested at December 31, 2008	2,213	$ 14.05	—
Vested and expected to vest at December 31, 2008	3,459	$ 16.08	—

The weighted average grant date fair value of RSUs without a market condition granted during year ended December 31, 2008, was $18.87. The fair value of RSUs without a market condition that vested during the years ended December 31, 2008, 2007 and 2006 was $10 million, $10 million and $7 million, respectively. RSUs without a market condition vesting during the years ended December 31, 2008, 2007 and 2006 were 597,000, 714,000 and 569,000, respectively. 59,000 RSUs were converted

16. SHARE-BASED COMPENSATION (Continued)

during the year ended December 31, 2008. No RSUs were converted during the years ended December 31, 2007 and 2006.

The total grant date fair value of RSUs granted without a market condition was $15 million during the year ended December 31, 2008.

Restricted Stock Units With Market Conditions—Restricted stock units issued to officers of the Company have a three-year vesting schedule and include a market condition to vest. Vesting will occur if the applicable continued employment conditions are satisfied and the Total Stockholder Return ("TSR") on AES common stock exceeds the TSR of the Standard and Poor's 500 ("S&P 500") over the three-year measurement period beginning on January 1st in the year of grant and ending after three years on December 31st. In certain situations where the TSR of both AES common stock and the S&P 500 exhibit a gain over the measurement period, the grant may vest without the TSR of AES common stock exceeding the TSR of the S&P 500, if the Compensation Committee exercises its discretion to permit such vesting. The units are then required to be held for an additional two years subsequent to vesting before they can be redeemed for shares, and thus become transferable. In all circumstances, restricted stock units granted by AES do not entitle the holder the right, or obligate AES, to settle the restricted stock unit in cash or other assets of AES.

The effect of the market condition on restricted stock units issued to officers of the Company is reflected in the award's fair value on the grant date for the year ended December 31, 2008. A discount of 14% was applied to the closing price of the Company's stock on the date of grant to estimate the fair value to reflect the market condition for RSUs with market conditions granted during the year ended December 31, 2008. RSUs that included a market condition granted during the year ended December 31, 2008 and 2007 had a grant date fair value per RSU of $16.23 and $18.27, respectively.

The following table summarizes the components of the Company's stock-based compensation related to its RSUs granted with market conditions recognized in the Company's financial statements:

	December 31,		
	2008	2007	2006
	(in millions)		
RSU expense before income tax	$ 4	$ 5	$ 4
Tax benefit	(1)	(2)	(1)
RSU expense, net of tax	$ 3	$ 3	$ 3
Total intrinsic value of RSUs converted(1)	$—	$—	$—
Total fair value of RSUs vested	$ 5	$ 5	$—

(1) No RSUs were converted during the years ended December 31, 2008, 2007 or 2006.

There was no cash used to settle RSUs or compensation cost capitalized as part of the cost of an asset for the years ended December 31, 2008, 2007 and 2006. As of December 31, 2008, $5 million of total unrecognized compensation cost related to RSUs with a market condition is expected to be recognized over a weighted average period of approximately 1.7 years. There were no modifications to RSU awards during the year ended December 31, 2008.

16. SHARE-BASED COMPENSATION (Continued)

A summary of the restricted stock unit activity for the year ended December 31, 2008 follows (number of RSUs in thousands, $ in millions except per unit amounts):

	RSUs	Weighted Average Grant-date Fair Values	Weighted Average Remaining Vesting Term
Nonvested at December 31, 2007	872	$ 15.30	
Vested year to date	(352)	16.81	
Forfeited and expired year to date	(22)	15.35	
Granted year to date	267	16.23	
Nonvested at December 31, 2008	765	$ 14.93	1.1
Vested at December 31, 2008	900	$ 12.04	—
Vested and expected to vest at December 31, 2008	1,665	$ 13.38	—

The weighted average grant date fair value of RSUs with a market condition granted during year ended December 31, 2008, was $16.23. RSUs with a market condition that vested during the years ended December 31, 2008 and 2007 were 352,000 and 548,000, respectively. No RSUs with a market condition vested during the year ended December 31, 2006. No RSUs were converted during the years ended December 31, 2008, 2007 and 2006.

The total grant date fair value of RSUs with a market condition granted during the year ended December 31, 2008 was $3.9 million. If no discount was applied to reflect the market condition for RSUs issued to officers, the total grant date fair value of RSUs with a market condition granted during year ended December 31, 2008 would have increased by $0.6 million.

17. SUBSIDIARY STOCK

Minority interest includes $60 million of cumulative preferred stock of subsidiaries at December 31, 2008 and 2007. The total annual dividend requirement was approximately $3 million at December 31, 2008 and 2007. Each series of preferred stock is redeemable solely at the option of the issuer at prices between $101 and $118 per share.

On November 6, 2008, a wholly-owned subsidiary of the Company, Inversiones Cachagua Limitada ("Cachagua"), sold a 9.6% ownership interest in AES Gener in a private transaction for $174.9 million. The sale reduced the Company's ownership percentage of AES Gener from 80.2% to 70.6%. The Company recognized a pre-tax loss of $30.8 million, including $3.6 million of related fees, from this transaction in the fourth quarter of 2008. The net proceeds from this transaction was used exclusively for Gener's capital increase as approved by Gener's Extraordinary Shareholders Meeting on November 19, 2008. See further discussion of Gener's 2009 capital increase in Note 27—Subsequent Events.

In May and October 2007, Cachagua sold a 0.9% and 10.2% ownership interest, respectively, in AES Gener for $330.9 million. The sale reduced the Company's ownership percentage of AES Gener to 80.2%. The Company recorded a pre-tax gain on the sale of $134.2 million, including $8.3 million of related fees.

17. SUBSIDIARY STOCK (Continued)

Sale of Subsidiary Stock and Brasiliana Restructuring—In September 2006, Brasiliana's wholly owned subsidiary, Transgás, sold a 33% economic ownership in Eletropaulo, a regulated electric utility in Brazil. Despite the reduction in economic ownership, there was no change in Brasiliana's voting interest in Eletropaulo and Brasiliana continues to control Eletropaulo. Transgás received $522 million in net proceeds on the sale. On October 5, 2006 Transgás, sold an additional 5% economic ownership in Eletropaulo for $78 million in net proceeds. For the year ended December 31, 2006, AES recognized a pre-tax loss of $535 million primarily as a result of the recognition of previously deferred currency translation losses.

18. OTHER INCOME AND EXPENSE

The components of other income are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Contract settlement gain	$ —	$ 135	$ —
Gross receipts tax recovery	—	93	—
Legal/dispute settlement	39	26	1
Gain on sale of assets	34	24	18
Gain on extinguishment of liabilities	199	22	45
Insurance proceeds	40	18	30
Other	67	40	22
Total other income	$ 379	$ 358	$ 116

Other income primarily includes gains on asset sales and extinguishments of liabilities, favorable judgments on legal settlements, and other income from miscellaneous transactions. Other income of $379 million for the year ended December 31, 2008 included $32 million of cash proceeds related to a favorable legal settlement at Southland in California, $23 million of gains associated with a sale of land at Eletropaulo and sales of turbines at Itabo, gains on the extinguishment of a tax liability and a legal contingency at Eletropaulo of $117 million and $75 million, respectively, $29 million of insurance recoveries for damaged turbines at Uruguaiana, and compensation of $18 million for the impairment associated with the settlement agreement to shut down Hefei. Other income of $358 million for the year ended December 31, 2007 included a $135 million contract settlement gain at Eastern Energy, a $93 million gross receipts tax recovery at Eletropaulo and Tiete and $25 million from favorable legal settlements totaling $25 million at Eletropaulo and Red Oak in New Jersey. Other income of $116 million for the year ended December 31, 2006 included debt retirement gains at several of our businesses in Latin America.

18. OTHER INCOME AND EXPENSE (Continued)

The components of other expense are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Loss on extinguishment of liabilities	$ 70	$ 106	$ 181
Regulatory special obligations	—	—	139
Loss on sale and disposal of assets	34	79	23
Legal/dispute settlement	19	36	31
Write-down of disallowed regulatory assets	—	16	36
Other	40	18	41
Total other expense	$ 163	$ 255	$ 451

Other expense primarily includes losses on asset sales and extinguishment of liabilities, charges from legal disputes, mark to market adjustments on commodity derivatives and losses from other miscellaneous transactions. Other expense of $163 million for the year ended December 31, 2008 included $69 million of losses on the retirement of debt at the Parent Company in connection with the refinancing in June 2008, as further discussed in Note 10—Long Term Debt, and IPALCO associated with a $375 million refinancing in April 2008, and losses on disposal of assets primarily at Eletropaulo in Brazil. Other expense of $255 million for the year ended December 31, 2007 included a loss of $90 million on the retirement of senior secured notes at the Parent Company, a $28 million increase in legal reserves in Kazakhstan and losses on the sale and disposal of assets at Eletropaulo and Sul. Other expense of $451 million for the year ended December 31, 2006 included losses on the early extinguishment of debt at several of our Latin American businesses and a loss of $37 million on the retirement of debt at the Parent Company. Other expense also included special obligation charges and a provision for recoverability of regulatory assets at Eletropaulo.

19. IMPAIRMENT EXPENSE

Impairment expense for the years ended December 31, 2008, 2007 and 2006 consisted of:

	2008
	(in millions)
LNG projects in North America	$ 67
Uruguaiana	36
South African peakers	31
Hefei	18
Non-power development project	8
Other	15
Total	$ 175

In the fourth quarter of 2008 and in response to the financial market crisis, the Company reviewed and prioritized projects in the development pipeline. From this review, the Company determined that

19. IMPAIRMENT EXPENSE (Continued)

the carrying value exceeded the future discounted cash flows for certain projects. In accordance with SFAS No. 144, the Company recorded a total pre-tax impairment charge of $75 million ($34 million, net of minority interest and income taxes) related to two liquefied natural gas projects in North America and a non-power development project at one of our facilities in North America. These projects were reported in the North America Generation segment.

Following an initial impairment charge in the fourth quarter of 2007 at Uruguaiana, there were impairment charges of $36 million recognized during the first three quarters of 2008. The impairment was triggered by a combination of gas curtailments and increases in the spot market price of energy in 2007 that continued in 2008. The additional impairment charges in 2008 were primarily due to fixed asset purchase agreements in place. Uruguaiana is a thermoelectric generation plant located in Brazil and reported in the Latin America Generation segment.

The Company recognized impairment charges totaling $31 million related to a project in South Africa the Company withdrew from during the first quarter of 2008. These represented project development costs and an impairment of turbine deposits related to the project. All costs capitalized and incurred on the project have been written off as no future benefit is expected from these assets. This project was reported in the Europe & Africa Generation segment.

The Anhui Development and Reform commission issued notice to our Hefei plant in China, in March 2007 as a result of the 2007 State Council's decision to shut down smaller, inefficient and potentially polluting generation units nationwide. A settlement agreement was signed March 30, 2008 to end the contractual PPA arrangement. In accordance with SFAS No. 144, management concluded that the assets were impaired in March 2008, since the long-lived asset group would be sold or otherwise disposed of significantly before the end of its previously estimated life. As a result, impairment charges of $18 million were recognized associated with the settlement agreement to shut down the Hefei plant, which is reported in the Asia Generation segment.

	2007 (in millions)
Uruguaiana	$ 352
Placerita	25
AgCert	14
Coal Creek	10
Other	7
Total	$ 408

During the fourth quarter of 2007, the combination of gas curtailments and increases in the spot market price of energy triggered an impairment analysis of Uruguaiana's long-lived assets for recoverability. Based on the accounting guidance provided by SFAS No. 144, management concluded that an impairment occurred during fourth quarter 2007 due to the carrying amount of its long-lived asset exceeding its fair value. The expected present value of future cash flows was used to estimate fair value. As a result of this impairment analysis, a pre-tax impairment charge of $352 million was recognized which represents a full impairment of the fixed assets. Uruguaiana is a thermoelectric plant located in Brazil and is reported in the Latin America Generation segment.

19. IMPAIRMENT EXPENSE (Continued)

In August 2007, Placerita, a gas-fired combined cycle generation plant located in the United States, sustained property damage to the compressor section in one of its gas turbines. This event triggered an impairment analysis of the plant's long-lived assets, which resulted in a pre-tax impairment charge of approximately $25 million, which represents the net book value of the plant. It was determined that no future net cash flows would be received from the use of this long-lived asset and it was fully impaired. Placerita is reported in the North America Generation segment.

In May 2006, AES advanced AgCert, a United Kingdom based corporation that produces emission reduction credits, cash of $52 million. AES recognized this prepayment as a long-term asset as consideration for future CER credits and AgCert stock warrants. The asset is revalued each period based on current exchange rates. In the fourth quarter of 2007, AgCert notified AES that it was not able to meet its contractual obligations to deliver CERs, which triggered an analysis of the asset's recoverability. AgCert's financial information indicated a significant decrease in liquidity. As a result of the decline in liquidity and AgCert's inability to fulfill its contractual obligations for future delivery of the CERs, the Company recognized a pre-tax impairment charge of $14 million using the net present value of forecasted operations. This investment and long-term asset are reported in the Corporate and Other segment.

During the third quarter of 2007, AES made a decision to curtail operations at Coal Creek Minerals, LLC ("Coal Creek"), a coal mining company, due to its inability to meet expected financial projections. The abandonment of Coal Creek triggered an impairment analysis of its long-lived assets, which resulted in a pre-tax impairment charge of approximately $10 million. The fair market value for fixed assets was estimated by evaluating the probability of all assets to be sold and the most recent sale price attributed to other assets recently sold. Coal Creek is owned by one of our subsidiaries, Cavanal Minerals, which is reported in the North America Generation segment.

	2006 (in millions)
Chigen	$ 6
Itabo	5
Other	6
Total	$ 17

During the fourth quarter of 2006, as a result of performing the annual goodwill impairment analysis of AES China Generating Co. Ltd ("Chigen") in accordance with SFAS No. 142, a potential impairment of its equity investment in Wuhu, a coal-fired plant located in China, was identified. As part of the subsequent impairment analysis, the fair value of this investment was analyzed and determined to be less than the carrying value, resulting in a pre-tax impairment charge of $6 million. Chigen is reported in the Asia Generation segment.

In June 2006, AES recognized a pre-tax impairment charge of $5 million related to five gas turbines that were classified as held for sale at Itabo. The impairment loss was recognized based on bids received from potential buyers that indicated the market value of the turbines was lower than the carrying value. Itabo is included in the results of the Latin America Generation segment. AES began consolidating Itabo subsequent to its purchase of an additional ownership interest in May 2006.

20. INCOME TAXES

INCOME TAX PROVISION

The following table summarizes the expense for income taxes on continuing operations, for the years ended December 31, 2008, 2007 and 2006:

	December 31,		
	2008	2007	2006
	(in millions)		
Federal:			
Current	$ 12	$ 2	$ (50)
Deferred	122	5	39
State			
Current	(1)	2	(3)
Deferred	(7)	8	(12)
Foreign			
Current	611	475	455
Deferred	37	187	(70)
Total	$774	$679	$359

EFFECTIVE AND STATUTORY RATE RECONCILIATION

The following table summarizes a reconciliation of the U.S. statutory federal income tax rate to the Company's effective tax rate, as a percentage of income before taxes for the years ended December 31, 2008, 2007 and 2006:

	December 31,		
	2008	2007	2006
Statutory Federal tax rate	35%	35%	35%
State taxes, net of Federal tax benefit	—	—	—
Taxes on foreign earnings	(4)	11	7
Valuation allowance	2	(2)	(22)
Cumulative translation allowance	—	—	21
Gain on sale of Kazakhstan businesses	(12)	—	—
Taxes on cash repatriation	5	—	—
Other—net	2	1	(2)
Effective tax rate	28%	45%	39%

DEFERRED INCOME TAXES—Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carry forwards. These items are stated at the enacted tax rates that are expected to be in effect when taxes are actually paid or recovered.

20. INCOME TAXES (Continued)

As of December 31, 2008, the Company had federal net operating loss carry forwards for tax purposes of approximately $1.6 billion which expire from 2020 to 2027. Approximately $68 million of the net operating loss carry forward relates to stock option deductions and will be recorded to additional paid-in capital when realized. The Company also had federal general business tax credit carry forwards for tax purposes of approximately $18 million expiring primarily from 2021 to 2028, and federal alternative minimum tax credits of approximately $15 million that carry forward without expiration. The Company had state net operating loss carry forwards as of December 31, 2008 of approximately $3.0 billion expiring in years 2012 to 2028. The Company also has federal and state net operating loss carry forwards of $315 million expiring from 2025 to 2026 for a U.S. entity that is not included in its U.S. consolidated tax group. As of December 31, 2008, the Company had foreign net operating loss carry forwards of approximately $2.8 billion that expire at various times beginning in 2009 and some of which carry forward without expiration, and tax credits available in foreign jurisdictions of approximately $37 million, $5 million of which expire in 2009 to 2011, $21 million of which expire in 2012 to 2019 and $11 million of which carry forward without expiration.

The valuation allowance decreased by $210 million during 2008 to $1.4 billion at December 31, 2008. This net decrease was primarily the result of decreases in deferred tax assets at certain Brazilian subsidiaries that required corresponding decreases in the valuation allowances.

The valuation allowance increased by $178 million during 2007 to $1.6 billion at December 31, 2007. This net increase was primarily the result of increases in deferred tax assets at certain Brazilian subsidiaries that required corresponding increases in the valuation allowances.

The valuation allowance decreased by $50 million during 2006 to $1.4 billion at December 31, 2006. This net decrease was primarily the result of the removal of valuation allowance against deferred tax assets at foreign subsidiaries.

The Company believes that it is more likely than not that the remaining deferred tax assets as shown below will be realized when future taxable income is generated through the reversal of existing taxable temporary differences and income that is expected to be generated by businesses that have long-term contracts or a history of generating taxable income. The Company is monitoring the utilization of its deferred tax asset for its U.S. consolidated net operating loss carryforward. Although management believes it is more likely than not that this deferred tax asset will be realized through generation of sufficient taxable income prior to expiration of the loss carry forwards, such realization is not assured.

20. INCOME TAXES (Continued)

The following table summarizes the deferred tax assets and liabilities, as of December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(in millions)	
Differences between book and tax basis of property	$ 1,673	$ 1,622
Other taxable temporary differences	326	248
Total deferred tax liability	$ 1,999	$ 1,870
Operating loss carry forwards	(1,214)	(1,427)
Capital loss carry forwards	(298)	(362)
Bad debt and other book provisions	(495)	(614)
Retirement costs	(169)	(184)
Tax credit carry forwards	(70)	(85)
Cumulative translation allowances	(240)	(215)
Other deductible temporary differences	(482)	(299)
Total gross deferred tax asset	(2,968)	(3,186)
Less: valuation allowance	1,409	1,619
Total net deferred tax asset	(1,559)	(1,567)
Net deferred tax liability	$ 440	$ 303

The Company considers undistributed earnings of certain foreign subsidiaries to be indefinitely reinvested outside of the United States and, accordingly, no U.S. deferred taxes have been recorded with respect to such earnings as allowed under APB No. 23, *Accounting for Income Taxes—Special Areas*. Should the earnings be remitted as dividends, the Company may be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of any additional taxes which may be payable on the undistributed earnings.

Income from operations in certain countries is subject to reduced tax rates as a result of satisfying specific commitments regarding employment and capital investment. The Company's income tax benefits related to the tax status of these operations are estimated to be $46 million, $56 million and $42 million for the years ended December 31, 2008, 2007 and 2006, respectively.

THE AES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008, 2007, AND 2006

20. INCOME TAXES (Continued)

The following table summarizes the income (loss) from continuing operations, before income taxes, net equity in earnings of affiliates and minority interest, for the years ended December 31, 2008, 2007 and 2006:

	December 31,		
	2008	2007	2006
	(in millions)		
U.S.	$ (314)	$ (165)	$ (49)
Non-U.S.	3,065	1,686	963
Total	$2,751	$1,521	$914

In the third and fourth quarters of 2008, the Company implemented a planning strategy at Termoelectricia del Golfo and Termoelectrica del Peñoles, respectively. This strategy resulted in a deferred tax benefit of approximately $47 million. The benefit is a partial reversal of a $52 million deferred tax charge that was recorded in the fourth quarter of 2007 for the Mexican law change that established the Flat Rate Business Tax ("IETU").

UNCERTAIN TAX POSITIONS

Uncertain tax positions have been classified as non-current income tax liabilities unless expected to be paid in one year. The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the Consolidated Statements of Operations.

As of December 31, 2008 and 2007, the total amount of gross accrued income tax related interest included in the Consolidated Balance Sheets was $25 million and $29 million, respectively. The total amount of gross accrued income tax related penalties included in the Consolidated Balance Sheet as of December 31, 2008 and 2007 was $5 million and $8 million, respectively.

The total expense for interest related to unrecognized tax benefits for the years ended December 31, 2008 and 2007 amounted to $2 million and $15 million, respectively. For the years ended December 31, 2008 and 2007, the total (benefit) expense for penalties related to unrecognized tax benefits amounted to $(2) million and $4 million, respectively.

We are potentially subject to income tax audits in numerous jurisdictions in the U.S. and internationally until the applicable statute of limitation expires. Tax audits by their nature are often

20. INCOME TAXES (Continued)

complex and can require several years to complete. The following is a summary of tax years potentially subject to examination in the significant tax and business jurisdictions in which we operate:

Jurisdiction	Tax Years Subject to Examination
Argentina	2003-2008
Brazil	2003-2008
Cameroon	2007-2008
Chile	1998-2008
El Salvador	2005-2008
United Kingdom	1999-2008
United States (Federal)	1992-2008

As of December 31, 2008 and 2007, the total amount of unrecognized tax benefits was $555 million and $590 million, respectively. The total amount of unrecognized tax benefits that would benefit the effective tax rate as of December 31, 2008 and 2007 is $527 million and $533 million, respectively, of which $131 million and $144 million, respectively, would be in the form of tax attributes that would attract a full valuation allowance.

The total amount of unrecognized tax benefits anticipated to result in a net decrease of unrecognized tax benefits within 12 months of December 31, 2008 is estimated to be between $20 million and $27 million. The estimated decrease is primarily due to anticipated audit closures, other tax payments and lapses in statutes of limitations.

The following is a reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2008 and 2007:

	2008	2007
	(in millions)	
Balance at January 1	$590	$559
Additions for current year tax positions	6	18
Additions for tax positions of prior years	80	39
Reductions for tax positions of prior years	(26)	(21)
Effects of foreign currency translation	(74)	18
Settlements	(18)	(22)
Lapse of statute of limitations	(3)	(1)
Balance at December 31	$555	$590

The Company and certain of its subsidiaries are currently under examination by the relevant taxing authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe we have appropriately accrued for our uncertain tax benefits. However, audit outcomes and the timing of audit settlements and future events that would impact our previously recorded unrecognized tax benefits and the range of anticipated increases or decreases in unrecognized tax benefits are subject to significant uncertainty. It is possible that the ultimate outcome of current or future examinations may exceed current unrecognized tax benefits in amounts that could be material, but cannot be estimated as of December 31, 2008. Our effective tax rate and net income in any given future period could therefore be materially impacted.

21. DISCONTINUED OPERATIONS AND HELD FOR SALE BUSINESSES

The following table summarizes the income (loss) on disposal and impairment for the following discontinued operations for the years ended December 31, 2008, 2007 and 2006:

Subsidiary	December 31, 2008	December 31, 2007	December 31, 2006
		(in millions)	
Central Valley	$ (1)	$ 20	$ —
EDC	—	(680)	—
Eden	—	(1)	(62)
Indian Queens	—	—	5
Jiaozuo	7	—	—
Gain (loss) on disposal and impairment, after taxes	$ 6	$ (661)	$ (57)

In December 2008, the Company reached an agreement to sell its 70% equity interest in Jiaozuo AES Wanfang Power Co., Ltd. ("Jiaozuo"), which is reported in the Asia Generation segment, for approximately $73 million net of any withholding taxes. The AES Board of Directors approved the sale of Jiaozuo which closed on December 15, 2008 and the Company recognized a gain on the sale of approximately $7 million. Goodwill of $4 million was written off in connection with the gain on sale. This gain is included in the 2008 Gain (loss) from disposal of discontinued businesses line item on the consolidated Statement of Operations for the year ended December 31, 2008.

On February 22, 2007, the Company entered into a definitive agreement with Petróleos de Venezuela, S.A., ("PDVSA") to sell all of its shares of EDC, a distribution business reported in the Latin America Utilities segment, for $739 million net of any withholding taxes. In addition, the agreement provided for the payment of a $120 million dividend in 2007 which was declared on March 1, 2007 payable to the EDC shareholders of record as of March 9, 2007. A wholly-owned subsidiary of the Company was the owner of 82.14% of the outstanding shares of EDC, and therefore, on May 31, 2007, received approximately $97 million in dividends (representing approximately $99 million in gross dividends offset by fees). The sale of EDC and the payment of the purchase price occurred on May 16, 2007. EDC is classified as "discontinued operations" and reflected as such on the face of the Consolidated Financial Statements for all periods presented. During the first quarter of 2007, the Company recognized an impairment charge of approximately $638 million related to this sale. As a result of the final disposition of EDC in May 2007, the Company recognized an additional impairment charge of approximately $42 million, net of income and withholding taxes. The total impairment charge of $680 million represented the net book value of the Company's investment in EDC less the selling price. The Company impaired the carrying value of EDC's electric generation and distribution assets to their net realizable value. The impairment expense was included in the loss from disposal of discontinued businesses line item on the Consolidated Statement of Operations for the year ended December 31, 2007.

21. DISCONTINUED OPERATIONS AND HELD FOR SALE BUSINESSES (Continued)

In July 2007, the Company's wholly-owned subsidiary, Central Valley, sold 100% of its indirect interest in two biomass fired power plants located in central California (the 50 MW Delano facility and the 25 MW Mendota facility) for $51 million. These facilities, along with an associated management company (together, the "Central Valley Businesses") were included in the North America Generation segment. Central Valley is classified as "discontinued operations" in the Company's Consolidated Financial Statements for all periods presented. The Company recognized a gain on the sale of approximately $20 million net of income and withholding taxes.

In May 2006, the Company reached an agreement to sell 100% of its interest in Eden, a Latin America utility business located in Argentina. Therefore, Eden a wholly-owned subsidiary of AES, was classified as "held for sale" and reflected as such on the Consolidated Financial Statements. In 2006, the Company recognized a $62 million impairment charge to adjust the carrying value of Eden's assets to their estimated net realizable value. The impairment expense is included in the 2006 loss from disposal of discontinued businesses line item on the financial statements for the year ended December 31, 2007. The Buenos Aires Province in Argentina approved the transaction in May 2007.

In September 2006, the Company completed the sale of AES Indian Queens Power Limited and AES Indian Queens Operations Limited, collectively "IQP", which was part of the Europe & Africa Generation segment. IQP is an Open Cycle Gas Turbine, located in the U.K. Proceeds from the sale were $28 million in cash and the buyer assumed $30 million of IQP's debt. The Company recognized a gain on disposal of discontinued businesses of $5 million in 2006. The results of operations of IQP and the associated gain on disposal are reflected in the discontinued operations line items on the Consolidated Financial Statements.

Information for business components included in discontinued operations is as follows:

	December 31,		
	2008	2007	2006
		(in millions)	
Revenues	$ 100	$ 381	$ 863
Income from operations of discontinued businesses (before taxes)	16	108	198
Income tax expense	(4)	(29)	(83)
Income from operations of discontinued businesses	$ 12	$ 79	$ 115
Gain (loss) on disposal of discontinued businesses, after taxes	$ 6	$ (661)	$ (57)

As further discussed in Note 22—Acquisitions and Dispositions, in February 2008, the Company entered into an agreement to sell two of its wholly-owned subsidiaries in Kazakhstan, AES Ekibastuz LLP ("Ekibastuz") and Maikuben West LLP ("Maikuben"). These businesses are included in the Europe & Africa Generation segment. Total consideration for the transaction was approximately $1.1 billion with potential earn-out provisions up to an additional $381 million that may be awarded over a three-year period. These businesses generated total revenues of $114 million, $106 million, and $78 million, and net income (loss) of $61 million, $(35) million, and $(47) million for the years ended December 31, 2008, 2007 and 2006, respectively, excluding intercompany transactions. The assets and liabilities of these businesses were reclassified to "held for sale" on the Consolidated

21. DISCONTINUED OPERATIONS AND HELD FOR SALE BUSINESSES (Continued)

Balance Sheets for all periods presented prior to the completion of the sale on May 30, 2008. As a result of AES's continuing involvement in the management and operations of the businesses after the sale was completed, their results of operations continued to be reflected as part of income from continuing operations for all periods presented. Revenue recognized subsequent to the sale represented the management fees earned for the Company's continued management of the operations of the businesses.

22. ACQUISITIONS AND DISPOSITIONS

Acquisitions

In April 2008, the Company completed the purchase of a 92% interest in a 660 gross MW coal-fired thermal power generation facility in Masinloc, Philippines ("Masinloc") from the Power Sector Assets & Liabilities Management Corporation, a state enterprise, for $930 million in cash. Project financing of $665 million was obtained from International Finance Corporation ("IFC"), the Asian Development Bank and a consortium of commercial banks. IFC is also an 8% minority shareholder in Masinloc. AES immediately embarked upon a comprehensive rehabilitation program to improve the output, reliability and general condition of the plant. Environmental clean-up costs have been estimated pending a detailed study. Including transaction costs and completion of the planned upgrade program to improve environmental and operational performance, the total project cost is estimated to be $1.1 billion. Beginning on the acquisition date in April 2008, the results of operations of Masinloc are reflected in the Consolidated Financial Statements. The Company finalized the purchase price allocation of this acquisition in the fourth quarter of 2008.

Dispositions

On May 30, 2008, the Company completed the sale of two of its wholly-owned subsidiaries in Kazakhstan, Ekibastuz, a coal-fired generation plant, and Maikuben, a coal mine. Total consideration received in the transaction was approximately $1.1 billion with additional potential earn-out provisions, a three-year management fee arrangement and a capital expenditures program bonus of up to approximately $380 million. The earn-out bonus for 2008 is primarily based on EBITDA, a non-GAAP measure, and the calculation is currently being finalized. If the business meets the EBITDA threshold, the earn-out bonus could range from $60 million to $105 million depending on EBITDA. If the business does not meet the minimum EBITDA threshold, no earn-out bonus is paid. No earn-out provision has been recognized as of December 31, 2008, as the Company has not completed discussions with the counterparty relative to the calculation to permit recognition under U.S. GAAP. The earn-out will be recognized when it becomes determinable and probable.

As a result of AES's continuing involvement in the management and operations of the businesses through its three-year management and operation agreement, the results of operations from Ekibastuz and Maikuben were included in income from continuing operations through the disposition date. Income earned as a result of the three-year management and operation agreement was recognized as management fee income for all periods subsequent to the disposition. The management fee income earned for the year ended December 31, 2008 was $12 million and is included as revenue in the Europe & Africa Generation segment. A portion of the sale proceeds was used to pay down recourse debt as discussed in Note 10—Long-Term Debt. The Company plans to use the remaining proceeds

22. ACQUISITIONS AND DISPOSITIONS (Continued)

from the sale of these businesses to fund operations, invest in growth initiatives, or to pay down additional debt. Excluding income earned under the three-year management and operation agreement subsequent to the sale of the business in May 2008, Ekibastuz and Maikuben generated revenue of $114 million, $106 million and $78 million for the years ended December 31, 2008, 2007 and 2006, respectively.

23. EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period, after giving effect to stock splits. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive stock options, warrants, deferred compensation arrangements, and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for income from continuing operations. In the table below, income represents the numerator (in millions) and shares represent the denominator (in millions):

	December 31, 2008			December 31, 2007			December 31, 2006		
	Income	Shares	$ per Share	Income	Shares	$ per Share	Income	Shares	$ per Share
BASIC EARNINGS PER SHARE									
Income from continuing operations	$ 1,216	669	$ 1.82	$ 487	668	$ 0.73	$ 168	661	$ 0.25
EFFECT OF DILUTIVE SECURITIES									
Convertible securities	22	15	(0.02)						
Stock options and warrants	—	4	—	—	9	(0.01)	—	10	—
Restricted stock units	—	1	—	—	1	—	—	1	—
DILUTIVE EARNINGS PER SHARE	$ 1,238	689	$ 1.80	$ 487	678	$ 0.72	$ 168	672	$ 0.25

The calculation of diluted earnings per share excluded 11,150,853, 5,740,727 and 5,164,492 options outstanding at December 31, 2008, 2007 and 2006, respectively, that could potentially dilute basic earnings per share in the future. Those options were not included in the computation of diluted earnings per share because the exercise price of those options exceeded the average market price during the related period. In 2008, all convertible debentures were included in the earnings per share calculation. In 2007 and 2006, all convertible debentures were omitted from the earnings per share calculation because they were antidilutive.

24. RISKS AND UNCERTAINTIES

AES is a global power producer in 29 countries on five continents. See additional discussion of the Company's principal markets in Note 15—Segment and Geographic Information. Our principal lines of business are Generation and Utilities. The Generation line of business uses a wide range of technologies, including coal, gas, hydroelectric, and biomass as fuel to generate electricity. Our Utilities business is comprised of businesses that transmit, distribute, and in certain circumstances generate power. In addition, the Company continues to expand our reach into the renewables area. These efforts include projects primarily in wind and solar.

24. RISKS AND UNCERTAINTIES (Continued)

AES is a global power producer in 29 countries on five continents. See additional discussion of the Company's principal markets in Note 15—Segment and Geographic Information. Our principal lines of business are Generation and Utilities. The Generation line of business uses a wide range of technologies, including coal, gas, hydroelectric, and biomass as fuel to generate electricity. Our Utilities business is comprised of businesses that transmit, distribute, and in certain circumstances generate power. In addition, the Company continues to expand our reach into the renewables area. These efforts include projects primarily in wind and solar.

POLITICAL AND ECONOMIC RISKS—The Company's market capitalization has been negatively impacted largely in the second half of 2008. During this period, credit markets and global markets deteriorated and experienced increased market volatility, which can pose risks to the overall liquidity of our businesses with heightened unpredictability in currencies, counterparty credit risk and the widening of credit spreads in certain markets. If market conditions are protracted or continue to deteriorate, the Company may be at risk to decreased earnings and cash flows due to, among other factors, adverse fluctuations in the commodities and foreign currency spot markets or deterioration in global macroeconomic conditions. With the tightening of the credit markets, there is a risk that future investments may not be able to be financed through accessing capital and debt markets and may be subject to restrictions in the near future. Currently, the Company has a below-investment grade rating from Standard & Poor's of BBB-. This may limit the ability of the Company to finance new and existing development projects to cash currently available on hand and through reinvestment of earnings. As of December 31, 2008, the Company had $903 million of unrestricted cash available. As a result of the impact of the 2008 credit market environment, the Company has evaluated current development projects in the pipeline to assess their future profitability. Impairment expense was recognized in the fourth quarter of 2008 related to these development projects in the pipeline that the Company considered to be impaired or for which they decided to cease future development efforts. These impairment charges represented a net $34 million impact on the Company's earnings, but impairments may continue or could increase in the future if the credit market continues to worsen.

During 2008, approximately 83% of our revenue, and all of our revenue from discontinued businesses, was generated outside the United States and a significant portion of our international operations is conducted in developing countries. While our growth strategy has evolved as 2008 has progressed, to a focus on targeted projects in order to maintain our liquidity, we continue to invest in projects in developing countries because the growth rates and the opportunity to implement operating improvements and achieve higher operating margins may be greater than those typically achievable in more developed countries. International operations, particularly the operation, financing and development of projects in developing countries, entail significant risks and uncertainties, including, without limitation:

- economic, social and political instability in any particular country or region;
- adverse changes in currency exchange rates;
- government restrictions on converting currencies or repatriating funds;
- unexpected changes in foreign laws and regulations or in trade, monetary or fiscal policies;
- high inflation and monetary fluctuations;

24. RISKS AND UNCERTAINTIES (Continued)

- restrictions on imports of coal, oil, gas or other raw materials required by our generation businesses to operate;
- threatened or consummated expropriation or nationalization of our assets by foreign governments;
- unwillingness of governments, government agencies or similar organizations to honor their contracts;
- inability to obtain access to fair and equitable political, regulatory, administrative and legal systems;
- adverse changes in government tax policy;
- difficulties in enforcing our contractual rights or enforcing judgments or obtaining a just result in local jurisdictions; and
- potentially adverse tax consequences of operating in multiple jurisdictions.

Any of these factors, individually or in combination with others, could materially and adversely affect our business, results of operations and financial condition. In addition, our Latin American operations experience volatility in revenues and earnings which have caused and are expected to cause significant volatility in our results of operations and cash flows. The volatility is caused by regulatory and economic difficulties, political instability and currency devaluations being experienced in many of these countries. This volatility reduces the predictability and enhances the uncertainty associated with cash flows from these businesses.

Our inability to predict, influence or respond appropriately to changes in law or regulatory schemes, including any inability to obtain expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, could adversely impact our results of operations or our ability to meet publicly announced projections or analyst's expectations. Furthermore, changes in laws or regulations or changes in the application or interpretation of regulatory provisions in jurisdictions where we operate, particularly our Utilities where electricity tariffs are subject to regulatory review or approval, could adversely affect our business, including, but not limited to:

- changes in the determination, definition or classification of costs to be included as reimbursable or pass-through costs;
- changes in the definition or determination of controllable or non-controllable costs;
- changes in the definition of events which may or may not qualify as changes in economic equilibrium;
- changes in the timing of tariff increases;
- other changes in the regulatory determinations under the relevant concessions; or
- changes in environmental regulations, including regulations relating to GHG emissions in any of our businesses.

Any of the above events may result in lower margins for the affected businesses, which can adversely affect our business.

24. RISKS AND UNCERTAINTIES (Continued)

RISKS RELATED TO FOREIGN CURRENCIES—AES operates businesses in many foreign environments and such operations in foreign countries may be impacted by significant fluctuations in foreign currency exchange rates. The Company's financial position and results of operations have been significantly affected by fluctuations in the value of the Brazilian real, the Argentine peso, the Dominican Republic peso, the Euro, the Chilean peso, the Colombian peso and the Philippine peso relative to the U.S. Dollar.

RISKS RELATED TO POWER SALES CONTRACTS—Several of the Company's power plants rely on power sales contracts with one or a limited number of entities for the majority of, and in some case all of, the relevant plant's output over the term of the power sales contract. The remaining term of the power sales contracts related to the Company's power plants range from less than one to 41 years. No single customer accounted for 10% or more of total revenues in 2008, 2007, or 2006.

The cash flows and results of operations of such plants are dependent on the credit quality of the purchasers and the continued ability of their customers and suppliers to meet their obligations under the relevant power sales contract. If a substantial portion of the Company's long-term power sales contracts were modified or terminated, the Company would be adversely affected to the extent that it was unable to find other customers at the same level of contract profitability. The loss of one or more significant power sales contracts or the failure by any of the parties to a power sales contract to fulfill its obligations thereunder could have a material adverse impact on the Company's business, results of operations and financial condition.

25. OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS

IPL, a consolidated subsidiary of the Company, formed IPL Funding Corporation ("IPL Funding") in 1996 to purchase, on a revolving basis, up to $50 million of the retail accounts receivable and related collections of IPL. IPL Funding is consolidated by IPL and IPALCO since it meets requirements set forth in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* to be considered a qualified special-purpose entity. IPL Funding has entered into a purchase facility with unrelated parties ("the Purchasers") pursuant to which the Purchasers agree to purchase from IPL Funding, on a revolving basis, up to $50 million of the receivables purchased from IPL. During 2008, this agreement was extended through May 26, 2009. Accounts receivable on the Company's Consolidated Balance Sheets are stated net of the $50 million sold.

IPL retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, the Purchasers assume the risk of collection on the purchased receivables without recourse to IPL in the event of a loss. While no direct recourse to IPL exists, it risks loss in the event collections are not sufficient to allow for full recovery of its retained interests. No servicing asset or liability is recognized since the servicing fee paid to IPL approximates a market rate.

The carrying values of the retained interest is determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions in estimating fair value are credit losses, the selection of discount rates, and expected receivables turnover rate. As a result of short accounts receivable turnover period and historically low credit losses, the impact of these assumptions has not been significant to the fair value. The hypothetical effect on the fair value of the retained interests assuming both a 10% and a 20%

25. OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS (Continued)

unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history.

The losses recognized on the sales of receivables were $2 million, $3 million and $3 million for the years ended December 31, 2008, 2007 and 2006, respectively. These losses are included in other operating expense on the Consolidated Statements of Operations. The amount of the losses recognized depends on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the interests that continue to be held by the transferor based on their relative fair value at the date of transfer, and the proceeds received.

IPL's retained interest in the receivables sold was $83 million and $64 million at December 31, 2008 and 2007, respectively. There were no proceeds from new securitizations for each of the years ended December 31, 2008, 2007 and 2006. Servicing fees of $0.6 million were received for each of the years ended December 31, 2008, 2007 and 2006.

IPL and IPL Funding provide certain indemnities to the Purchasers, including indemnification in the event that there is a breach of representations and warranties made with respect to the purchased receivables. IPL Funding and IPL each have agreed to indemnify the Purchasers on an after-tax basis for any and all damages, losses, claims, liabilities, penalties, taxes, costs and expenses at any time imposed on or incurred by the indemnified parties arising out of or otherwise relating to the purchase facility, subject to certain limitations as defined in the Purchase Facility.

Under the Purchase Facility, if IPL fails to maintain certain financial covenants regarding interest coverage and debt to capital, it would constitute a "termination event." As of December 31, 2008, IPL was in compliance with such covenants.

As a result of IPL's current credit rating, the facility agent has the ability to:

(i) replace IPL as the collection agent; and

(ii) declare a "lock-box" event.

Under a lock-box event or a termination event, the facility agent has the ability to require all proceeds of purchased receivables of IPL to be directed to lock-box accounts within 45 days of notifying IPL. A termination event would also:

(i) give the facility agent the option to take control of the lock-box account; and

(ii) give the Purchasers the option to discontinue the purchase of new receivables and cause all proceeds of the purchased receivables to be used to reduce the Purchaser's investment and to pay other amounts owed to the Purchasers and the facility agent.

This would have the effect of reducing the operating capital available to IPL by the aggregate amount of such purchased receivables (currently $50 million).

Our Panamanian businesses are partially owned by the Government of Panama (the "Government"). The Government, in turn, partially owns the distribution companies within Panama. For the years ended December 31, 2008, 2007 and 2006, our Panamanian businesses recognized electricity sales to the Government totaling $203 million, $168 million and $141 million, respectively. For the same period, our Panamanian businesses purchased electricity which excludes transmission

25. OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS (Continued)

charges from the Government totaling $27 million, $24 million and $15 million, respectively. As of December 31, 2008 and 2007, our Panamanian businesses owed the Government $2 million and $3 million, respectively, payable on normal trade terms. For the same period, the Government owed our Panamanian businesses $29 million and $44 million, respectively, payable on normal trade terms.

26. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly Financial Data

The following tables summarize the unaudited quarterly statements of operations for the Company for 2008 and 2007. Amounts reflect all adjustments necessary in the opinion of management for a fair statement of the results for interim periods.

	Quarter ended 2008			
	Mar 31	June 30	Sept 30	Dec 31
	(in millions, except per share data)			
Revenues	$ 4,081	$ 4,126	$ 4,319	$ 3,544
Gross margin	1,042	1,029	962	674
Income from continuing operations, net of tax	232	902	147	(65)
Discontinued operations, net of tax	1	1	(2)	18
Net income	$ 233	$ 903	$ 145	$ (47)
Basic income per share:				
Income from continuing operations, net of tax	$ 0.35	$ 1.34	$ 0.22	$ (0.10)
Discontinued operations, net of tax	—	—	—	0.03
Basic income per share	$ 0.35	$ 1.34	$ 0.22	$ (0.07)
Diluted income per share:				
Income from continuing operations, net of tax	$ 0.34	$ 1.31	$ 0.22	$ (0.10)
Discontinued operations, net of tax	—	—	—	0.03
Diluted income per share	$ 0.34	$ 1.31	$ 0.22	$ (0.07)

26. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)

	Quarter ended 2007			
	Mar 31	June 30	Sept 30	Dec 31
	(in millions, except per share data)			
Revenues	$ 3,072	$ 3,320	$ 3,468	$ 3,656
Gross margin	841	898	844	809
Income from continuing operations, net of tax	110	282	92	3
Discontinued operations, net of tax	(571)	(28)	12	5
Net (loss) income	$ (461)	$ 254	$ 104	$ 8
Basic income per share:				
Income from continuing operations, net of tax	$ 0.17	$ 0.42	$ 0.14	$ —
Discontinued operations, net of tax	(0.86)	(0.04)	0.02	0.01
Basic (loss) income per share	$ (0.69)	$ 0.38	$ 0.16	$ 0.01
Diluted income per share:				
Income from continuing operations, net of tax	$ 0.16	$ 0.41	$ 0.14	$ —
Discontinued operations, net of tax	(0.84)	(0.04)	0.01	0.01
Diluted (loss) income per share	$ (0.68)	$ 0.37	$ 0.15	$ 0.01

27. SUBSEQUENT EVENTS

On December 23, 2008, the local Chilean SEC approved Gener's share issuance of approximately 945 million shares at a price of $162.50 Chilean Pesos. The proceeds of the share issuance was $246 million and Gener anticipates using these proceeds for future expansion plans, working capital and other operating needs. The preemptive rights period began on January 7, 2009 remained open for 30 days and closed on February 5, 2009. During the preemptive rights period AES, through its wholly-owned subsidiary, Cachagua, paid $175 million to maintain its current ownership percentage of approximately 70.6%.

On February 9, 2009, the government of the Dominican Republic, the government-owned power companies and the power companies sector ("generation companies"), signed two Memorandums of Understanding (each an "MOU"). The first MOU provides for the settlement of outstanding 2008 accounts receivables ("2008 A/R") held by the generation companies from distribution companies through the payment of government-issued bonds of which the Company's three generation businesses have been allocated $110 million. This MOU also states that the bonds can be used to offset fiscal taxes, but that element will need to be approved by the National Congress of the Dominican Republic during their first legislative session of 2009. The second MOU acknowledges that the bond payment does not fully satisfy the outstanding 2008 A/R balance. The residual amount outstanding after the bond payment will be fully settled by the distribution companies, within a timeframe to be negotiated in the near future.

It is AES' intention to accept these bonds as settlement for approximately $110 million of outstanding 2008 A/R, under the assumption that the bonds will have the ability to offset fiscal taxes. The Company's businesses will have approximately $58 million of 2008 A/R outstanding after the bond payment that will be subject to the terms of the second MOU. The intention of the distribution companies is to pay approximately $35 million of these receivables in 2009. Therefore, AES has appropriately reclassified $23 million to long-term receivables on the Company's Consolidated Balance Sheet as of December 31, 2008.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Change in Independent Registered Public Accounting Firm

On December 7, 2007, the Company determined that following the completion of the audit for the fiscal year ended December 31, 2007, Deloitte would be dismissed as the Company's independent registered public accounting firm. The Company also appointed Ernst & Young ("E&Y") as its independent registered public accounting firm for the fiscal year ending December 31, 2008. The decision to change accountants was made by the Company's Board and its Financial Audit Committee in a joint meeting held on December 7, 2007.

Deloitte's audit report dated March 14, 2008 on the Company's consolidated financial statements as of and for the years ended December 31, 2007 and December 31, 2006 included in its Form 10-K filed March 14, 2008 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles, except that the audit report indicated that (i) as discussed in Note 1 to the consolidated financial statements, in 2007 the Company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes*; in 2006 the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*; and in 2005 the Company adopted FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* and (ii) as discussed in Note 1 to the consolidated financial statements, the consolidated financial statements and the financial statement schedules were restated.

During the years ended December 31, 2006 and December 31, 2007, there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its audit report.

During the years ended December 31, 2006 and December 31, 2007, there were no reportable events (as defined in Regulation S-K Item 304 (a)(1)(v)), except that as of December 31, 2006 and December 31, 2007, the Company's internal control over financial reporting was not effective due to the existence of material weaknesses as more fully described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2006 and its Annual Report on Form 10-K for the year ended December 31, 2007, respectively.

The Company engaged E&Y as its independent registered public accounting firm for the fiscal year ending December 31, 2008. The Company has not consulted with E&Y during its two most recent fiscal years or during any subsequent interim period prior to its appointment as auditor regarding any matters described in Item 304(a)(2)(i) or Item 304(a)(2)(ii) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the chief executive officer ("CEO") and chief financial officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

The Company carried out the evaluation required by paragraph (b) of the Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our "disclosure controls and procedures" (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon this evaluation, the CEO and CFO concluded that as of December 31, 2008, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance that unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements are prevented or detected timely.

Management, including our CEO and CFO, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, any evaluation of the effectiveness of controls is subject to risks that those internal controls may become inadequate in future periods because of changes in business conditions, or that the degree of compliance with the policies or procedures deteriorates.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations ("COSO").

A material weakness is a deficiency (within the meaning of PCAOB Auditing Standard No. 5), or combination of deficiencies, that result in there being a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

Remediation of Existing Material Weaknesses:

The following material weaknesses that existed as of December 31, 2007 and were reported in the Company's 2007 Form 10-K filed on March 17, 2008, were remediated as of December 31, 2008:

Lack of Detailed Accounting Records for Certain Holding Companies:

The Company previously reported that although it believed that it had manual processes in place to capture all material transactions, there remained a risk that due to lack of detailed records for these holding companies, transactions may not be timely captured or evaluated at the appropriate level of detail.

The Company designed and implemented new controls to address this material weakness in 2007 and 2008. The completed steps of the remediation plan included the following:

- outlined a plan to communicate, document and track the formation, liquidation or changes to the Company's legal entities, including distribution of updated policies and procedures and checklists to track these changes;
- expanded staffing and resources dedicated to the creation and maintenance of legal entity accounting records;
- created a priority list of legal entities for purposes of establishing comprehensive general ledgers;
- distributed and implemented updated policies, procedures and checklists to track the formation, liquidation and changes to the Company's legal entities;
- implemented a consolidation review process for new legal entities;
- completed the evaluation and review necessary for the establishment of general ledgers for the priority list of legal entities; and
- provided training to the various corporate and field personnel concerning the maintenance of these legal entities in the Company's accounting databases.

The Company tested the operating effectiveness of the control steps described above, and concluded that, as of December 31, 2008, this previously reported material weakness has been remediated.

Contract Accounting:

The Company previously reported it lacked effective controls designed to ensure an adequate analysis and documentation of certain contracts, at inception and upon modification, to allow them to be adequately accounted for in accordance with U.S. GAAP. Certain of our contracts, at inception or upon modification, contain terms that trigger specific accounting treatment related to derivatives, hedges, lease accounting, variable interests and guarantees that our controls had not always effectively identified. These types of interconnections between accounting principles are significant factors that led to contract-related accounting adjustments in the Company's financial statements.

During the course of remediating this material weakness, the Company developed a remediation plan which included, among other controls, a broad review of contracts by the Company's accounting department so that the Company can identify and properly account for leases, derivatives and hedging activities, variable interests under FIN No. 46(R), *Consolidation of Variable Interest Entities* and guarantees under FIN No. 45*, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*. The completeness of the contract evaluation process is essential to establishing proper contract accounting in conformity with U.S. GAAP.

The steps related to the remediation plan include the following:

- engaged outside resources to assist management in refining comprehensive contract review policies and procedures for use by our subsidiaries when evaluating, reviewing and approving contracts that may qualify as derivatives or hedges, that may contain embedded derivatives, that may qualify as leases, or that may contain variable interests or guarantees;
- developed an automated solution (implemented in February 2007) to collect and consolidate all material contracts at our subsidiaries to assist in the appropriate evaluation and documentation requirements in accordance with U.S. GAAP;
- provided detailed training to subsidiaries on new policy and procedure guidance related to contract evaluation;

- centralized certain hedge assessments and valuations within the Corporate Accounting and Risk Management functions;
- implemented an integrated automated software system to perform valuations, perform regression testing, document hedge effectiveness, calculate ineffectiveness and maintain a roll-forward of OCI for certain derivative instruments;
- improved procedures to ensure the submission of contracts and contract modifications for U.S. GAAP evaluation;
- provided additional training to both finance and non-finance employees who are responsible for hedging activities, development of power purchase agreements and negotiation of significant purchase contracts;
- hired high level, qualified staff to provide expertise required to evaluate complex transactions and with knowledge and understanding of derivative valuation and hedge activities;
- improved the review process to evaluate the accuracy of the accounting analysis for new and amended contracts;
- established improved control procedures to identify variable interest entities for potential consolidation; and
- performed an assessment of contracts dated prior to the implementation of the above controls (July 1, 2006) relative to the risk of additional errors. All contracts, which included a population of over 450, that were considered to have more than a minimal level of risk, were reviewed and analyzed to determine proper accounting treatment.

The Company tested the operating effectiveness of the control steps described above, and concluded that, as of December 31, 2008, this previously reported material weakness has been remediated. While the Company believes that it has remediated the material weakness in this area, the Company will continue to evaluate the operating effectiveness of the controls that have been implemented to ensure that processes and procedures are continually enhanced and enforced to ensure timely recording, processing, summarizing and review of all significant contracts and contract modifications. Given the complexity of the industry in which the Company operates and the complexity of accounting assessments in the area of derivatives, hedges, lease accounting, variable interests and guarantees, no system of internal control process or environment will be able to provide absolute assurance that errors in the future will not occur, nor that judgments about accounting conclusions will not evolve over time. However, the Company believes it has established an effective internal control system over its contract accounting process that will allow for timely identification and assessment of potential accounting issues and the proper accounting treatment in the Company's financial statements.

Conclusion

As evidenced by steps taken to remediate the material weaknesses described above, management has concluded that, as of December 31, 2008, the Company maintained effective internal controls over financial reporting.

Changes in Internal Control:

During the quarter ended December 31, 2008, there were no significant changes other than those described above in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of The AES Corporation:

We have audited The AES Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The AES Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The AES Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The AES Corporation and its subsidiaries as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended of The AES Corporation and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 26, 2009

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following information is incorporated by reference from the 2009 Proxy Statement, File No. 001-12291, which will be filed on or around March XX, 2009 (the 2009 Proxy Statement):

- Information regarding the directors required by this item found under the heading *Board of Directors*
- Information regarding AES's Code of Ethics found under the heading *AES Code of Business Conduct and Corporate Governance Guidelines*
- Information regarding compliance with Section 16 of the Exchange Act required by this item found under the heading *Governance Matters—Section 16(a) Beneficial Ownership Reporting Compliance*
- Information regarding AES's Financial Audit Committee found under the heading *The Committees of the Board—Financial Audit Committee (the "Audit Committee")*

Certain information regarding executive officers required by this Item is set forth as a supplementary item in Part I hereof (pursuant to Instruction 3 to Item 401(b) of Regulation S-K). The other information required by this Item, to the extent not included above, will be contained in our Proxy Statement for the 2009 Annual Meeting of Shareholders and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The following information is contained in the 2009 Proxy Statement and is incorporated by reference: the information regarding executive compensation contained under the heading *Compensation Discussion and Analysis* and the Compensation Committee Report on Executive Compensation under the heading *Report of the Compensation Committee*.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Security Ownership of Certain Beneficial Owners.

See the information contained under the caption "Security Ownership of Certain Beneficial Owners, Directors, and Executive Officers" of the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Registrant, which information is incorporated herein by reference.

(b) Security Ownership of Directors and Executive Officers.

See the information contained under the caption "Security Ownership of Certain Beneficial Owners, Directors, and Executive Officers" of the Proxy Statement for the 2009 Annual Meeting of Shareholders of the Registrant, which information is incorporated herein by reference.

(c) Changes in Control.

None.

(d) Securities Authorized for Issuance under Equity Compensation Plans.

The following table provides information about shares of AES common stock that may be issued under AES's equity compensation plans, as of December 31, 2008:

Securities Authorized for Issuance under Equity Compensation Plans (As of December 31, 2008)

Plan category	(a) Number of securities to be issued upon exercise of outstanding Options, warrants and rights	(b) Weighted-average exercise price of outstanding Options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders[(1)]	23,944,056[(2)]	$ 20.29	17,215,622
Equity compensation plans not approved by security holders[(3)]	6,020,836	$ 13.13	1,316,266
Total	29,964,892	$ 18.51	18,531,888

(1) The following equity compensation plans have been approved by the Company's Stockholders:

(A) The LTC Plan was adopted in 2003 and provided for 17,000,000 shares authorized for issuance thereunder. In 2008, an amendment to the Plan to provide an additional 12,000,000 shares was approved by AES' stockholders, bringing the total authorized shares to 29,000,000. The weighted average exercise price of Options outstanding under this plan included in Column (b) is $17.22 (excluding RSU awards), with 13,824,055 shares available for future issuance.

(B) The AES Corporation 2001 Stock Option Plan adopted in 2001 provided for 15,000,000 shares authorized for issuance. The weighted average exercise price of Options outstanding under this plan included in Column (b) is $14.35, with 847,350 shares available for future issuance.

(C) The AES Corporation 2001 Plan for Outside Directors adopted in 2001 provided for 2,750,000 shares authorized for issuance. The weighted average exercise price of Options outstanding under this plan included in Column (b) is $8.96, with 2,045,728 shares available for future issuance.

(D) The AES Corporation Second Amended and Restated Deferred Compensation Plan for Directors provided for 2,000,000 shares authorized for issuance. Column (b) excludes the Director stock units granted thereunder and there are 498,489 shares available for future issuance.

(E) The AES Corporation Incentive Stock Option Plan adopted in 1991 provided for 57,500,000 shares authorized for issuance. The weighted average exercise price of Options outstanding under this plan included in Column (b) is $36.16. This plan terminated on June 1, 2001, such that no additional grants may be granted under the plan after that date. Any remaining shares under this plan, which are not reserved for issuance under outstanding awards, are not available for future issuance in light of this plan's termination and thus this amount (20,360,792 shares) is not included in Column (c) above.

(2) Includes 5,385,976 (3,319,340 of which are vested and 2,066,636 are unvested) shares underlying RSU awards (assuming performance at a maximum level), 381,099 shares underlying Director stock unit awards, and 18,176,981 shares issuable upon the exercise of Stock Option grants, for an aggregate number of 23,944,056 shares.

(3) The AES Corporation 2001 Non-Officer Stock Option Plan (the "2001 Plan") provided for 12,000,000 shares authorized for issuance. The weighted average exercise price of Options outstanding under this plan shown in Column (b) is $13.13, with 1,316,266 shares available for future issuance. This plan is described in the narrative below.

The 2001 Plan was adopted by the Board on October 18, 2001, and became effective October 25, 2001. The 2001 Plan did not require approval of AES' stockholders under SEC or New York Stock Exchange rules and/or regulations at that time. All employees that are not Officers, Directors or beneficial owners of more than 10% of AES' common stock are eligible to participate in the 2001 Plan. The total aggregate number of shares for which Options can be granted pursuant to the 2001 Plan is 12,000,000. As of December 31, 2008, approximately 4,000 employees held Options under the 2001 Plan. The exercise price of each Option awarded under the 2001 Plan is equal to the fair market value of AES's common stock on the grant date of the Option. Options under the 2001 Plan generally vest as to 50% of their underlying shares on each anniversary of the Option grant date; however, grants dated October 25, 2001 vested in one year. Unless otherwise provided by the Compensation Committee of the Board, upon the death or disability of an employee, or a change of control (as defined therein), all Options granted under the 2001 Plan will become fully vested and exercisable. Unless otherwise provided by the Compensation Committee of the Board, in the event that the employee's employment with the Company terminates for any reason other than death or disability, all Options held by such employee will automatically expire on the earlier of (a) the date the Option would have expired had the employee continued in such employment or (b) 180 days after the date that such employee's employment ceases. The 2001 Plan will expire on October 25, 2011. The Board may amend, modify or terminate the 2001 Plan at any time.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information regarding related party transactions required by this item is included in the 2009 Proxy Statement found under the headings *Transactions with Related Persons, Proposal I: Election of Directors* and *The Committees of the Board* are incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information concerning principal accountant fees and services included in the 2009 Proxy Statement contained under the heading *Information Regarding The Independent Registered Public Accounting Firm's Fees, Services and Independence* is incorporated by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements.

(b) Exhibits.

3.1	Sixth Restated Certificate of Incorporation of The AES Corporation (filed herewith).
3.2	By-Laws of The AES Corporation, as amended and incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K filed on October 22, 2008.
4	There are numerous instruments defining the rights of holders of long-term indebtedness of the Registrant and its consolidated subsidiaries, none of which exceeds ten percent of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant hereby agrees to furnish a copy of any of such agreements to the Commission upon request. Since these documents are not required filings under Item 601 of Regulation S-K, the Company has elected to file certain of these documents as Exhibits 4(a)—4(n).
4.(a)	Junior Subordinated Indenture, dated as of March 1, 1997, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association (formerly known as The First National Bank of Chicago) (filed herewith).
4.(b)	Third Supplemental Indenture, dated as of October 14, 1999, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association (filed herewith).
4.(c)	Senior Indenture, dated as of December 8, 1998, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association (formerly known as The First National Bank of Chicago) is incorporated by reference to Exhibit 4.01 of the Company's Form 8-K filed on December 11, 1998.
4.(d)	Form of Second Supplemental Indenture, dated as of June 11, 1999, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association (formerly known as The First National Bank of Chicago) is incorporated by reference to Exhibit 4.01 of the Company's Form 8-K filed on June 11, 1999.
4.(e)	Third Supplemental Indenture, dated as of September 12, 2000, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association (filed herewith).

4.(f)	Form of Fifth Supplemental Indenture, dated as of February 9, 2001, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association is incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 8, 2001.
4.(g)	Form of Sixth Supplemental Indenture, dated as of February 22, 2001, between The AES Corporation and Wells Fargo Bank, National Association, as successor to Bank One, National Association is incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 21, 2001.
4.(h)	Ninth Supplemental Indenture, dated as of April 3, 2003, between The AES Corporation and Wells Fargo Bank, National Association (as successor by consolidation to Wells Fargo Bank Minnesota, National Association) is incorporated by reference to Exhibit 4.6 of the Company's Form S-4 filed on December 7, 2007.
4.(i)	Form of Tenth Supplemental Indenture, dated as of February 13, 2004, between The AES Corporation and Wells Fargo Bank, National Association (as successor by consolidation to Wells Fargo Bank Minnesota, National Association) is incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 13, 2004.
4.(j)	Eleventh Supplemental Indenture, dated as of October 15, 2007, between The AES Corporation and Wells Fargo Bank, National Association is incorporated by reference to Exhibit 4.7 of the Company's Form S-4 filed on December 7, 2007.
4.(k)	Twelfth Supplemental Indenture, dated as of October 15, 2007, between The AES Corporation and Wells Fargo Bank, National Association is incorporated by reference to Exhibit 4.8 of the Company's Form S-4 filed on December 7, 2007.
4.(l)	Thirteenth Supplemental Indenture, dated as of May 19, 2008, between The AES Corporation and Wells Fargo Bank, National Association (filed herewith).
4.(m)	Senior Indenture, dated as of May 8, 2003, between The AES Corporation and Wells Fargo Bank, National Association (as successor by consolidation to Wells Fargo Bank Minnesota, National Association) (filed herewith).
4.(n)	First Supplemental Indenture, dated as of May 28, 2008, between The AES Corporation and Wells Fargo Bank, National Association (filed herewith).
10.1	The AES Corporation Profit Sharing and Stock Ownership Plan are incorporated herein by reference to Exhibit 4(c)(1) of the Registration Statement on Form S-8 (Registration No. 33-49262) filed on July 2, 1992.
10.2	The AES Corporation Incentive Stock Option Plan of 1991, as amended, is incorporated herein by reference to Exhibit 10.30 of the Company's Form 10-K for the year ended December 31, 1995.
10.3	Applied Energy Services, Inc. Incentive Stock Option Plan of 1982 is incorporated herein by reference to Exhibit 10.31 of the Registration Statement on Form S-1 (Registration No. 33-40483).
10.4	Deferred Compensation Plan for Executive Officers, as amended, is incorporated herein by reference to Exhibit 10.32 of Amendment No. 1 to the Registration Statement on Form S-1(Registration No. 33-40483).
10.5	Deferred Compensation Plan for Directors is incorporated herein by reference to Exhibit 10.9 of the Company's Form 10-Q for the quarter ended March 31, 1998.

10.6	The AES Corporation Stock Option Plan for Outside Directors as amended is incorporated herein by reference to Appendix C of the Registrant's 2003 Proxy Statement filed on March 25, 2003.
10.7	The AES Corporation Supplemental Retirement Plan is incorporated herein by reference to Exhibit 10.63 of the Company's Form 10-K for the year ended December 31, 1994.
10.7.A	Amendment to The AES Corporation Supplemental Retirement Plan, dated March 13, 2008 is incorporated herein by reference to Exhibit 10.9.A of the Company's Form 10-K for the year ended December 31, 2007.
10.8	The AES Corporation 2001 Stock Option Plan is incorporated herein by reference to Exhibit 10.12 of the Company's Form 10-K for the year ended December 31, 2000.
10.9	Second Amended and Restated Deferred Compensation Plan for Directors is incorporated herein by reference to Exhibit 10.13 of the Company's Form 10-K for the year ended December 31, 2000.
10.10	The AES Corporation 2001 Non-Officer Stock Option Plan is incorporated herein by reference to Exhibit 10.12 of the Company's Form 10-K for the year ended December 31, 2002.
10.10.A	Amendment to the 2001 Stock Option Plan and 2001 Non-Officer Stock Option Plan, dated March 13, 2008 is incorporated herein by reference to Exhibit 10.12.A of the Company's Form 10-K for the year ended December 31, 2007.
10.11	The AES Corporation 2003 Long Term Compensation Plan, as amended and restated on April 24, 2008, is incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 24, 2008.
10.12	The AES Corporation Amended and Restated Employment Agreement with Paul Hanrahan is incorporated herein by reference to Exhibit 99.1 of the Company's Form 8-K filed on December 31, 2008.
10.13	The AES Corporation Amended and Restated Employment Agreement with Victoria D. Harker is incorporated herein by reference to Exhibit 99.2 of the Company's Form 8-K filed on December 31, 2008.
10.14	The AES Corporation Employment Agreement with Andres Gluski is incorporated herein by reference to Exhibit 99.3 of the Company's Form 8-K filed on December 31, 2008.
10.15	The AES Corporation Restoration Supplemental Retirement Plan, as amended and restated, dated December 29, 2008 (filed herewith).
10.16	The AES Corporation International Retirement Plan, as amended and restated on December 29, 2008 (filed herewith).
10.17	The AES Corporation Severance Plan, as amended and restated on December 29, 2008 (filed herewith).
10.18	The AES Corporation Performance Incentive Plan, as amended and restated, dated December 29, 2008 (filed herewith).

10.19	Second Amended and Restated Pledge Agreement dated as of December 12, 2002 between AES EDC Funding II, L.L.C. and Citicorp USA, Inc., as Collateral Agent is incorporated herein by reference to Exhibit 99.3 of the Company's Form 8-K filed on December 17, 2002.
10.20	Fourth Amended And Restated Credit And Reimbursement Agreement dated as of July 29, 2008 among THE AES CORPORATION, a Delaware corporation, the SUBSIDIARY GUARANTORS listed herein, the BANKS listed on the signature pages hereof, CITIGROUP GLOBAL MARKETS INC., as Lead Arranger and Book Runner, BANC OF AMERICA SECURITIES LLC, as Lead Arranger and Book Runner and as Co-Syndication Agent, DEUTSCHE BANK SECURITIES INC, as Lead Arranger and Book Runner, UNION BANK OF CALIFORNIA, N.A., as Co-Syndication Agent and as Lead Arranger and Book Runner and as Syndication Agent, LEHMAN COMMERCIAL PAPER INC., as Co-Documentation Agent, UBS SECURITIES LLC, as Co-Documentation Agent, SOCIÉTÉ GÉNÉRALE, as Co-Documentation Agent, CREDIT LYONNAIS NEW YORK BRANCH, as Co-Documentation Agent, CITICORP USA, INC., as Administrative Agent for the Bank Parties and CITIBANK, N.A., as Collateral Agent for the Bank Parties is incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K filed on July 31, 2008.
10.21	Credit Agreement dated as of March 29, 2006 among The AES Corporation as Borrower, Merrill Lynch Capital Corporation as Administrative Agent, Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Lead Arranger is incorporated herein by reference to Exhibit 99.1 of the Company's Form 8-K filed on April 3, 2006.
10.22	The definitive agreement between Petroleos de Venezuela S.A. and The AES Corporation and AES Shannon Holdings B.V. dated February 15, 2007 is incorporated herein by reference to Exhibit 99.1 of the Company's Form 8-K filed on February 27, 2007.
10.23	The Purchase and Sale Agreement (with exhibits) dated February 5, 2008 among Anturie Beteiligungsverwaltungs GmbH, the Seller, Kazakhmys Power B.V., the Purchaser, and Kazakhmys PLC, the Parent Company is incorporated herein by reference to Exhibit 10.38 of the Company's Form 10-K for the year ended December 31, 2007.
10.24	The Management Agreement dated February 5, 2008 among Kazakhmys PLC, a public company registered in England, AES Ekibastuz LLP, a Kazakhstan limited liability partnership, AES Maikuben LLP, a Kazakhstan limited liability partnership, Maikuben West LLP, a Kazakhstan limited liability partnership and Alberich Beteiligungsverwaltungs GmbH is incorporated herein by reference to Exhibit 10.39 of the Company's Form 10-K for the year ended December 31, 2007.
10.25	Collateral Trust Agreement dated as of December 12, 2002 among The AES Corporation, AES International Holdings II, Ltd., Wilmington Trust Company, as corporate trustee and Bruce L. Bisson, an individual trustee is herein incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on December 17, 2002.
10.26	Security Agreement dated as of December 12, 2002 made by The AES Corporation to Wilmington Trust Company, as corporate trustee and Bruce L. Bisson, as individual trustee is herein incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed on December 17, 2002.

10.27	Charge Over Shares dated as of December 12, 2002 between AES International Holdings II, Ltd. and Wilmington Trust Company, as corporate trustee and Bruce L. Bisson, as individual trustee is herein incorporated by reference to Exhibit 4.4 of the Company's Form 8-K filed on December 17, 2002.
10.28	The AES Corporation Severance Agreement with William Luraschi, dated May 14, 2008 (filed herewith).
10.29	The AES Corporation Severance Agreement with Jay Kloosterboer, dated November 26, 2008 (filed herewith).
10.30	The AES Corporation Severance Agreement with David Gee, dated February 26, 2009 (filed herewith).
12	Statement of computation of ratio of earnings to fixed charges (filed herewith).
16	Letter from Deloitte & Touche LLP addressed to the Securities and Exchange Commission relating to auditor dismissal dated December 13, 2007 is incorporated by reference to Exhibit 16.1 of the Company's Form 8-K filed on December 13, 2007.
21	Subsidiaries of The AES Corporation (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP (filed herewith).
23.2	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP (filed herewith).
24	Power of Attorney (filed herewith).
31.1	Rule13a-14(a)/15d-14(a) Certification of Paul Hanrahan (filed herewith).
31.2	Rule 13a-14(a)/15d-14(a) Certification of Victoria D. Harker (filed herewith).
32.1	Section 1350 Certification of Paul Hanrahan (filed herewith).
32.2	Section 1350 Certification of Victoria D. Harker (filed herewith).

(c) Schedules.

Schedule I—Condensed Financial Information of Registrant
Schedule II—Valuation and Qualifying Accounts

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE AES CORPORATION
(Company)

Date: February 26, 2009 By: /s/ PAUL HANRAHAN

Name: Paul Hanrahan
President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Name	Title	Date
* Paul Hanrahan	President, Chief Executive Officer (Principal Executive Officer) and Director	February 26, 2009
* Kristina M. Johnson	Director	February 26, 2009
* John A. Koskinen	Director	February 26, 2009
* Philip Lader	Director	February 26, 2009
* John B. Morse	Director	February 26, 2009
* Sandra O. Moose	Director	February 26, 2009
* Philip A. Odeen	Chairman of the Board and Lead Independent Director	February 26, 2009

Name	Title	Date
* Charles O. Rossotti	Director	February 26, 2009
* Sven Sandstrom	Director	February 26, 2009
/s/ VICTORIA D. HARKER Victoria D. Harker	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2009
/s/ MARY WOOD Mary Wood	Vice President and Controller (Principal Accounting Officer)	February 26, 2009

*By: /s/ BRIAN A. MILLER February 26, 2009

Attorney-in-fact

THE AES CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENT SCHEDULES

Schedules other than those listed above are omitted as the information is either not applicable, not required, or has been furnished in the financial statements or notes thereto included in Item 8 hereof.

THE AES CORPORATION

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

UNCONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 200	$ 913
Restricted cash	13	15
Accounts and notes receivable from subsidiaries	710	932
Deferred income taxes	19	11
Prepaid expenses and other current assets	43	62
Total current assets	985	1,933
Investment in and advances to subsidiaries and affiliates	7,659	6,220
Office Equipment:		
Cost	66	67
Accumulated depreciation	(34)	(29)
Office equipment, net	32	38
Other Assets:		
Deferred financing costs (net of accumulated amortization of $89 and $75, respectively)	67	71
Deferred income taxes	311	522
Other assets	3	213
Total other assets	381	806
Total	$ 9,057	$ 8,997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	—	7
Accrued and other liabilities	210	261
Senior notes payable—current portion	154	223
Total current liabilities	364	491
Long-term Liabilities:		
Term loan	200	200
Senior notes payable	4,277	4,615
Junior subordinated notes and debentures payable	517	517
Other long-term liabilities	30	10
Total long-term liabilities	5,024	5,342
Stockholders' equity:		
Common stock	7	7
Additional paid-in capital	6,832	6,776
Accumulated loss	(8)	(1,241)
Accumulated other comprehensive loss	(3,018)	(2,378)
Treasury stock	(144)	—
Total stockholders' equity	3,669	3,164
Total	$ 9,057	$ 8,997

See Notes to Schedule 1

THE AES CORPORATION

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF UNCONSOLIDATED OPERATIONS

(IN MILLIONS)

	For the Years Ended December 31		
	2008	2007	2006
Revenues from subsidiaries and affiliates	$ 36	$ 32	$ 38
Equity in earnings (losses) of subsidiaries and affiliates	2,019	588	882
Interest income	173	155	48
General and administrative expenses	(264)	(411)	(293)
Interest expense	(516)	(471)	(443)
Income (loss) before income taxes	1,448	(107)	232
Income tax benefit (expense)	(215)	12	15
Net income (loss)	$ 1,233	$ (95)	$ 247

See Notes to Schedule 1

THE AES CORPORATION

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF UNCONSOLIDATED CASH FLOWS

(IN MILLIONS)

	For the Years Ended December 31,		
	2008	2007	2006
Net cash provided by operating activities	$ 863	$ 213	$ 288
Investing Activities:			
Proceeds from asset sales, net of expenses	—	55	120
Investment in and advances to subsidiaries	(1,098)	(899)	(337)
Acquisitions, net of cash acquired	(95)	(3)	(103)
Return of capital	89	265	10
Increase in restricted cash	2	(7)	(1)
Additions to property, plant and equipment	(23)	(199)	(37)
Net cash used in investing activities	(1,125)	(788)	(348)
Financing Activities:			
Borrowings of notes payable and other coupon bearing securities	625	2,000	—
Repayments of notes payable and other coupon bearing securities	(1,037)	(1,315)	(150)
Return of investment on equity capital contributions	—	—	117
Loans from subsidiaries	90	534	—
Proceeds from issuance of common stock	28	58	78
Purchase of treasury stock	(143)	—	—
Payments for deferred financing costs	(14)	(27)	(9)
Net cash (used in) provided by financing activities	(451)	1,250	36
Increase (decrease) in cash and cash equivalents	(713)	675	(24)
Cash and cash equivalents, beginning	913	238	262
Cash and cash equivalents, ending	$ 200	$ 913	$ 238
Schedule of non-cash investing and financing activities:			
Cash payments for interest, net of amounts capitalized	$ 469	$ 416	$ 419
Cash payments for income taxes, net of refunds	$ —	$ —	$ —

See Notes to Schedule 1

THE AES CORPORATION

SCHEDULE I

NOTES TO SCHEDULE I

1. Application of Significant Accounting Principles

Accounting for Subsidiaries and Affiliates—The AES Corporation (the "Company") has accounted for the earnings of its subsidiaries on the equity method in the unconsolidated financial information.

Revenues—Construction management fees earned by the parent from its consolidated subsidiaries are eliminated.

Income Taxes—Effective January 1, 2007, the Company adopted the provisions set forth in FIN No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN No. 48"). Under FIN No. 48, positions taken on the Company's income tax return which satisfy a more-likely-than-not threshold will be recognized in the financial statements. The unconsolidated income tax expense or benefit computed for the Company in accordance with SFAS No. 109, *Accounting for Income Taxes*, reflects the tax assets and liabilities of the Company on a stand-alone basis and the effect of filing a consolidated U.S. income tax return with certain other affiliated companies.

Accounts and Notes Receivable from Subsidiaries—such amounts have been shown in current or long-term assets based on terms in agreements with subsidiaries, but payment is dependent upon meeting conditions precedent in the subsidiary loan agreements.

Selected Unconsolidated Balance Sheet Data:

	December 31, 2008	December 31, 2007
	(in millions)	
Assets		
Investment in and advances to subsidiaries and affiliates	$ 7,659	$ 6,220
Deferred income taxes	$ 311	$ 522
Total other assets	$ 381	$ 806
Total assets	$ 9,057	$ 8,997
Liabilities & Stockholders' Equity		
Other long-term liabilities	$ 30	$ 10
Total long-term liabilities	$ 5,024	$ 5,342
Additional paid-in capital	$ 6,832	$ 6,776
Accumulated loss	$ (8)	$ (1,241)
Accumulated other comprehensive loss	$ (3,018)	$ (2,378)
Total stockholders' equity	$ 3,669	$ 3,164
Total liabilities & stockholders' equity	$ 9,057	$ 8,997

THE AES CORPORATION

SCHEDULE I

NOTES TO SCHEDULE I

1. Application of Significant Accounting Principles (Continued)

Selected Unconsolidated Operations Data:

	For the Year Ended December 31,		
	2008	2007	2006
		(in millions)	
Equity in earnings of subsidiaries and affiliates	$ 2,019	$ 588	$ 882
Income (loss) before cumulative effect of change in accounting principle	$ 1,448	$ (107)	$ 232
Income (loss) before income taxes	$ 1,448	$ (107)	$ 232
Income tax benefit	$ (215)	$ 12	$ 15
Net income (loss)	$ 1,233	$ (95)	$ 247

2. Notes Payable

	Interest Rate	Final Maturity	First Call Date(1)	December 31, 2008	December 31, 2007
				(in millions)	
Senior Secured Term Loan	LIBOR + 1.75%	2011	—	$ 200	$ 200
Senior Secured Notes	8.750%	2013	5/15/08	690	752
Senior Notes	8.000%	2017	—	1,500	1,500
Senior Notes	7.750%	2015	—	500	500
Senior Notes	8.750%	2008	—	—	9
Senior Notes	9.500%	2009	—	154	467
Senior Notes	9.375%	2010	—	214	423
Senior Notes	8.875%	2011	—	129	307
Senior Notes	8.375%	2011	—	124	171
Senior Notes	7.750%	2014	—	500	500
Senior Notes	8.000%	2020	—	625	—
Convertible Junior Subordinated Debentures	6.000%	2008	—	—	214
Convertible Junior Subordinated Debentures	6.750%	2029	—	517	517
Unamortized discounts				(5)	(5)
SUBTOTAL				5,148	5,555
Less: Current maturities				(154)	(223)
Total				$ 4,994	$ 5,332

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(1) The first call date represents the date that the Company, at its option, can call the related debt.

THE AES CORPORATION

SCHEDULE I

NOTES TO SCHEDULE I

2. Notes Payable (Continued)

FUTURE MATURITIES OF DEBT—Scheduled maturities of total debt for continuing operations at December 31, 2008 are:

2009	$ 154
2010	214
2011	453
2012	—
2013	690
Thereafter	3,637
Total	$5,148

3. Dividends from Subsidiaries and Affiliates

Cash dividends received from consolidated subsidiaries and from affiliates accounted for by the equity method were as follows:

	2008	2007	2006
Subsidiaries	$738	$737	$808
Affiliates	$ 61	$ 21	$ 19

4. Guarantees and Letters of Credit

GUARANTEES—In connection with certain of its project financing, acquisition, and power purchase agreements, the Company has expressly undertaken limited obligations and commitments, most of which will only be effective or will be terminated upon the occurrence of future events. These obligations and commitments, excluding those collateralized by letter of credit and other obligations discussed below, were limited as of December 31, 2008, by the terms of the agreements, to an aggregate of approximately $411 million representing 34 agreements with individual exposures ranging from less than $1 million up to $53 million.

LETTERS OF CREDIT—At December 31, 2008, the Company had $207 million in letters of credit outstanding representing 19 agreements with individual exposures ranging from less than $1 million up to $131 million, which operate to guarantee performance relating to certain project development and construction activities and subsidiary operations. In 2008, the Company paid letter of credit fees which averaged 3.4% per annum on the outstanding amounts. In addition, the Company had less than $1 million in surety bonds outstanding at December 31, 2008.

THE AES CORPORATION

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(IN MILLIONS)

	Additions		Deductions		
	Balance at Beginning of the Period	Charged to Costs and Expenses	Translation Adjustment	Amounts Written off	Balance at the End of the Period
Allowance for accounts receivables (current and noncurrent)					
Year ended December 31, 2006	$ 485	$ 87	$ 39	$ (280)	$ 331
Year ended December 31, 2007	331	179	53	(192)	371
Year ended December 31, 2008	371	127	(100)	(65)	333

Exhibit 3.1

SIXTH RESTATED

CERTIFICATE OF INCORPORATION

OF

THE AES CORPORATION

(Pursuant to Section 245 of the General Corporation Law **of the State of Delaware)**

The AES Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), hereby certifies as follows:

The present name of the corporation is The AES Corporation.

The name under which the corporation was originally incorporated is Applied Energy Services, Inc.; and the date of filing the original Certificate of Incorporation of the Corporation with the Secretary of the State of Delaware is January 28, 1981.

The Sixth Restated Certificate of Incorporation hereby restates and integrates into a single instrument, and does not further amend the provisions of the Corporation's Certificate of Incorporation as thereto amended or supplemented, and there is no discrepancy between those provisions and the provisions of the restated certificate. The Sixth Restated Certificate of Incorporation and is attached hereto as Exhibit A.

The Sixth Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this certificate this 24th day of April 2000.

/s/ William R. Luraschi
Secretary
The AES Corporation

Exhibit A

SIXTH RESTATED

CERTIFICATE OF INCORPORATION

OF

THE AES CORPORATION

Pursuant to Section 245 of the General
Corporation Law of the State of Delaware

Article I. The name of the corporation is The AES Corporation (the "Corporation").

Article II. The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

Article III. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as amended from time to time.

Article IV. 1. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is one billion, two hundred fifty million (1, 250,000,000), of which one billion, two hundred million (1,200,000,000) shall be Common Stock, par value one cent ($0.01) per share, and fifty million (50,000,000) shall be Preferred Stock, without par value. The designations and the powers, preferences and rights of the Common Stock and the Preferred Stock, and the qualifications, limitation or restrictions thereof, are as provided in or pursuant to this Article IV.

2. (a) The rights of holders of Common Stock to receive dividends or to share in the distribution of assets in the event of liquidation, dissolution or winding up of the affairs of the Corporation shall be subject to the preferences and other rights of the Preferred Stock as may be fixed in this Certificate of Incorporation or in the resolution or resolutions of the Board of Directors providing for the issuance of such Preferred Stock.

(b) The holders of Common Stock shall be entitled to one vote for each share of Common Stock held by them of record at the time for determining the holders thereof entitled to vote.

3. Authority is hereby vested in the Board of Directors to issue from time to time the Preferred Stock in one or more classes or series and to fix by the resolution or resolutions providing for the issuance of shares of any such class or series the voting powers, designations, preferences and relative, participating, optional or other special

rights, and the qualifications, limitations or restrictions thereof, of such class or series to the full extent permitted by this Certificate of Incorporation and the General Corporation Law of the State of Delaware. The authority of the Board of Directors with respect to each such series shall include, but not be limited to, determination of the following:

(i) The number of shares to constitute such class or series, and the distinctive designation thereof;

(ii) The voting powers, full or limited, if any, of such class or series;

(iii) The rate of dividends payable on shares of such class or series, the conditions on which and the times when such dividends are payable, the preference to, or the relations to, the payment of the dividends payable on any other class or series of stock, whether cumulative or noncumulative, and, if cumulative, the date from which dividends on shares of such class or series shall be cumulative;

(iv) The right, if any, of the Corporation to redeem shares of such class or series and the terms and conditions of such redemption

(v) The requirement of any sinking fund or funds to be applied to the purchase or redemption of shares of such class or series and, if so, the amount of such fund or funds and the manner of application;

(vi) The rights of shares of such class or series upon the liquidation, dissolution or winding up of, or upon any distribution of the assets of, the Corporation;

(vii) The rights, if any, of the holders of shares of such class or series to convert such shares into, or to exchange such shares for, shares of any other class or series of stock and the price or prices or rate or rates of exchange at which such shares shall be convertible or exchangeable and any adjustments thereto, and any other terms and conditions of such conversion or exchange; and

(viii) Any other preferences and relative, participating, optional or other special rights of shares of such class or series, and qualifications, limitations or restrictions including, without limitation, any restriction on an increase in the number of shares of any class or series theretofore authorized and any qualifications, limitations or restrictions of rights or powers to which shares of any future class or series shall be subject.

4. The number of authorized shares of any class or classes of stock of the Corporation may be increased or decreased by the affirmative vote of the holders of a majority of the stock of the Corporation that is entitled to vote, without a separate class vote of any class or classes of stock of the Corporation, except as may be otherwise provided in this Certificate of Incorporation or in the resolution or resolutions fixing the voting rights of any class or series of the Preferred Stock.

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5. No holder of Common Stock or Preferred Stock, as such, shall have or be entitled to any preemptive right whatsoever.

Article V. The Corporation is to have perpetual existence.

Article VI. The Board of Directors is expressly authorized to adopt, alter or repeal the By-Laws of the Corporation, except for any By-Law that by its terms states that it may be amended or repealed only by action of the stockholders.

Article VII. Meetings of stockholders may be held at such place, either within or without the state of Delaware, as the By-Laws may provide. Elections of directors need not be by written ballot unless the By-Laws of the Corporation shall so provide.

Article VIII. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by General Corporation Law of the State of Delaware, and all rights conferred upon stockholders herein are granted subject to this reservation.

Article IX. The number of directors of the Corporation shall be fixed from time to time pursuant to the By-Laws of the Corporation.

Article X. No director of this Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. Neither the amendment nor repeal of this Article X, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article X, shall be effective with respect to any cause of action, suit, claim or other matter that, but for this Article X, would accrue or arise prior to such amendment, repeal or adoption of an inconsistent provision.

Exhibit 4.(a)

CONFORMED COPY

THE AES CORPORATION

AND

THE FIRST NATIONAL BANK OF CHICAGO

AS TRUSTEE

JUNIOR SUBORDINATED INDENTURE

Dated as of March 1, 1997

JUNIOR SUBORDINATED DEBENTURES

TABLE OF CONTENTS

ARTICLE 14Subordination of Debentures

THIS INDENTURE, is dated as of the first day of March, 1997, between The AES Corporation, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter sometimes referred to as the "Company"), and The First National Bank of Chicago, as Trustee (hereinafter sometimes referred to as the "Trustee"):

WHEREAS, for its lawful corporate purposes, the Company has fully authorized the execution and delivery of this Indenture to provide for the issuance of unsecured debentures (hereinafter referred to as the "Debentures"), in an unlimited aggregate principal amount to be issued from time to time in one or more series in accordance with the terms of this Indenture, as registered Debentures without coupons, to be authenticated by the certificate of the Trustee;

WHEREAS, to provide the terms and conditions upon which the Debentures are to be authenticated, issued and delivered, the Company has duly authorized the execution of this Indenture;

WHEREAS, the Debentures and the certificate of authentication to be borne by the Debentures (the "Certificate of Authentication") are to be substantially in such forms as may be approved by the Board of Directors (as defined below) or set forth in any indenture supplemental to this Indenture;

AND WHEREAS, all acts and things necessary to make the Debentures issued pursuant hereto, when executed by the Company and authenticated and delivered by the Trustee in accordance with the terms of this Indenture, the valid, binding and legal obligations of the Company, and to constitute a valid indenture and agreement according to its terms, have been done and performed or will be done and performed prior to the issuance of such Debentures, and the execution of this Indenture has been and the issuance hereunder of the Debentures has been or will be prior to issuance in all respects duly authorized, and the Company, in the exercise of the legal right and power in it vested, executes this Indenture and proposes to make, execute, issue and deliver the Debentures;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Debentures are and are to be authenticated, issued and delivered, and in consideration of the premises and of the acquisition and acceptance of the Debentures by the holders thereof, the Company covenants and agrees with the Trustee, for the equal and proportionate benefit (subject to the provisions of this Indenture) of the respective holders from time to time of the Debentures, without any discrimination, preference or priority of any one Debenture over any other by reason of priority in the time of issue, sale or negotiation thereof, or otherwise, except as provided herein, as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. *Definitions.* The terms defined in this Section (except as in this Indenture otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture, any resolution of the Board of Directors of the Company and of any indenture supplemental hereof shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended, or which are by reference in such Act defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this instrument.

"AES Trust" means such statutory business trust created under the laws of the State of Delaware specified in the applicable Board Resolution or supplemental indenture establishing a particular series of Debentures pursuant to Section 2.01 hereof.

"Affiliate" of the Company means any company at least a majority of whose outstanding voting stock shall at the time be owned by the Company, or by one or more direct or indirect subsidiaries of the Company or by the Company and one or more direct or indirect subsidiaries of the Company. For the purposes only of this definition of the term "Affiliate", the term "voting stock", as applied to the stock of any company, shall mean stock of any class or classes having ordinary voting power for the election of a majority of the directors of such company, other than stock having such power only by reason of the occurrence of a contingency.

"Authenticating Agent" means an authenticating agent with respect to all or any of the series of Debentures, as the case may be, appointed with respect to all or any series of the Debentures, as the case may be, by the Trustee pursuant to Section 2.10.

"Bank Credit Agreement" means the Credit Agreement dated as of May 20, 1996 among the Company, the Banks named on the signature pages thereof and Morgan Guaranty Trust Company of New York, as such Agreement has been and may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, or restructuring (including, but not limited to, the inclusion of additional borrowers thereunder that are Subsidiaries of the Company and whose obligations are guaranteed by the Company thereunder) all or any portion of, the Debt under such Agreement or any successor agreements and includes any agreement with one or more banks or other lending institutions refinancing all or any portion of the Debt under such Agreement or any successor agreements.

"Board of Directors" means the Board of Directors of the Company, or any committee of such Board duly authorized to act hereunder.

"Board Resolution" means a copy of one or more resolutions, certified by the secretary or an assistant secretary of the Company to have been adopted or consented to by the Board of Directors and to be in full force and effect, and delivered to the Trustee.

"Business day", with respect to any series of Debentures, means any day other than a day on which banking institutions in the Borough of Manhattan, the City and State of New York, are authorized or obligated by law or executive order to close.

"Certificate" means a certificate signed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company. The Certificate need not comply with the provisions of Section 13.06.

"Change of Control" means the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company to any Person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) of Persons, (ii) a Person or group (as so defined) of Persons (other than management of the Company on the date of this Indenture or their Affiliates) shall have become the beneficial owner of more than 35% of the outstanding voting stock of the Company, or (iii) during any one-year period, individuals who at the beginning of such period constitute the Board of Directors (together with any new director whose election or nomination was approved by a majority of the directors then in office who were either directors at the beginning of such period or who were previously so approved) cease to constitute a majority of the Board of Directors.

"Common Securities" means the common undivided beneficial interests in the assets of the applicable AES Trust.

"Common Stock" means the common stock of the Company, par value $.01 per share.

"Company" means The AES Corporation, a corporation duly organized and existing under the laws of the State of Delaware, and, subject to the provisions of Article Ten, shall also include its successors and assigns.

"Corporate Trust Office" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of the execution of this Indenture is located at One First National Plaza, Suite 0126, Chicago, IL 60670-0126, Attention: Corporate Trust Administration.

"Currency Agreement" means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values to or under which such Person or any of its Subsidiaries is a party or a beneficiary on the date hereof or becomes a party or a beneficiary thereafter.

"Debt" means, with respect to any Person at any date of determination (without duplication), (i) all indebtedness of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person in respect of letters of credit or bankers' acceptance or other similar instruments (or reimbursement obligations with respect thereto), (iv) all obligations of such Person to pay the deferred purchase price of property or services, except Trade Payables, (v) all obligations of such Person as lessee under capitalized leases, (vi) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person; *provided* that, for purposes of determining the amount of any Debt of the type described in this clause, if recourse with respect to such Debt is limited to such asset, the amount of such Debt shall be limited to the lesser of the fair market value of such asset or the amount of such Debt, (vii) all Debt of others Guaranteed by such Person to the extent such Debt is Guaranteed by such Person, (viii) all redeemable stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends and (ix) to the extent not otherwise included in this definition, all obligations of such Person under Currency Agreements and Interest Rate Agreements.

"Declaration of Trust" means the Declaration of Trust of the AES Trust, if any, specified in the applicable Board Resolution or supplemental indenture establishing a particular series of Debentures pursuant to Section 2.01 hereof.

"Debenture" or "Debentures" means any Debenture or Debentures, as the case may be, authenticated and delivered under this Indenture.

"Debentureholder", "holder of Debentures", "registered holder", or other similar term, means the person or persons in whose name or names a particular Debenture shall be registered on the books of the Company kept for the purpose in accordance with the terms of this Indenture.

"Default" means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Depositary" means with respect to Debentures of any series, for which the Company shall determine that such Debentures will be issued as a Global Debenture, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to either Section 2.01 or 2.11.

“Designated Senior and Subordinated Debt” means (i) Debt under the Bank Credit Agreement and (ii) Debt constituting Senior and Subordinated Debt which, at the time of its determination, (A) has an aggregate principal amount of at least $30 million and (B) is specifically designated in the instrument evidencing such Senior and Subordinated Debt as “Designated Senior and Subordinated Debt” by the Company.

“Event of Default”, with respect to Debentures of a particular series means any event specified in Section 6.01(a), continued for the period of time, if any, therein designated.

“Global Debenture” means, with respect to any series of Debentures, a Debenture executed by the Company and delivered by the Trustee to the Depositary or pursuant to the Depositary’s instruction, all in accordance with the Indenture, which shall be registered in the name of the Depositary or its nominee.

“Governmental Obligations” means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a) (2) of the Securities Act of 1933, as amended) as custodian with respect to any such Governmental Obligation or a specific payment of principal of or interest on any such Governmental Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Governmental Obligation or the specific payment of principal of or interest on the Governmental Obligation evidenced by such depository receipt.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

"Guarantee Agreement" means the guarantee, if any, that the Company may enter into that operates directly or indirectly for the benefit of holders of Preferred Securities issued by a AES Trust.

"Indenture" means this instrument as originally executed, or, if amended or supplemented as herein provided, as so amended or supplemented.

"Interest Payment Date" when used with respect to any installment of interest on a Debenture of a particular series means the date specified in such Debenture or in a Board Resolution or in an indenture supplemental hereto with respect to such series as the fixed date on which an installment of interest with respect to Debentures of that series is due and payable.

"Interest Rate Agreement" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates to or under which such Person or any of its Subsidiaries is a party or a beneficiary on the date hereof or becomes a party or a beneficiary thereafter.

"Lien" means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this Indenture, the Company shall be deemed to own subject to a Lien any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

"Officers' Certificate" means a certificate signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Controller or an Assistant Controller or the Secretary or an Assistant Secretary of the Company and who shall be satisfactory to the Trustee. Each such certificate shall include the statements provided for in Section 13.06, if and to the extent required by the provisions thereof.

"Opinion of Counsel" means an opinion in writing signed by legal counsel, who may be an employee of or counsel for the Company and who shall be satisfactory to the Trustee. Each such opinion shall include the statements provided for in section 13.06, if and to the extent required by the provisions thereof.

"Outstanding", when used with reference to Debentures of any series, subject to the provisions of Section 8.01, means, as of any particular time, all Debentures of that series theretofore authenticated and delivered by the Trustee under this Indenture, except (a) Debentures theretofore canceled by the Trustee or any paying agent, or delivered to the Trustee or any paying agent for cancellation or which have previously been canceled; (b) Debentures or portions thereof for the payment or redemption of which moneys or Governmental Obligations in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust for the holders of such Debentures by the Company (if the Company shall act as its own paying agent); provided, however, that if such Debentures or portions of such Debentures are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article Three provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and (c) Debentures in lieu of or in substitution for which other Debentures shall have been authenticated and delivered pursuant to the terms of Section 2.07.

"Person" means any individual, corporation, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Debenture" of any particular Debenture means every previous Debenture evidencing all or a portion of the same debt as that evidenced by such particular Debenture; and, for the purposes of this definition, any Debenture authenticated and delivered under Section 2.07 in lieu of a lost, destroyed or stolen Debenture shall be deemed to evidence the same debt as the lost, destroyed or stolen Debenture.

"Preferred Securities" means the preferred undivided beneficial interests in the assets of the applicable AES Trust.

"Property Trustee" means the entity performing the function of the Property Trustee under the applicable Declaration of Trust of an AES Trust.

"Responsible Officer" when used with respect to the Trustee means the chairman of the board of directors, the president, any vice president, the secretary, the treasurer, any trust officer, any corporate trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Security Exchange" when used with respect to the Debentures of any series which are held as trust assets of an AES Trust pursuant to the Declaration of Trust of such AES Trust, means the distribution of the Debentures of such series by such AES Trust in exchange for the Preferred Securities and Common Securities of such AES Trust in dissolution of such AES Trust pursuant to the Declaration of Trust of such AES Trust.

"Senior and Subordinated Debt" means the principal of (and premium, if any) and interest on all Debt of the Company whether created, incurred or assumed before, on or after the date of this Indenture; *provided* that such Senior and Subordinated Debt shall not include (i) Debt of the Company that, when incurred and without respect to any election under Section 1111(b) of Title 11, U.S. Code, was without recourse, (ii) any other Debt of the Company which by the terms of the instrument creating or evidencing the same is specifically designated as not being senior in right of payment to the Debentures, and in particular the Debentures shall rank *pari passu* with all other debt securities and guarantees issued to any trust, partnership or other entity affiliated with the Company which is a financing vehicle of the Company in connection with an issuance of preferred securities by such financing entity and (iii) redeemable stock of the Company.

"Subsidiary" means any corporation at least a majority of whose outstanding voting stock shall at the time be owned by the Company or by one or more subsidiaries or by the Company and one or more Subsidiaries. For the purposes only of this definition of the term "Subsidiary", the term "voting stock", as applied to the stock of any corporation, shall mean stock of any class or classes having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the occurrence of a contingency.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Trustee" means The First National Bank of Chicago, and, subject to the provisions of Article Seven, shall also include its successors and assigns, and, if at any time there is more than one person acting in such capacity hereunder, "Trustee" shall mean each such person. The term "Trustee" as used with respect to a particular series of the Debentures shall mean the trustee with respect to that series.

"Trust Indenture Act", subject to the provisions of Section 9.01 and 9.02, means the Trust Indenture Act of 1939, as amended and in effect at the date of execution of this Indenture.

"Trust Securities" means the Common Securities and the Preferred Securities of the applicable AES Trust.

ARTICLE 2

ISSUE, DESCRIPTION, TERMS, EXECUTION REGISTRATION AND EXCHANGE OF DEBENTURES

SECTION 2.01. *Designation, Terms, Amount, Authentication and Delivery of Debentures*. The aggregate principal amount of Debentures which may be authenticated and delivered under this Indenture is unlimited.

The Debentures may be issued in one or more series up to the aggregate principal amount of Debentures of that series from time to time authorized by or pursuant to a Board Resolution or pursuant to one or more indentures supplemental hereto, prior to the initial issuance of Debentures of a particular series. Prior to the initial issuance of Debentures of any series, there shall be established in or pursuant to a Board Resolution, and set forth in an Officers' Certificate, or established in one or more indentures supplemental hereto:

(1) the title of the Debentures of the series (which shall distinguish the Debentures of the series from all other Debentures);

(2) any limit upon the aggregate principal amount of the Debentures of that series which may be authenticated and delivered under this Indenture (except for Debentures authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Debentures of that series):

(3) the date or dates on which the principal of the Debentures of the series is payable;

(4) the rate or rates at which the Debentures of the series shall bear interest or the manner of calculation of such rate or rates, if any;

(5) the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest will be payable or the manner of determination of such Interest Payment Dates and the record date for the determination of holders to whom interest is payable on any such Interest Payment Dates;

(6) the right, if any, to extend or defer the interest payment periods and the duration of such extension;

(7) the period or periods within which, the price or prices at which, and the terms and conditions upon which, Debentures of the series may be redeemed, in whole or in part, at the option of the Company;

(8) the obligation, if any, of the Company to redeem or purchase Debentures of the series pursuant to any sinking fund or analogous provisions (including payments made in cash in anticipation of future sinking fund obligations) or at the option of a holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Debentures of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(9) any exchangeability, conversion or prepayment provisions of the Debentures;

(10) the form of the Debentures of the series including the form of the Certificate of Authentication for such series;

(11) if other than denominations of $50 or any integral multiple thereof, the denominations in which the Debentures of the series shall be issuable;

(12) any and all other terms with respect to such series (which terms shall not be inconsistent with the terms of this Indenture); and

(13) whether the Debentures are issuable as a Global Debenture and, in such case, the identity of the Depositary for such series.

(14) If the Debentures of such series are to be deposited as trust assets in a AES Trust the name of the applicable AES Trust (which shall distinguish such statutory business trust from all other AES Trusts) into which the Debentures of such series are to be deposited as trust assets and the date of its Declaration of Trust.

All Debentures of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to any such Board Resolution or in any indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

SECTION 2.02. *Form of Debenture and Trustee's Certificate*. The Debentures of any series and the Trustee's certificate of authentication to be borne by such Debentures shall be substantially of the tenor and purport as set forth in one or more indentures supplemental hereto or as provided in a Board Resolution and as set forth in an Officers' Certificate, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which Debentures of that series may be listed, or to conform to usage.

SECTION 2.03. *Date and Denominations of Debentures and Provisions for Payment of Principal, Premium and Interest*. The Debentures shall be issuable as registered Debentures and in the denominations of $50 or any integral multiple thereof, subject to

Section 2.01(10). The Debentures of a particular series shall bear interest payable on the dates and at the rate specified with respect to that series. The principal of and the interest on the Debentures of any series, as well as any premium thereon in case of redemption thereof prior to maturity, shall be payable in the coin or currency of the United States of America which at the time is legal tender for public and private debt, at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City and State of New York. Each Debenture shall be dated the date of its authentication. Interest on the Debentures shall be computed on the basis of a 360-day year composed of twelve 30-day months.

The interest installment on any Debenture which is payable, and is punctually paid or duly provided for, on any Interest Payment Date for Debentures of that series shall be paid to the person in whose name said Debenture (or one or more Predecessor Debentures) is registered at the close of business on the regular record date for such interest installment. In the event that any Debenture of a particular series or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any Interest Payment Date and prior to such Interest Payment Date, interest on such Debenture will be paid upon presentation and surrender of such Debenture as provided in Section 3.03.

Any interest on any Debenture which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date for Debentures of the same series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its election, as provided in clause (1) or clause (2) below:

(1) The Company may make payment of any Defaulted Interest on Debentures to the persons in whose names such Debentures (or their respective Predecessor Debentures) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Debenture and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Debentureholder at his or her address as it appears in the Debenture Register (as hereinafter defined), not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and

the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names such Debentures (or their Predecessor Debentures) are registered on such special record date and shall be no longer payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on any Debentures in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Debentures may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Unless otherwise set forth in a Board Resolution or one or more indentures supplemental hereto establishing the terms of any series of Debentures pursuant to Section 2.01 hereof, the term “regular record date” as used in this Section with respect to a series of Debentures with respect to any Interest Payment Date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the first day of a month, or the last day of the month immediately preceding the month in which an Interest Payment Date established for such series pursuant to Section 2.01 hereof shall occur, if such Interest Payment Date is the fifteenth day of a month, whether or not such date is business day.

Subject to the foregoing provisions of this Section, each Debenture of a series delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Debenture of such series shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Debenture.

SECTION 2.04. *Execution of Debentures*. The Debentures shall, subject to the provisions of Section 2.06, be printed on steel engraved borders or fully or partially engraved, or legibly typed, as the proper officers of the Company may determine, and shall be signed on behalf of the Company by the Chairman or Vice Chairman of its Board of Directors or its President or one of its Vice Presidents, under its corporate seal attested by its Secretary or one of its Assistant Secretaries. The signature of the Chairman, Vice Chairman, President or a Vice President and/or the signature of the Secretary or an Assistant Secretary in attestation of the corporate seal, upon the Debentures, may be in the form of a manual or facsimile signature of a present or any future Chairman, Vice Chairman, President or Vice President and of a present or any future Secretary or Assistant Secretary and may be imprinted or otherwise reproduced on the Debentures and for that purpose the Company may use the manual or facsimile signature of any person who shall have been a Chairman, Vice Chairman, President or Vice President, or of any person who shall have been a Secretary or Assistant Secretary, notwithstanding the fact that at the time the Debentures shall be authenticated and delivered or disposed of such person shall have ceased to be the Chairman, Vice Chairman, President or a Vice President, or the Secretary or an Assistant Secretary, of the Company, as the case may be. The seal of the Company may be in the form of a facsimile of the seal of the Company and may be impressed, affixed, imprinted or otherwise reproduced on the Debentures.

Only such Debentures as shall bear thereon a Certificate of Authentication substantially in the form established for such Debentures, executed manually by an authorized signatory of the Trustee, or by any Authenticating Agent with respect to such Debentures, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate executed by the Trustee, or by any Authenticating Agent appointed by the Trustee with respect to such Debentures, upon any Debenture executed by the Company shall be conclusive evidence that the Debenture so authenticated has been duly authenticated and made available for delivery hereunder and that the holder is entitled to the benefits of this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Debentures of any series executed by the Company to the Trustee for authentication, together with a written order of the Company for the authentication and delivery of such Debentures, signed by its President or any Vice President and its Treasurer or any Assistant Treasurer, and the Trustee in accordance with such written order shall authenticate and make available for delivery such Debentures.

In authenticating such Debentures and accepting the additional responsibilities under this Indenture in relation to such Debentures, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel stating that the form and terms thereof have been established in conformity with the provisions of this Indenture.

The Trustee shall not be required to authenticate such Debentures if the issue of such Debentures pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Debentures and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

SECTION 2.05. *Exchange of Debentures*. (a) Debentures of any series may be exchanged upon presentation thereof at the office or agency of the Company designated for such purpose in the Borough of Manhattan, The City and State of New York, for other Debentures of such series of authorized denominations, and for a like aggregate principal amount, upon payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, all as provided in this Section. In respect of any Debentures so surrendered for exchange, the Company shall execute, the Trustee shall authenticate and such office or agency shall make available for delivery in exchange therefor the Debenture or Debentures of the same series which the Debentureholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

(b) The Company shall keep, or cause to be kept, at its office or agency designated for such purpose in the Borough of Manhattan, The City and State of New York, or such other location designated by the Company a register or registers (herein referred to as the "Debenture Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall register the Debentures and the transfers of Debentures as in this Article provided and which at all reasonable times shall be open for inspection by the Trustee. The registrar for the purpose of registering Debentures and transfer of Debentures as herein provided shall be appointed as authorized by Board Resolution (the "Debenture Registrar").

Upon surrender for transfer of any Debenture at the office or agency of the Company designated for such purpose in the Borough of Manhattan, The City and State of New York, the Company shall execute, the Trustee shall authenticate and such office or agency shall make available for delivery in the name of the transferee or transferees a new Debenture or Debentures of the same series as the Debenture presented for a like aggregate principal amount.

All Debentures presented or surrendered for exchange or registration of transfer, as provided in this Section, shall be accompanied (if so required by the Company or the Debenture Registrar) by a written instrument or instruments of transfer, in form satisfactory to the Company or the Debenture Registrar, duly executed by the registered holder or by his duly authorized attorney in writing.

(c) No service charge shall be made for any exchange or registration of transfer of Debentures, or issue of new Debentures in case of partial redemption of any series, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, other than exchanges pursuant to Section 2.06, the second paragraph of Section 3.03 and Section 9.04 not involving any transfer.

(d) The Company shall not be required (i) to issue, exchange or register the transfer of any Debentures during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the outstanding Debentures of the same series and ending at the close of business on the day of such mailing, nor (ii) to register the transfer of or exchange any Debentures of any series or portions thereof called for redemption. The provisions of this Section 2.05 are, with respect to any Global Debenture, subject to Section 2.11 hereof.

SECTION 2.06. *Temporary Debentures*. Pending the preparation of definitive Debentures of any series, the Company may execute, and the Trustee shall authenticate and make available for delivery, temporary Debentures (printed, lithographed or typewritten) of any authorized denomination, and substantially in the form of the definitive Debentures in lieu of which they are issued, but with such omissions, insertions and variations as may be appropriate for temporary Debentures, all as may be determined by the Company. Every temporary Debenture of any series shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Debentures of such series. Without unnecessary delay the Company will execute and will furnish definitive Debentures of such series and thereupon any or all temporary Debentures of such series may be surrendered in exchange therefor (without charge to the holders), at the office or agency of the Company designated for the purpose in the Borough of Manhattan, The City and State of New York, and the Trustee shall authenticate and such office or agency shall make available for delivery in exchange for such temporary Debentures an equal aggregate principal amount of definitive Debentures of such series, unless the Company advises the Trustee to the effect that definitive Debentures need not be executed and furnished until further notice from the Company. Until so exchanged, the temporary Debentures of such series shall be entitled to the same benefits under this Indenture as definitive Debentures of such series authenticated and delivered hereunder.

SECTION 2.07. *Mutilated, Destroyed, Lost or Stolen Debentures*. In case any temporary or definitive Debenture shall become mutilated or be destroyed, lost or stolen, the Company (subject to the next succeeding sentence) shall execute, and upon its request the Trustee (subject as aforesaid) shall authenticate and make available for delivery, a new Debenture of the same series bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Debenture, or in lieu of and in substitution for the Debenture so destroyed, lost or stolen. In every case the applicant for a substituted Debenture shall furnish to the Company and to the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of the applicant's Debenture and of the ownership thereof. The Trustee may authenticate any such substituted Debenture and make available for delivery the same upon the written request or authorization of any officer of the Company. Upon the issuance of any substituted Debenture, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Debenture which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Debenture, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Debenture) if the applicant for such payment shall furnish to the Company and to the Trustee such security or indemnity as they may require to save them harmless, and, in case of destruction, loss or theft, evidence to the satisfaction of the Company and the Trustee of the destruction, loss or theft of such Debenture and of the ownership thereof.

Every Debenture issued pursuant to the provisions of this Section in substitution for any Debenture which is mutilated, destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Debenture shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Debentures of the same series duly issued hereunder. All Debentures shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Debentures, and shall preclude (to the extent lawful) any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.08. *Cancellation of Surrendered Debentures*. All Debentures surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Company or any paying agent, be delivered to the Trustee for cancellation, or, if surrendered to the Trustee, shall be canceled by it, and no Debentures shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Indenture. On written request of the Company, the Trustee shall deliver to the Company canceled Debentures held by the Trustee. If the Company shall otherwise acquire any of the Debentures, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Debentures unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.09. *Provisions of Indenture and Debentures for Sole Benefit of Parties and Debentureholders*. Nothing in this Indenture or in the Debentures, express or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and the holders of the Debentures, any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all such covenants, conditions and provisions being for the sole benefit of the parties hereto and of the holders of the Debentures.

SECTION 2.10. *Appointment of Authenticating Agent*. So long as any of the Debentures of any series remain outstanding there may be an Authenticating Agent for any or all such series of Debentures which the Trustee shall have the right to appoint. Said Authenticating Agent shall be authorized to act on behalf of the Trustee to authenticate Debentures of such series issued upon exchange, transfer or partial redemption thereof, and Debentures so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. All references in this Indenture to the authentication of Debentures by the Trustee shall be deemed to include authentication by an Authenticating Agent for such series except for authentication upon original issuance or pursuant to Section 2.07 hereof. Each Authenticating Agent shall be acceptable to the Company and shall be a corporation which has a combined capital and surplus, as most recently reported or determined by it, sufficient under the laws of any jurisdiction under which it is organized or in which it is doing business to conduct a trust business, and which is otherwise authorized under such laws to conduct such business and is subject to supervision or examination by Federal or State authorities. If at any time any Authenticating Agent shall cease to be eligible in accordance with these provisions, it shall resign immediately.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time (and upon request by the Company shall) terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon resignation, termination or cessation of eligibility of any Authenticating Agent, the Trustee may appoint an eligible successor Authenticating Agent acceptable to the Company. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor hereunder as if originally named as an Authenticating Agent pursuant hereto.

SECTION 2.11. *Global Debenture*. (a) If the Company shall establish pursuant to Section 2.01 that the Debentures of a particular series are to be issued as one or more Global Debentures, then the Company shall execute and the Trustee shall, in accordance with Section 2.04, authenticate and deliver, one or more Global Debentures which (i) shall represent, and shall be denominated in an aggregate amount equal to the aggregate principal amount of, all of the Outstanding Debentures of such series, (ii) shall be registered in the name of the Depositary or its nominee, (iii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction and (iv) shall bear a legend substantially to the following effect: "Except as otherwise provided in Section 2.11 of the Indenture, this Debenture may be transferred, in whole but not in part, only to another nominee of the Depositary or to a successor Depositary or to a nominee of such successor Depositary."

(b) Notwithstanding the provisions of Section 2.05, the Global Debenture of a series may be transferred, in whole but not in part and in the manner provided in Section 2.05, only to another nominee of the Depositary for such series, or to a successor Depositary for such series selected or approved by the Company or to a nominee of such successor Depositary.

(c) If at any time the Depositary for a series of Debentures notifies the Company that it is unwilling or unable to continue as Depositary for such series or if at any time the Depositary for such series shall no longer be registered or in good standing under the Exchange Act, or other applicable statute or regulation and a successor Depositary for such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, this Section 2.11 shall no longer be applicable to the Debentures of such series and the Company will execute, and subject to Section 2.05, the Trustee will authenticate and make available for delivery Debentures of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Debentures of such series in exchange for such Global Debenture. In addition, the Company may at any time determine that the Debentures of any series shall no longer be represented by one or more Global Debentures and that the provisions of this Section 2.11 shall no longer apply to the Debentures of such series. In such event the Company will execute and subject to Section 2.05, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and deliver Debentures of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Debentures of such series in exchange for such Global Debentures. Upon the exchange of the Global Debentures for such Debentures in definitive registered form without coupons, in authorized denominations, the Global Debentures shall be canceled by the Trustee. Such Debentures in definitive registered form issued in exchange for the Global Debentures pursuant to this Section 2.11(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Debentures to the Depositary for delivery to the persons in whose names such Debentures are so registered.

SECTION 2.12. *CUSIP Numbers*. The Company in issuing the Debentures may use "CUSIP" and "CINS" numbers (if then generally in use), and the Trustee shall use CUSIP numbers or CINS numbers, as the case may be, in notices of redemption or exchange as a convenience to Debentureholders and no representation shall be made as to the correctness of such numbers either as printed on the Debentures or as contained in any notice of redemption or exchange.

ARTICLE 3

REDEMPTION OF DEBENTURES AND SINKING FUND PROVISIONS

SECTION 3.01. *Redemption of Debentures*. The Company may redeem the Debentures of any series issued hereunder on and after the dates and in accordance with the terms established for such series pursuant to Section 2.01 hereof.

SECTION 3.02. *Notice of Redemption*. (a) In case the Company shall desire to exercise such right to redeem all or, as the case may be, a portion of the Debentures of any series in accordance with the right reserved so to do, it shall give notice of such redemption to holders of the Debentures of such series to be redeemed by mailing, first class postage prepaid, a notice of such redemption not less than 30 days and not more than 60 days before the date fixed for redemption of that series to such holders at their last addresses as they shall appear upon the Debenture Register. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the registered holder receives the notice. In any case, failure duly to give such notice to the holder of any Debenture of any series designated for redemption in whole or in part, or any defect in the notice, shall not affect the validity of the proceedings for the redemption of any other Debentures of such series or any other series. In the case of any redemption of Debentures prior to the expiration of any restriction on such redemption provided in the terms of such Debentures or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with any such restriction.

Each such notice of redemption shall specify the date fixed for redemption and the redemption price at which Debentures of that series are to be redeemed, and shall state that payment of the redemption price of such Debentures to be redeemed will be made at the office or agency of the Company in the Borough of Manhattan, the City and State of New York, upon presentation and surrender of such Debentures, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that from and after said date interest will cease to accrue and that the redemption is for a sinking fund, if such is the case. If less than all the Debentures of a series are to be redeemed, the notice to the holders of Debentures of that series to be redeemed in whole or in part shall specify the particular Debentures to be so redeemed. In case any Debenture is to be redeemed in part only, the notice which relates to such Debenture shall state the portion of the principal amount thereof to be redeemed, and shall state that on and after the redemption date, upon surrender of such Debenture, a new Debenture or Debentures of such series in principal amount equal to the unredeemed portion thereof will be issued.

(b) If less than all the Debentures of a series are to be redeemed, the Company shall give the Trustee at least 45 days' notice in advance of the date fixed for redemption as to the aggregate principal amount of Debentures of the series to be redeemed, and thereupon the Trustee shall select, by lot or in such other manner as it shall deem appropriate and fair in its discretion and which may provide for the selection of a portion or portions (equal to $50 or any integral multiple thereof) of the principal amount of such Debentures of a denomination larger than $50, the Debentures to be redeemed and shall thereafter promptly notify the Company in writing of the numbers of the Debentures to be redeemed, in whole or in part.

The Company may, if and whenever it shall so elect, by delivery of instructions signed on its behalf by its President or any Vice President, instruct the Trustee or any paying agent to call all or any part of the Debentures of a particular series for redemption and to give notice of redemption in the manner set forth in this Section, such notice to be in the name of the Company or its own name as the Trustee or such paying agent may deem advisable. In any case in which notice of redemption is to be given by the Trustee or any such paying agent, the Company shall deliver or cause to be delivered to, or permit to remain with, the Trustee or such paying agent, as the case may be, such Debenture Register, transfer books or other records, or suitable copies or extracts therefrom, sufficient to enable the Trustee or such paying agent to give any notice by mail that may be required under the provisions of this Section.

SECTION 3.03. *Debentures Due and Payable*. (a) If the giving of notice of redemption shall have been completed as above provided, the Debentures or portions of Debentures of the series to be redeemed specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption and interest on such Debentures or portions of Debentures shall cease to accrue on and after the date fixed for redemption, unless the Company shall default in the payment of such redemption price and accrued interest with respect to any such Debenture or portion thereof. On presentation and surrender of such Debentures on or after the date fixed for redemption at the place of payment specified in the notice, said Debentures shall be paid and redeemed at the applicable redemption price for such series, together with interest accrued thereon to the date fixed for redemption (but if the date fixed for redemption is an Interest Payment Date, the interest installment payable on such date shall be payable to the registered holder at the close of business on the applicable record date pursuant to Section 2.03).

(b) Upon presentation of any Debenture of such series which is to be redeemed in part only, the Company shall execute and the Trustee shall authenticate and the office or agency where the Debenture is presented shall make available for delivery to the holder thereof, at the expense of the Company, a new Debenture or Debentures of the same series, of authorized denominations in principal amount equal to the unredeemed portion of the Debenture so presented.

SECTION 3.04. *Sinking Funds for Debentures*. The provisions of Sections 3.04, 3.05 and 3.06 shall be applicable to any sinking fund for the retirement of Debentures of a series, except as otherwise specified as contemplated by Section 2.01 for Debentures of such series.

The minimum amount of any sinking fund payment provided for by the terms of Debentures of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Debentures of any series is herein referred to as on "optional sinking fund payment". If provided for by the terms of Debentures for any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 3.05. Each sinking fund payment shall be applied to the redemption of Debentures of any series as provided for by the terms of Debentures of such series.

SECTION 3.05. *Satisfaction of Sinking Fund Payments With Debentures*. The Company (i) may deliver outstanding Debentures of a series (other than any previously called for redemption) and (ii) may apply as a credit Debentures of a series which have been redeemed either at the election of the Company pursuant to the terms of such Debentures or through the application of permitted optional sinking fund payments pursuant to the terms of such Debentures, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Debentures of such series required to be

made pursuant to the terms of such Debentures as provided for by the terms of such series; provided that such Debentures have not been previously so credited. Such Debentures shall be received and credited for such purpose by the Trustee at the redemption price specified in such Debentures for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 3.06. *Redemption of Debentures for Sinking Fund*. Not less than 45 days prior to each sinking fund payment date for any series of Debentures, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms for that series, the portion thereof, if any, which is to be satisfied by delivering and crediting Debentures of that series pursuant to Section 3.05 and the basis for such credit and will, together with such Officers' Certificate, deliver to the Trustee any Debentures to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Debentures to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3.02. Such notice having been duly given, the redemption of such Debentures shall be made upon the terms and in the manner stated in Section 3.03.

ARTICLE 4

PARTICULAR COVENANTS OF THE COMPANY

The Company covenants and agrees for each series of the Debentures as follows:

SECTION 4.01. *Payment of Principal of (And Premium, if any) and Interest on Debentures*. The Company will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on the Debentures of that series at the time and place and in the manner provided herein and established with respect to such Debentures.

SECTION 4.02. *Maintenance of Office or Agent for Payment of Debentures, Designation of Office or Agency for Payment, Registration, Transfer and Exchange of Debentures*. So long as any series of the Debentures remain outstanding, the Company agrees to maintain an office or agency in the Borough of Manhattan, The City and State of New York, with respect to each such series and at such other location or locations as may be designated as provided in this Section 4.02, where (i) Debentures of that series may be presented for payment, (ii) Debentures of that series may be presented as herein above authorized for registration of transfer and exchange, and (iii) notices and demands to or upon the Company in respect of the Debentures of that series and this Indenture may be given or served, such designation to continue with respect to such office or agency until the Company shall, by written notice signed by its President or a Vice President and delivered to the Trustee, designate some other office or agency for such purposes or any of them. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, notices and demands.

SECTION 4.03. *Duties of Paying Agent; Company as Payment Agent; and Holding Sums of Trust*. (a) If the Company shall appoint one or more paying agents for all or any series of the Debentures, other than the Trustee, the Company will cause each such paying agency to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section:

(1) that it will hold all sums held by it as such agent for the payment of the principal of (and premium, if any) or interest on the Debentures of that series (whether such sums have been paid to it by the Company or by any other obligor of such Debentures) in trust for the benefit of the persons entitled thereto:

(2) that it will give the Trustee written notice of any failure by the Company (or by any other obligor of such Debentures) to make any payment of the principal of (and premium, if any) or interest on the Debentures of that series when the same shall be due and payable;

(3) that it will, at any time during the continuance of any failure referred to in the preceding paragraph (a)(2) above, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent; and

(4) that it will perform all other duties of paying agent as set forth in this Indenture.

(b) If the Company shall act as its own paying agent with respect to any series of the Debentures, it will on or before each due date of the principal of (and premium, if any) or interest on Debentures of that series, set aside, segregate and hold in trust for the benefit of the persons entitled thereto a sum sufficient to pay such principal (and premium, if any) or interest so becoming due on Debentures of that series until such sums shall be paid to such persons or otherwise disposed of as herein provided and will promptly notify in writing the Trustee of such action, or any failure (by it or any other obligor on such Debentures) to take such action. Whenever the Company shall have one or more paying agents for any series of Debentures, it will, prior to each due date of the principal of (and premium, if any) or interest on any Debentures of that series, deposit with the paying agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the persons entitled to such principal, premium or interest, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

(c) Anything in this Section to the contrary notwithstanding, (i) the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 11.04, and (ii) the Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or direct any paying agent to pay, to the Trustee all sums held in trust by the Company or such paying agent, such sums to be held by the Trustee upon the same terms and conditions as those upon which such sums were held by the Company or such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

SECTION 4.04. *Appointment to Fill Vacancy in Office of Trustee*. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

ARTICLE 5

DEBENTUREHOLDER'S LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 5.01. *Company to Furnish Trustee Information as to Names and Addresses of Debentures*. The Company will furnish or cause to be furnished to the Trustee (a) on a quarterly basis on each regular record date (as defined in Section 2.03) a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of each series of Debentures as of such regular record date, provided, that the Company shall not be obligated to furnish or cause to furnish such list at any time that the list shall not differ in any respect from the most recent list furnished to the Trustee by the Company and (b) at such other times as the Trustee may request in writing within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, no such list need be furnished for any series for which the Trustee shall be the Debenture Registrar.

SECTION 5.02. *Trustee to Preserve Information as to Names and Addresses of Debentureholders*. (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Debentures contained in the most recent list furnished to it as provided in Section 5.01 and as to the names and addresses of holders of Debentures received by the Trustee in its capacity as Debenture Registrar (if acting in such capacity).

(b) The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(c) In case three or more holders of Debentures of a series (hereinafter referred to as “applicants”) apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Debenture for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of Debentures of such series or holders of all Debentures with respect to their rights under this Indenture or under such Debentures, and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall within five business days after the receipt of such application, at its election, either:

(1) afford to such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 5.02; or

(2) inform such applicants as to the approximate number of holders of Debentures of such series or of all Debentures, as the case may be, whose names and addresses appear in the information preserved at the time by the Trustee, in accordance with the provisions of subsection (a) of this Section 5.02, and as to the approximate cost of mailing to such Debentureholders the form of proxy or other communication, if any, specified in such application.

(d) If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each holder of such series or of all Debentures, as the case may be, whose name and address appears in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 5.02, a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants and file with the Securities and Exchange Commission (the “Commission”), together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the holders of Debentures of such series or of all Debentures, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Debentureholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise, the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(e) Each and every holder of the Debentures, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any paying agent nor any Debenture Registrar shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Debentures in accordance with the provisions of subsection (b) of this Section, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

SECTION 5.03. *Annual and Other Reports to Be Filed by Company With Trustee* . (a) The Company covenants and agrees to file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with the Commission pursuant to Section 13 or Section 15 (d) of the Exchange Act; or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and the Commission in accordance with the rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations. Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

(b) The Company covenants and agrees to file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to transmit by mail, first class postage prepaid, or reputable over-night delivery service which provides for evidence of receipt, to the Debentureholders, as their names and addresses appear upon the Debenture Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

(d) The Company covenants and agrees to furnish to the Trustee, on or before May 15 in each calendar year in which any of the Debentures are outstanding, or on or before such other day in each calendar year as the Company and the Trustee may from time to time agree upon, a Certificate as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture. For purposes of this subsection (d), such compliance shall be determined without regard to any period of grace or requirement of notice provided under this Indenture.

SECTION 5.04. *Trustee to Transmit Annual Report to Debentureholders*. (a) On or before July 15 in each year in which any of the Debentures are outstanding, the Trustee shall transmit by mail, first class postage prepaid, to the Debentureholders, as their names and addresses appear upon the Debenture Register, a brief report dated as of the preceding May 15, with respect to any of the following events which may have occurred within the previous twelve months (but if no such event has occurred within such period no report need be transmitted):

(1) any change to its eligibility under Section 7.09, and its qualifications under Section 7.08;

(2) the creation of or any material change to a relationship specified in paragraphs (1) through (10) of subsection (c) of Section 7.08;

(3) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Debentures, on any property or funds held or collected by it as Trustee if such advances so remaining unpaid aggregate more than ½ of 1% of the principal amount of the Debentures outstanding on the date of such report;

(4) any change to the amount, interest rate, and maturity date of all other indebtedness owing by the Company, or by any other obligor on the Debentures, to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except any indebtedness based upon a creditor relationship arising in any manner described in paragraph (2), (3), (4), or (6) of subsection (b) of Section 7.13;

(5) any change to the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

(6) any release, or release and substitution, of property subject to the lien of this Indenture (and the consideration thereof, if any) which it has not previously reported;

(7) any additional issue of Debentures which the Trustee has not previously reported; and

(8) any action taken by the Trustee in the performance of its duties under this Indenture which it has not previously reported and which in its opinion materially affects the Debentures or the Debentures of any series, except any action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 6.07.

(b) The Trustee shall transmit by mail, first class postage prepaid, to the Debentureholders, as their names and addresses appear upon the Debenture Register, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee as such since the date of the last report transmitted pursuant to the provisions of subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this Indenture), for the reimbursement of which it claims or may claim a lien or charge prior to that of the Debentures of any series on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this subsection if such advances remaining unpaid at any time aggregate more than 10% of the principal amount of Debentures of such series outstanding at such time, such report to be transmitted within 90 days after such time.

(c) A copy of each such report shall, at the time of such transmission to Debentureholders, be filed by the Trustee with the Company, with each stock exchange upon which any Debentures are listed (if so listed) and also with the Commission. The Company agrees to notify the Trustee when any Debentures become listed on any stock exchange.

ARTICLE 6

REMEDIES OF THE TRUSTEE AND DEBENTUREHOLDERS ON EVENT OF DEFAULT

SECTION 6.01. *Events of Default Defined.* (a) Whenever used herein with respect to Debentures of a particular series, "Event of Default" means any one or more of the following events which has occurred and is continuing:

(1) default in the payment of any installment of interest upon any of the Debentures of that series, as and when the same shall become due and payable, and continuance of such default for a period of 30 days; provided,

however, that a valid extension of an interest payment period by the Company in accordance with the terms of any indenture supplemental hereto, shall not constitute a default in the payment of interest for this purpose;

(2) default in the payment of the principal of (or premium, if any, on) any of the Debentures of that series as and when the same shall become due and payable whether at maturity, upon redemption, by declaring or otherwise, or in any payment required by any sinking or analogous fund established with respect to that series;

(3) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company with respect to that series contained in such Debentures or otherwise established with respect to that series of Debentures pursuant to Section 2.01 hereof or contained in this Indenture (other than a covenant or agreement which has been expressly included in this Indenture solely for the benefit of one or more series of Debentures other than such series) for a period of 90 days after the date on which written notice of such failure, requiring the same to be remedied and stating that such notice is a "Notice of Default" hereunder, shall have been given to the Company by the Trustee, by registered or certified mail, or to the Company and the Trustee by the holders of at least 25% in principal amount of the Debentures of that series at the time outstanding;

(4) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company as bankrupt or insolvent, or approving as properly filed a petition seeking liquidation or reorganization of the Company under the Federal Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued unvacated and unstayed for a period of 90 days; or an involuntary case shall be commenced under such Code in respect of the Company and shall continue undismissed for a period of 90 days or an order for relief in such case shall have been entered; or a decree or order of a court having jurisdiction in the premises shall have been entered for the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or of its property, or for the winding up or liquidation of its affairs, and such decree or order shall have remained in force unvacated and unstayed for a period of 90 days; or

(5) the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking liquidation or

reorganization under the Federal Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors.

(b) In each and every such case, unless the principal of all the Debentures of that series shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debentures of that series then outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by such Debentureholders), may declare the principal of all the Debentures of that series to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in this Indenture or in the Debentures of that series or established with respect to that series pursuant to Section 2.01 hereof to the contrary notwithstanding.

(c) Section 6.01(b), however, is subject to the condition that if, at any time after the principal of the Debentures of that series shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all the Debentures of that series and the principal of (and premium, if any, on) any and all Debentures of that series which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that such payment is enforceable under applicable law, upon overdue installments of interest, at the rate per annum expressed in the Debentures of that series to the date of such payment or deposit) and the amount payable to the Trustee under Section 7.06, and any and all defaults under the Indenture, other than the nonpayment of principal on Debentures of that series which shall not have become due by their terms, shall have been remedied or waived as provided in Section 6.06 then and in every such case the holders of a majority in aggregate principal amount of the Debentures of that series then outstanding (subject to, in the case of any series of Debentures held as trust assets of a AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of the holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust), by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences with respect to that series of Debentures; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon.

(d) In case the Trustee shall have proceeded to enforce any right with respect to Debentures of that series under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceedings had been taken.

(e) If, prior to a Security Exchange with respect to the Debentures of any series, a Default with respect to the Debentures of such series shall have occurred, the Company expressly acknowledges that under the circumstances set forth in the applicable Declaration of Trust, any holder of Preferred Securities of the applicable AES Trust may enforce directly against the Company the applicable Property Trustee's rights hereunder. In furtherance of the foregoing and for the avoidance of any doubt, the Company acknowledges that, under the circumstances described in the applicable Declaration of Trust, any such holder of Preferred Securities, in its own name, in the name of the applicable AES Trust or in the name of the holders of the Preferred Securities issued by such AES Trust, may institute or cause to be instituted a proceeding, including, without limitation, any suit in equity, an action at law or other judicial or administrative proceeding, to enforce the applicable Property Trustee's rights hereunder directly against the Company as issuer of the applicable series of Debentures, and may prosecute such proceeding to judgment or final decree, and enforce the same against the Company.

SECTION 6.02. *Covenant of Company to Pay to Trustee Whole Amount Due on Debentures on Default in Payment of Interest or Principal (and Premiums, if any)*. (a) The Company covenants that (1) in case default shall be made in the payment of any installment of interest on any of the Debentures of a series, or any payment required by any sinking or analogous fund established with respect to that series as and when the same shall have become due and payable, and such default shall have continued for a period of 10 business days, or (2) in case default shall be made in the payment of the principal of (or premium, if any, on) any of the Debentures of a series when the same shall have become due and payable, whether upon maturity of the Debentures of a series or upon redemption or upon declaration or otherwise, then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Debentures of that series, the whole amount that then shall have become due and payable on all such Debentures for principal (and premium, if any) or interest, or both, as the case may be, with interest upon the overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law and without duplication of any other amounts paid by the Company or the applicable AES Trust in respect thereof) upon overdue installments of interest at the rate per annum expressed in the Debentures of that series; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, and the amount payable to the Trustee under Section 7.06.

(b) In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or other obligor upon the Debentures of that series and collect in the manner provided by law out of the property of the Company or other obligor upon the Debentures of that series wherever situated the moneys adjudged or decreed to be payable.

(c) In case of any receivership, insolvency, liquidation, bankruptcy, reorganization, readjustment, arrangement, composition or other judicial proceedings affecting the Company, any other obligor on such Debentures, or the creditors or property of either, the Trustee shall have the power to intervene in such proceedings and take any action therein that may be permitted by the court and shall (except as may be otherwise provided by law) be entitled to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of Debentures of such series allowed for the entire amount due and payable by the Company or such other obligor under the Indenture at the date of institution of such proceedings and for any additional amount which may become due and payable by the Company or such other obligor after such date, and to collect and receive any moneys or other property payable or deliverable on any such claim, and to distribute the same after the deduction of the amount payable to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the holders of Debentures of such series to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to such Debentureholders, to pay to the Trustee any amount due it under Section 7.06.

(d) All rights of action and of asserting claims under this Indenture, or under any of the terms established with respect to Debentures of that series, may be enforced by the Trustee without the possession of any of such Debentures, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for payment to the Trustee of any amounts due under Section 7.06, be for the ratable benefit of the holders of the Debentures of such series.

In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Debentureholder any plan of reorganization, arrangement, adjustment or composition affecting the Debentures of that series or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Debentureholder in any such proceeding.

SECTION 6.03. *Application of Moneys Collected by Trustee.* Any moneys collected by the Trustee pursuant to Section 6.02 with respect to a particular series of Debentures shall be applied in the order following, at the date or dates fixed by the Trustee and, in case of the distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the several Debentures of that series, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and of all amounts payable to the Trustee under Section 7.06; and

SECOND: To the payment of the amounts then due and unpaid upon Debentures of such series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Debentures for principal (and premium, if any) and interest, respectively.

SECTION 6.04. *Limitation on Suits by Holders of Debentures.* No holder of any Debenture of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to Debentures of such series specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Debentures of such series then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have failed to institute any such action, suit or proceeding; it being understood and intended, and being expressly covenanted by the taker and holder of every Debenture of such series with every other such taker and holder and Trustee, that no one or more holders of Debentures of such series shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other of such Debentures, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Debentures of such series. For the protection and enforcement of the provisions of this

Section, each and every Debentureholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provisions of this Indenture, however, the right of any holder of any Debenture to receive payment of the principal of (and premium, if any) and interest on such Debenture, as therein provided, on or after the respective due dates expressed in such Debenture (or in the case of redemption, on the redemption date), or to institute suit for the enforcement of any such payment on or after such respective dates or redemption date, shall not be impaired or affected without the consent of such holder.

SECTION 6.05. *Remedies Cumulative; Delay or Omission in Exercise of Rights Not Waiver of Default.* (a) All powers and remedies given by this Article to the Trustee or to the Debentureholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any others thereof or of any other powers and remedies available to the Trustee or the holders of the debentures, by judicial proceedings or otherwise, to enforce performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to such Debentures.

(b) No delay or omission of the Trustee or of any holder of any of the Debentures to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article or by law to the Trustee or to the Debentureholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Debentureholders.

SECTION 6.06. *Rights of Holders of Majority in Principal Amount of Debentures to Direct Trustee and to Waive Defaults.* The holders of a majority in aggregate principal amount of the Debentures of any series at the time outstanding, determined in accordance with Section 8.04 (with, in the case of any series of Debentures held as trust assets of a AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust), shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such series; provided, however, that such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudicial to the rights of holders of Debentures of any other series at the time outstanding determined in accordance with Section 8.04 not parties thereto. Subject to the provisions of Section 7.01, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that the proceeding so directed would involve the Trustee in personal liability. The holders of a majority in aggregate principal amount of the Debentures of any series at the time outstanding affected thereby, determined in accordance with section 8.04 (with, in the case of any series of Debentures held as trust assets of a AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust), may on behalf of the holders of all of the Debentures of such series waive any past default in the performance of any of the covenants contained herein or established pursuant to section 2.01 with respect to such series and its consequences, except a default in the payment of the principal of, or premium, if any, or interest on, any of the Debentures of that series as and when the same shall become due by the terms of such Debentures otherwise than by acceleration (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal and any premium has been deposited with the Trustee (in accordance with Section 6.01(c)) or a call for redemption of Debentures of that series. Upon any such waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Debentures of such series shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 6.07. *Trustee to Give Notice of Defaults Known To It, But May Withhold in Certain Circumstances.* The Trustee shall, within 90 days after the occurrence of a default with respect to a particular series, transmit by mail, first class postage prepaid, to the holders of Debentures of that series, as their names and addresses appear upon the Debenture Register, notice of all defaults with respect to that series known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purposes of this Section being hereby defined to be the events specified in subsections (1), (2), (3), (4) and (5) of Section 6.01(a), not including any periods of grace provided for therein and irrespective of the giving of notice provided for by subsection (3) of Section 6.01(a)); provided, that, except in the case of default in the payment of the principal of (or premium, if any) or interest on any of the Debentures of that series or in the payment of any sinking fund installment established with respect to that series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers, of the Trustee in good faith determine that the withholding of such notice is in the interests of the holders of Debentures of that series; provided further, that in the case of any default of the character specified in Section 6.01(a)(3) with respect to Debentures of such series no such notice to the holders of the Debentures of that series shall be given until at least 30 days after the occurrence thereof.

The Trustee shall not be deemed to have knowledge of any default, except (i) a default under subsection (a)(1) or (a)(2) of Section 6.01 as long as the Trustee is acting as paying agent for such series of Debentures or (ii) any default as to which the Trustee shall have received written notice or a Responsible Officer charged with the administration of this Indenture shall have obtained written notice.

SECTION 6.08. *Requirements of an Undertaking to Pay Costs in Certain Suits Under Indenture or Against Trustee.* All parties to this Indenture agree, and each holder of any Debentures by his or her acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Debentureholder, or group of Debentureholders, holding more than 10% in aggregate principal amount of the outstanding Debentures of any series, or to any suit instituted by any Debentureholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Debenture of such series, on or after the respective due dates expressed in such Debenture or established pursuant to this Indenture.

ARTICLE 7

CONCERNING THE TRUSTEE

SECTION 7.01. *Upon Event of Default Occurring and Continuing, Trustee Shall Exercise Powers Vested In It, and Use Same Degree of Care and Skill In Their Exercise, as Prudent Individual Would Use.* (a) The Trustee, prior to the occurrence of an Event of Default with respect to Debentures of a series and after the curing of all Events of Default with respect to Debentures of that series which may have occurred, shall undertake to perform with respect to Debentures of such series such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustee. In case an Event of Default with respect to Debentures of a series has occurred (which has not been cured or waived), the Trustee shall exercise with respect to Debentures of that series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) prior to the occurrence of an Event of Default with respect to Debentures of a series and after the curing or waiving of all such Events of Default with respect to that series which may have occurred:

(i) the duties and obligations of the Trustee shall with respect to Debentures of such series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to Debentures of such series except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may with respect to Debentures of such series conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Debentures of any series at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to the Debentures of that series; and

(4) none of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it

under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

(5) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article 7.

SECTION 7.02. *Subject to Provisions of Section 7.01.* Except as otherwise provided in Section 7.01:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to the genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by a Board Resolution or an instrument signed in the name of the Company by the President or any Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer (unless other evidence in respect thereof is specifically prescribed herein);

(c) The Trustee may consult with counsel of its selection and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Debentureholders, pursuant to the provisions of this Indenture, unless such Debentureholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby; nothing herein contained shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to a series of the Debentures (which has not been cured or waived) to exercise with respect to Debentures of that series such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(e) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security, or other papers or documents, unless requested in writing so to do by the holders of not less than a majority in principal amount of the outstanding Debentures of the particular series affected thereby (determined as provided in Section 8.04); provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such costs, expenses or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Company or, if paid by the Trustee, shall be repaid by the Company upon demand; and

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 7.03. *Trustee Not Liable for Recitals In Indenture Or In Debentures.* (a) The recitals contained herein and in the Debentures (other than the Certificate of Authentication on the Debentures) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same.

(b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Debentures.

(c) The Trustee shall not be accountable for the use or application by the Company of any of the Debentures or of the proceeds of such Debentures, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture or established pursuant to Section 2.01, or for the use or application of any moneys received by any paying agent other than the Trustee.

SECTION 7.04. *Trustee, Paying Agent or Debenture Registrar May Own Debentures.* The Trustee or any paying agent or Debenture Registrar, in its individual or any other capacity, may become the owner or pledgee of Debentures with the same rights it would have if it were not Trustee, paying agent or Debenture Registrar.

SECTION 7.05. *Moneys Received by Trustee to Be Held In Trust Without Interest.* Subject to the provisions of Section 11.04, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder except such as it may agree with the Company to pay thereon.

SECTION 7.06. *Trustee Entitled to Compensation, Reimbursement and Indemnity.* (a) The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such reasonable compensation as the Company and the Trustee shall from time to time agree in writing (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify the Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any loss, liability or expense including taxes (other than taxes based upon, measured by or determined by the income of the Trustee) incurred without negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises.

(b) The obligations of the Company under this Section to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Debentures upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Debentures.

SECTION 7.07. *Right of Trustee to Rely on Certificate of Officers of Company Where No Other Evidence Specifically Prescribed.* Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.08. *Trustee Acquiring Conflicting Interest to Eliminate Conflict or Resign*. (a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Debentures of any series and if the Default to which such conflicting interest relates has not been cured, duly waived or otherwise eliminated, within 90 days after ascertaining that it has such conflicting interest, it shall either eliminate such conflicting interest, except as otherwise provided herein, or resign with respect to the Debentures of that series in the manner and with the effect specified in Section 7.10 and the Company shall promptly appoint a successor Trustee in the manner provided herein.

(b) In the event that the Trustee shall fail to comply with the provisions of subsection (a) of this Section, with respect to the Debentures of any series the Trustee shall, within ten days after the expiration of such 90-day period, transmit notice of such failure by mail, first class postage prepaid, to the Debentureholders of that series as their names and addresses appear upon the registration books.

(c) For the purposes of this Section the Trustee shall be deemed to have a conflicting interest with respect to the Debentures of any series if a Default has occurred and is continuing and:

(1) the Trustee is trustee under this Indenture with respect to the outstanding Debentures of any series other than that series, or is trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Debentures issued under this Indenture; provided that there shall be excluded from the operation of this paragraph the Debentures of any series other than that series and any other indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding if (i) this Indenture and such other indenture or indentures and all series of securities issuable thereunder are wholly unsecured and rank equally and such other indenture or indentures (and such series) are hereafter qualified under the Trust Indenture Act, unless the Commission shall have found and declared by order pursuant to subsection (b) of Section 305 or subsection (c) of Section 307 of the Trust Indenture Act, that differences exist between (A) the provisions of this Indenture with respect to Debentures of that series and with respect to one or more other series or (B) the provisions of this Indenture and the provisions of such other indenture or indentures (or such series), which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Debentures of that series and such other series or such other indenture or indentures, or (ii) the Company

shall have sustained the burden of proving, on application to the Commission and after opportunity for hearing thereon, that the trusteeship under this Indenture with respect to Debentures of that series and such other series or such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to Debentures of that series and such other series or under such other indentures;

(2) the Trustee or any of its directors or executive officers is an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (A) one individual may be a director and/or an executive officer of the Trustee and a director and/or an executive officer of the Company, but may not be at the same time an executive officer of both the Trustee and the Company; (B) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director and/or an executive officer of the Trustee and a director of the Company; and (C) the Trustee may be designated by the Company or by an underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent, or depository, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this subsection (c), to act as trustee whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner, or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner, or executive officer thereof, or is beneficially owned, collectively by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), (A) 5% or more of the voting securities, or 10% or more of any

other class of security, of the Company, not including the Debentures issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (B) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company;

(9) the Trustee owns, on the date of Default upon the Debentures of any series or any anniversary of such Default while such Default upon the Debentures issued under this Indenture remains outstanding, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflict of interest under paragraph (6), (7), or (8) of this subsection (c). As to any such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which includes them, the provisions of the preceding sentence shall not apply, for a period of two years from the date of such acquisition, to the extent that such securities in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after the dates of any such Default upon the Debentures issued under this Indenture and annually in each succeeding year that the Debentures issued under this Indenture remain in Default, the Trustee shall make a check of its holding of such securities in any of the above-mentioned capacities as of such dates. If the Company fails to make payment in full of principal of or interest on any of the Debentures when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holding of such securities in any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph (9), all such securities so held by the Trustee, with sole or joint control over such securities vested in it,

shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this subsection (c); or

(10) except under the circumstances described in paragraph (1), (3), (4), (5) or (6) of subsection (b) of Section 7.13 the Trustee shall be or shall become a creditor of the Company.

For purposes of paragraph (1) of this subsection (c), and of Section 6.06, the term “series of securities” or “securities” means a series, class or group of securities issuable under an indenture pursuant to whose terms holders of one such series may vote to direct the indenture trustee, or otherwise take action pursuant to a vote of such holders, separately from holders of another such series; provided, that, “series of securities” or “series” shall not include any series of securities issuable under an indenture if all such series rank equally and are wholly secured.

The specification of percentages in paragraphs (5) to (9), inclusive, of this subsection (c) shall not be construed as indicating that the ownership of such percentages of securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this subsection (c).

For the purposes of paragraphs (6), (7), (8) and (9) of this subsection (c) only, (A) the terms “security” and “securities” shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (B) an obligation shall be deemed to be in “default”, when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (C) the Trustee shall not be deemed to be the owner or holder of (i) any security which it holds as collateral security (as trustee or otherwise) for any obligation which is not in default as defined in clause (B) above, or (ii) any security which it holds as collateral security under this Indenture, irrespective of any Default hereunder, or (iii) any security which it holds as agent for collection, or as custodian, escrow agent or depositary, or in any similar representative capacity.

Except as above provided, the word “security” or securities” as used in this Indenture shall mean any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, or, in general, any interest or instrument commonly known as a “security”, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(d) For the purposes of this Section:

(1) The term "underwriter" when used with reference to the Company shall mean every person, who, within one year prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

(2) The term "director" shall mean any member of the board of directors of a corporation or any individual performing similar functions with respect to any organization whether incorporated or unincorporated.

(3) The term "person" shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term "voting security" shall mean any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" shall mean any obligor upon the Debentures.

(6) The term "executive officer" shall mean the chairman of the board of directors, president, every vice president, every assistant vice president, every trust officer, the cashier, the secretary, and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares and the number of units if relating to any other kind of security.

(4) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

(i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;

(ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;

(iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; and

(iv) securities held in escrow if placed in escrow by the issuer thereof, provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes; and provided, further, that, in the case of unsecured

evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

(f) Except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Debentures issued under this Indenture, or in the payment of any sinking or analogous fund installment, the Trustee shall not be required to resign as provided by this Section 7.08 if such Trustee shall have sustained the burden of proving, on application to the Commission and after opportunity for hearing thereon, that (i) the default under the Indenture may be cured or waived during a reasonable period and under the procedures described in such application and (ii) a stay of the Trustee's duty to resign will not be inconsistent with the interests of Debentureholders. The filing of such an application shall automatically stay the performance of the duty to resign until the Commission orders otherwise.

Any resignation of the Trustee shall become effective only upon the appointment of a successor trustee and such successor's acceptance of such an appointment.

SECTION 7.09. *Requirements for Eligibility of Trustee*. There shall at all times be a Trustee with respect to the Debentures issued hereunder which shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or other person permitted to act as trustee by the Commission, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million dollars, and subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10. *Resignation of Trustee and Appointment of Successor*. (a) The Trustee or any successor hereafter appointed, may at any time resign with respect to the Debentures of one or more series by giving written notice thereof to the Company and by transmitting notice of resignation by mail, first class postage prepaid, to the Debentureholders of such series, as their names and addresses appear upon the Debenture Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee with respect to Debentures of such series by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Debentures of such series, or any Debentureholder of that series who has been a bona fide holder of a Debenture or Debentures for at least six months may, subject to the provisions of Section 6.08, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of subsection (a) of Section 7.08 after written request therefor by the Company or by any Debentureholder who has been a bona fide holder of a Debenture or Debentures for at least six months; or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Company or by any such Debentureholder; or

(3) the Trustee shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Company may remove the Trustee with respect to all Debentures and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of removal, the Trustee so removed may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Debentures of such series, or any Debentureholder of that series who has been a bona fide holder of a Debenture or Debentures for at least six months may, subject to the provisions of Section 6.08, on behalf of himself and all others similarly situated, petition any such court for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Debentures of any series at the time outstanding may at any time remove the Trustee with respect to such series and appoint a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee with respect to the Debentures of a series pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

(e) Any successor trustee appointed pursuant to this Section may be appointed with respect to the Debentures of one or more series or all of such series, and at any time there shall be only one Trustee with respect to the Debentures of any particular series.

SECTION 7.11. *Acceptance by Successor to Trustee*. (a) In case of the appointment hereunder of a successor trustee with respect to all Debentures, every such successor trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor trustee all the rights, powers, and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor trustee with respect to the Debentures of one or more (but not all) series, the Company, the retiring Trustee and each successor trustee with respect to the Debentures of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor trustee shall accept such appointment and which shall (1) contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debentures of that or those series to which the appointment of such successor trustee relates, (2) contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debentures of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any act or failure to act on the part of any other Trustee hereunder; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Debentures of that or those series to which the appointment of such successor trustee relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture, and each such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Debentures of that or those series to which the appointment of such successor trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Debentures of that or those series to which the appointment of such successor trustee relates.

(c) Upon request of any such successor trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor trustee all such rights, power and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor trustee shall accept its appointment unless at the time of such acceptance such successor trustee shall be qualified and eligible under this Article.

(e) Upon acceptance of appointment by a successor trustee as provided in this Section, the Company shall transmit notice of the succession of such trustee hereunder by mail, first class postage prepaid, to the Debentureholders, as their names and addresses appear upon the Debenture Register. If the Company fails to transmit such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be transmitted at the expense of the Company.

SECTION 7.12. *Successor to Trustee by Merger, Consolidation or Succession to Business*. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any Debentures shall have been authenticated, but not made available for delivery, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and make available for delivery the Debentures so authenticated with the same effect as if such successor Trustee had itself authenticated such Debentures.

SECTION 7.13. *Limitations on Rights of Trustee as a Creditor to Obtain Payment of Certain Claims Within Four Months Prior to Default or During Default, or to Realize on Property as such Creditor Thereafter*. (a) Subject to the provisions of subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within three months prior to a default, as defined in subsection (b) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the holders of the Debentures and the holders of other indenture securities (as defined in subsection (c) of this Section):

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such three months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such three months' period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee:

(A) to retain for its own account (i) payments made on account of any such claim by any person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities, or other property in respect of claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such three months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such three months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in subsection (c) of this Section, would occur within three months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in such paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such three months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Debentureholders and the holders of other indenture securities in such manner that the Trustee, the Debentureholders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, the Debentureholders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or a case for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the Debentureholders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee, the Debentureholders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee who has resigned or been removed after the beginning of such three months' period shall be subject to the provisions of this subsection (a) as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such three months' period, it shall be subject to the provisions of this subsection (a) if and only if the following conditions exist:

(i) the receipt of property or reduction of claim which would have given rise to the obligation to account, if such Trustee had continued as trustee, occurred after the beginning of such three months' period; and

(ii) such receipt of property or reduction of claim occurred within three months after such resignation or removal.

(b) There shall be excluded from the operation of subsection (a) of this Section a creditor relationship arising from:

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property other than cash which shall at any time be subject to the lien, if any, of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advance and of the circumstances surrounding the making thereof is given to the Debentureholders at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, subscription agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in subsection (c) of this Section;

(5) the ownership of stock or of other securities of a Company organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptance or obligations which fall within the classification of self-liquidating paper as defined in subsection (c) of this Section.

(c) As used in this Section:

(1) The term “default” shall mean any failure to make payment in full of the principal of (or premium, if any) or interest upon any of the Debenture or upon the other indenture securities when and as such principal (or premium, if any) or interest becomes due and payable.

(2) The term “other indenture securities” shall mean securities upon which the Company is an obligor (as defined in the Trust Indenture Act) outstanding under any other indenture (A) under which the Trustee is also trustee, (B) which contains provisions substantially similar to the provisions of subsection (a) of this Section, and (C) under which a default exists at the time of the apportionment of the funds and property held in said special account.

(3) The term “cash transaction” shall mean any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

(4) The term “self-liquidating paper” shall mean any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon , the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

(5) The term “Company” shall mean any obligor upon any of the Debentures.

ARTICLE 8

CONCERNING THE DEBENTURES

SECTION 8.01. *Evidence of Action by Debentureholders*. Whenever in this Indenture it is provided that the holders of a majority or specified percentage in aggregate principal amount of the Debentures of a particular series may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action) the fact that at the time of taking any such action the holders of such majority or specified percentage of that series have joined therein may be evidenced by any instrument or any number of instruments of similar tenor executed by such holders of Debentures of that series in person or by agent or proxy appointed in writing.

If the Company shall solicit from the Debentureholders of any series any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for such series for the determination of Debentureholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Debentureholders of record at the close of business on the record date shall be deemed to be Debentureholders for the purposes of determining whether Debentureholders of the requisite proportion of outstanding Debentures of that series have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the outstanding Debentures of that series shall be computed as of the record date; provided that no such authorization, agreement or consent by such Debentureholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 8.02. *Proof of Execution of Instruments and of Holding of Debentures* . Subject to the provisions of Section 7.01, proof of the execution of any instrument by a Debentureholder (such proof will not require notarization) or his agent or proxy and proof of the holding by any person of any of the Debentures shall be sufficient if made in the following manner;

(a) The fact and date of the execution by any such person of any instrument may be proved in any reasonable manner acceptable to the Trustee.

(b) The ownership of Debentures shall be proved by the Debenture Register of such Debentures or by a certificate of the Debenture Registrar thereof.

(c) The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 8.03. *Who May Be Deemed Owners of Debentures*. Prior to the due presentment for registration of transfer of any Debenture, the Company, the Trustee, any paying agent and any Debenture Registrar may deem and treat the person in whose name such Debenture shall be registered upon the books of the Company as the absolute owner of such Debenture (whether or not such Debenture shall be overdue and notwithstanding any notice of ownership or writing thereon made by anyone other than the Debenture Registrar) for the purpose of receiving payment of or on account of the principal of, premium, if any, and (subject to Section 2.03) interest on such Debenture and for all other purposes; and neither the Company nor the Trustee nor any paying agent nor any Debenture Registrar shall be affected by any notice to the contrary.

SECTION 8.04. *Debentures Owned by a Company or Controlled or Controlling Companies Disregarded for Certain Purposes*. In determining whether the holders of the requisite aggregate principal amount of Debentures of a particular series have concurred in any direction, consent or waiver under this Indenture, Debentures of that series which are owned by the Company or any other obligor on the Debentures of that series or by any Subsidiary of the Company or of such other obligor on the Debentures of that series shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Debentures of such series which the Trustee actually knows are so owned shall be so disregarded. Debentures so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right so to act with respect to such Debentures and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 8.05. *Instruments Executed by Debentureholders Bind Future Holders* . At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of the majority or percentage in aggregate principal amount of the Debentures of a particular series specified in this Indenture in connection with such action, any holder of a Debenture of that series which is shown by the evidence to be included in the Debentures the holders of which have consented to such action may, by filing written notice with the Trustee, and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Debenture. Except as aforesaid any such action taken by the holder of any Debenture shall be conclusive and binding upon such holder and upon all future holders and owners of such Debenture, and of any Debenture issued in exchange therefor, on registration of transfer thereof or in place thereof, irrespective of whether or not any notation in regard thereto is made upon such Debenture. Any action taken by the holders of the majority or percentage in aggregate principal amount of the Debentures of a particular series specified in this

Indenture in connection with such action shall be conclusively binding upon the Company, the Trustee and the holders of all the Debentures of that series.

ARTICLE 9

SUPPLEMENTAL INDENTURES

SECTION 9.01. *Purposes for Which Supplemental Indenture May Be Entered Into Without Consent of Debentureholders*. In addition to any supplemental indenture otherwise authorized by this Indenture, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect), without the consent of the Debentureholders, for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Company, and the assumption by any such successor of the covenants of the Company contained herein or otherwise established with respect to the Debentures; or

(b) to add to the covenants of the Company such further covenants, restrictions, conditions or provisions for the protection of the holders of the Debentures of all or any series as the Board of Directors and the Trustee shall consider to be for the protection of the holders of Debentures of all or any series, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions, conditions or provisions a default or an Event of Default with respect to such series permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction, condition or provision such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the holders of a majority in aggregate principal amount of the Debentures of such series to waive such default; or

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture as shall not be inconsistent with the provisions of this Indenture and shall not adversely affect the interests of the holders of the Debentures of any series; or

(d) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Debenture outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Debentures at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. *Modification of Indenture with Consent of Debentureholders* . With the consent (evidenced as provided in Section 8.01) of the holders of not less than a majority in aggregate principal amount of the Debentures of each series affected by such supplemental indenture or indentures at the time outstanding (and, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust), the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Debentures of such series under this Indenture; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Debentures of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Debenture so affected or (ii) reduce the aforesaid percentage of Debentures, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Debenture (and, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of the holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust) then outstanding and affected thereby.

Upon the request of the Company, accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Debentureholders (and, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust) required to consent thereto as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the Debentureholders of any series affected thereby under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, setting forth in general terms the substance of such supplemental indenture, to the Debentureholders of all series affected thereby as their names and addresses appear upon the Debenture Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. *Effect of Supplemental Indentures*. Upon the execution of any supplemental indenture pursuant to the provisions of this Article or of Section 10.01, this Indenture shall, with respect to such series, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Debentures of the series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. *Debentures May Bear Notation of Changes By Supplemental Indentures*. Debentures of any series, affected by a supplemental indenture, authenticated and delivered after the execution of such supplemental indenture pursuant to the provisions of this Article or of Section 10.01, may bear a notation in form approved by the Company, provided such form meets the requirements of any exchange upon which such series may be listed, as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Debentures of that series so modified as to conform, in the opinion of the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Debentures of that series then outstanding.

SECTION 9.05. *Opinion of Counsel*. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

ARTICLE 10

CONSOLIDATION, MERGER, SALE OR CONVEYANCE

SECTION 10.01. *Satisfaction and Discharge of Indenture*. The Company shall not consolidate with or merge into any other Person or transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any other Person to consolidate with or merge into the Company, unless:

(a) either the Company shall be the continuing corporation, or the corporation (if other than the Company) formed by such consolidation or into which the Company is merged or to which the properties and assets of the Company substantially as an entity are transferred or leased shall be a corporation organized and existing under the laws of the United States of America or any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Debentures and this Indenture; and

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing.

SECTION 10.02. *Successor Corporation Substituted*. The successor corporation formed by such consolidation or into which the Company is merged or to which such transfer or lease is made shall succeed to and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein, and thereafter (except in the case of a lease to another Person) the predecessor corporation shall be relieved of all obligations and covenants under the Indenture and the Debentures and, in the event of such conveyance or transfer, any such predecessor corporation may be dissolved and liquidated.

SECTION 10.03. *Opinion of Counsel*. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

ARTICLE 11

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

SECTION 11.01. *Satisfaction and Discharge of Indentures*. (A) If at any time (a) the Company shall have paid or caused to be paid the principal of and interest on all the Debentures of any series Outstanding hereunder (other than Debentures of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.07) as and when the same shall have become due and payable, or (b) the Company shall have delivered to the Trustee for cancellation all Debentures of any series theretofore authenticated (other than any Debentures of such series which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.07) or (c) (i) all the Debentures of series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and (ii) the Company shall have irrevocably deposited or caused to be deposited with the Trustee as trust funds the entire amount in cash (other than moneys repaid by the Trustee or any paying agent to the Company in accordance with Section 11.04) or Government Obligations, maturing as to principal and interest at such times and in such amounts as will insure the availability of cash, or a combination thereof, sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay (A) the principal and interest on all Debentures of such series on each date that such principal or interest is due and payable and (B) any mandatory sinking fund payments on the dates on which such payments are due and payable in accordance with the terms of the Indenture and the Debentures of such series; and if, in any such case, the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange of Debentures of such series and the Company's right of optional redemption, if any, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Debentures, (iii) rights of holders of Debentures to receive payments of principal thereof and interest thereon, upon the original stated due dates therefor (but not upon acceleration), and remaining rights of the Debentureholders to receive mandatory sinking fund payments, if any, (iv) the rights, obligations, duties and immunities of the Trustee hereunder, (v) the rights of the holders of Debentures of such series as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them, and (vi) the obligations of the

Company under Section 4.02) and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company, shall execute proper instruments acknowledging such satisfaction of and discharging this Indenture;provided, that the rights of Holders of the Debentures to receive amounts in respect of principal of and interest on the Debentures held by them shall not be delayed longer than required by then-applicable mandatory rules or policies of any securities exchange upon which the Debentures are listed. The Company agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Debentures of such series.

(B) The following provisions shall apply to the Debentures of each series unless specifically otherwise provided in a Board Resolution or indenture supplemental hereto provided pursuant to Section 2.01. In addition to discharge of the Indenture pursuant to the next preceding paragraph, the Company shall be deemed to have paid and discharged the entire indebtedness on all the Debentures of a series on the date of the deposit referred to in subparagraph (a) below, and the provisions of this Indenture with respect to the Debentures of such series shall no longer be in effect (except as to (i) rights of registration of transfer and exchange of Debentures of such series and the Company's right of optional redemption, if any, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Debentures, (iii) rights of holders of Debentures to receive payments of principal thereof and interest thereon, upon the original stated due dates therefor (but not upon acceleration), and remaining rights of the holders of Debentures to receive mandatory sinking fund payments, if any, (iv) the rights, obligations, duties and immunities of the Trustee hereunder, (v) the rights of the Holders of Debentures as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them and (vi) the obligations of the Company under Section 4.02) and the Trustee, at the expense of the Company, shall at the Company's request, execute proper instruments acknowledging the same, if

(a) with reference to this provision the Company has irrevocably deposited or caused to be irrevocably deposited with the Trustee as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Debentures of such series (i) cash in an amount, or (ii) Governmental Obligations maturing as to principal and interest at such times and in such amounts as will insure the availability of cash or (iii) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay (A) the principal and interest on all Debentures of such series on each date that such principal or interest is due and payable or is earlier redeemed (irrevocably provided for under arrangements satisfactory to the Trustee), as the case may be, and (B) any mandatory sinking fund payments on the dates on which such payments are due and payable in accordance with the terms of the Indenture and the Debentures of such series;

(b) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Company is a party or by which it is bound;

(c) the Company has delivered to the Trustee an Opinion of Counsel based on the fact that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date hereof, there has been a change in the applicable Federal income tax law, in either case to the effect that, and such opinion shall confirm that, the holders of the Debentures of such series will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to Federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred;

(d) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the defeasance contemplated by this provision have been complied with; and

(e) no event or condition shall exist that, pursuant to the provisions of Section 14.02 or 14.03, would prevent the Company from making payments of the principal of or interest on the Debentures of such series on the date of such deposit.

SECTION 11.02. *Application of Trustee of Funds Deposited For Payment of Debentures*. Subject to Section 11.04, all moneys deposited with the Trustee (or other trustee) pursuant to Section 11.01 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Company acting as its own paying agent), to the Holders of the particular Debentures of such series for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal and interest; but such money need not be segregated from other funds except to the extent required by law.

SECTION 11.03. *Application by Trustee of Funds Deposited For Payment of Debentures*. In connection with the satisfaction and discharge of this Indenture with respect to Debentures of any series, all moneys then held by any paying agent under the provisions of this Indenture with respect to such series of Debentures shall, upon demand of the Company, be repaid to it or paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 11.04. *Repayment of Moneys Held by Paying Agent*. Any moneys deposited with or paid to the Trustee or any paying agent for the payment of the principal of or interest on any Security of any series and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Company and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Company by the Trustee for such series or such paying agent, and the Holder of the Debentures of such series shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Company for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease;provided,however, that the Trustee or such paying agent, before being required to make any such repayment with respect to moneys deposited with it for any payment series, shall at the expense of the Company, mail by first-class mail to holders of such Debentures at their addresses as they shall appear on the Debenture Register, notice, that such moneys remain and that, after a date specified therein, which shall not be less than thirty days from the date of such mailing or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 11.05. *Repayment of Moneys Paid by Trustee*. The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the Governmental Obligations deposited pursuant to Section 11.01 or the principal or interest received in respect of such obligations.

ARTICLE 12

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.01. *Incorporators, Stockholders, Officers and Directors of Company Exempt From Individual Liability*. No recourse under or upon any obligations, covenant or agreement of this Indenture, or of any Debenture, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, past, present or future as such, of the Company or of any predecessor or successor corporation, either directly or through the Company or any such predecessor or successor corporation, whether by virtue of any constitution, statue or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors as such, of the Company or of any predecessor or successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Debentures or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director as such, because the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Debentures or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Debentures.

ARTICLE 13

MISCELLANEOUS PROVISIONS

SECTION 13.01. *Successors and Assigns of Company Bound by Indenture*. All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 13.02. *Acts of Board, Committee or Officer of Successor Company Valid*. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the corresponding board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. *Surrender of Powers of Company*. The Company by instrument in writing executed by authority of two-thirds of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company and thereupon such power so surrendered shall terminate both as to the Company and as to any successor corporation.

SECTION 13.04. *Required Notices or Demands May be Served by Mail*. Except as otherwise expressly provided herein any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Debentures to or on the Company may be given or served by being deposited first class postage prepaid in a post-office letterbox addressed (until another address is filed in writing by the Company with the Trustee), as follows: The AES Corporation, 1001 North 19th Street, Arlington, Virginia 22209, Attention: General Counsel and Secretary. Any notice, election, request or demand by the Company or any Debentureholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the Corporate Trust Office of the Trustee.

SECTION 13.05. *Indenture and Debentures to Be Construed in Accordance with Laws of the State of New York*. This Indenture and each Debenture shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State (without regard to principles of conflicts of laws thereof).

SECTION 13.06. *Officer's Certificate and Opinion of Counsel to be Furnished Upon Application or Demands by Company; Statements To Be Included In Each Certificate or Opinion With Respect to Compliance With Condition or Covenant*. (a) Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

(b) Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant in this Indenture (other than the certificate provided pursuant to Section 5.03(d) of this Indenture) shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.07. *Payments Due on Sundays or Holidays*. Except as provided pursuant to Section 2.01 pursuant to a Board Resolution, and as set forth in an Officers'

Certificate, or established in one or more indentures supplemental to the Indenture, in any case where the date of maturity of interest or principal of any Debenture or the date of redemption of any Debenture shall not be a business day then payment of interest or principal (and premium, if any) may be made on the next succeeding business day with the same force and effect as if made on the nominal date of maturity or redemption, and no interest shall accrue for the period after such nominal date.

SECTION 13.08. *Provisions Required by Trust Indenture Act of 1939 to Control* . If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.09. *Indenture May Be Executed by its Counterparts*. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 13.10. *Separability of Indenture Provisions*. .In case any one or more of the provisions contained in this Indenture or in the Debentures of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Debentures, but this Indenture and such Debentures shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.11. *Assignment by Company to Subsidiary*. The Company will have the right at all times to assign any of its rights or obligations under this Indenture to a direct or indirect wholly owned Subsidiary of the Company; provided that, in the event of any such assignment, the Company will remain jointly and severally liable for all such obligations. Subject to the foregoing, this Indenture is binding upon and inures to the benefit of the parties thereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties hereto.

SECTION 13.12. *Holders of Preferred Securities as Third Party Beneficiaries of the Indenture; Holders of Preferred Securities May Institute Legal Proceedings Against the Company in Certain Cases*. The Company hereby acknowledges that, to the extent specifically set forth herein, prior to a Security Exchange with respect to the Debentures of any series held as trust assets of a AES Trust, the holders of the Preferred Securities of such AES Trust shall expressly be third party beneficiaries of this Indenture. The Company further acknowledges that, prior to a Security Exchange with respect to Debentures of any series held as trust assets of a AES Trust, if the Property Trustee of such AES Trust fails to enforce its rights under this Indenture as the holder of the Debentures of a series held as trust assets of such AES Trust, any holder of the Preferred Securities of such AES Trust may institute legal proceedings directly against the Company to enforce such Property Trustee's rights under this Indenture without first instituting any legal proceedings against such Property Trustee or any other person or entity; *provided* that, if an Event of Default has occurred and is continuing and such event is attributed to the failure of the Company to pay interest or principal on the Debentures on the date such interest or principal is otherwise payable (or in the case of redemption, on the redemption date), then a holder of Preferred Securities of such AES Trust may directly institute a proceeding for enforcement of payment to such holder of the principal of or interest on the Debentures having a principal amount equal to the aggregate liquidation amount of the Preferred Securities of such holder (a "Holder Direct Action") on or after the respective due date specified in the Debentures. In connection with such Holder Direct Action, the rights of the holders of the Common Securities of such AES Trust will be subrogated to the rights of such holder of Preferred Securities to the extent of any payment made by the Company to such holders of Preferred Securities in such Holder Direct Action. Except as provided in the preceding sentences, the holders of Preferred Securities of such AES Trust will not be able to exercise directly any other remedy available to the holders of the Debentures. Reference to a "holder" of Preferred Securities or Common Securities herein shall mean a "Holder" of such securities as defined in the Declaration of Trust.

ARTICLE 14

SUBORDINATION OF DEBENTURES

SECTION 14.01. *Agreement to Subordinate*. The Company covenants and agrees, and each Debentureholder issued hereunder by his acceptance thereof likewise covenants and agrees, that all Debentures shall be issued subject to the provisions of this Article; and each person holding any Debenture, whether upon original issue or upon transfer, assignment or exchange thereof accepts and agrees that the Principal of and interest on all Debentures issued hereunder shall, to the extent and in the manner herein set forth, be subordinated and subject in right to the prior payment in full of all Senior and Subordinated Debt.

SECTION 14.02. *Payments to Debentureholders*. No payments on account of principal of, premium, if any, or interest on the Debentures shall be made if at the time of such payment or immediately after giving effect thereto there shall exist a default in any payment with respect to any Senior and Subordinated Debt, and such event of default shall not have been cured or waived or shall not have ceased to exist. In addition, during the continuance of any other event of default (other than a payment default) with respect to Designated Senior and Subordinated Debt pursuant to which the maturity thereof may be accelerated, from and after the date of receipt by the Trustee of written notice from the holders of such Designated Senior and Subordinated Debt or from an agent of such holders, no payments on account of principal, premium, if any, or interest in respect of the Debentures may be made by the Company for a period ("Payment Blockage Period") commencing on the date of delivery of such notice and ending 179 days thereafter (unless such Payment Blockage Period shall be terminated by written notice to the Trustee from the holders of such Designated Senior and Subordinated Debt or from an agent of such holders, or such event of default has been cured or waived or has ceased to exist). Only one Payment Blockage Period may be commenced with respect to the Debentures during any period of 360 consecutive days. No event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the Designated Senior and Subordinated Debt initiating such Payment Blockage Period shall be or be made the basis for the commencement of any subsequent Payment Blockage Period by the holders of such Designated Senior and Subordinated Debt, unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days.

Upon any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshalling of assets and liabilities or any bankruptcy, insolvency or similar proceedings of the Company, all amounts due or to become due upon all Senior and Subordinated Debt shall first be paid in full, in cash or cash equivalents, or payment thereof provided for in accordance with its terms, before any payment is made on account of the principal of, premium, if any, or interest on the indebtedness evidenced by the Debentures, and upon any such liquidation, dissolution, winding up, receivership, reorganization, assignment, marshalling or proceeding, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Debentureholders or the Trustee under this Indenture would be entitled, except for the provisions hereof, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Debentureholders or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior and Subordinated Debt (pro rata to such holders on the basis of the respective amounts of Senior and Subordinated Debt held by such holders) or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior and Subordinated Debt may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior and Subordinated Debt in full (including, without limitation, except to the extent, if any, prohibited by mandatory provisions of law, post-petition interest, in any such proceedings), after giving effect to any concurrent payment or distribution to or for the holders of Senior and Subordinated Debt, before any payment or distribution is made to the holders of the indebtedness evidenced by the Debentures or to the Trustee under this Indenture.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee under this Indenture or the holders of the Debentures before all Senior and Subordinated Debt is paid in full or provision is made for such payment in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of such Senior and Subordinated Debt or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior and Subordinated Debt may have been issued, as their respective interests may appear, for application to the payment of all Senior and Subordinated Debt remaining unpaid until all such Senior and Subordinated Debt shall have been paid in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior and Subordinated Debt.

For purposes of this Article, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of arrangement, reorganization or readjustment, the payment of which is subordinated (at least to the extent provided in this Article with respect to the Debentures) to the payment of all Senior and Subordinated Debt which may at the time be outstanding; *provided,* that (i) the Senior and Subordinated Debt is assumed by the new corporation, if any, resulting from any such arrangement, reorganization or readjustment, and (ii) the rights of the holders of the Senior and Subordinated Debt are not, without the consent of such holders, altered by such arrangement, reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided in Article 10 shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article 10. Nothing in this Section shall apply to claims of, or payments to, the Trustee under or pursuant to Article 7, except as provided therein. This Section shall be subject to the further provisions of Section 14.05.

SECTION 14.03. *Subrogation of Debentures*. Subject to the payment in full of all Senior and Subordinated Debt, the holders of the Debentures shall be subrogated to the rights of the holders of Senior and Subordinated Debt to receive payments or distributions of cash, property or securities of the Company applicable to the Senior and Subordinated Debt until the principal of and interest on the Debentures shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of the Senior and Subordinated Debt of any cash, property or securities to which the holders of the Debentures or the Trustee on their behalf would be entitled except for the provisions of this Article, and no payment over pursuant to the provisions of this Article to the holders of Senior and Subordinated Debt by holders of the Debentures or the Trustee on their behalf shall, as between the Company, its creditors other than holders of Senior and Subordinated Debt and the holders of the Debentures, be deemed to be a payment by the Company to or on account of the Senior and Subordinated Debt; and no payments or distributions of cash, property or securities to or for the benefit of the Debentureholders pursuant to the subrogation provision of this Article, which would otherwise have been paid to the holders of Senior and Subordinated Debt shall be deemed to be a payment by the Company to or for the account of the Debentures. It is understood that the provisions of this Article are and are intended solely for the purpose of defining the relative rights of the holders of the Debentures, on the one hand, and the holders of the Senior and Subordinated Debt, on the other hand.

Nothing contained in this Article or elsewhere in this Indenture or in the Debentures is intended to or shall impair, as between the Company, its creditors other than the holders of Senior and Subordinated Debt, and the holders of the Debentures, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Debentures the principal of and interest on the Debentures as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Debentures and creditors of the Company other than the holders of the Senior and Subordinated Debt, nor shall anything herein or therein prevent the holder of any Debenture or the Trustee on his behalf from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior and Subordinated Debt in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Article 7, and the holders of the Debentures shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such liquidation, dissolution, winding up, receivership, reorganization, assignment or marshalling proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, delivered to the Trustee or to the holders of the Debentures, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior and Subordinated Debt and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

SECTION 14.04. *Authorization by Debentureholders*. Each holder of a Debenture by his acceptance thereof authorizes the Trustee in his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 14.05. *Notice to Trustee*. The Company shall give prompt written notice to the Trustee and to any paying agent of any fact known to the Company which would prohibit the making of any payment of moneys to or by the Trustee or any paying agent in respect of the Debentures pursuant to the provisions of this Article. Regardless of anything to the contrary contained in this Article or elsewhere in this Indenture, the Trustee shall not be charged with knowledge of the existence of any Senior and Subordinated Debt or of any default or event of default with respect to any Senior and

Subordinated Debt or of any other facts which would prohibit the making of any payment of moneys to or by the Trustee, unless and until the Trustee shall have received notice in writing at its principal Corporate Trust Office to that effect signed by an officer of the Company, or by a holder or agent of a holder of Senior and Subordinated Debt who shall have been certified by the Company or otherwise established to the reasonable satisfaction of the Trustee to be such holder or agent, or by the trustee under any indenture pursuant to which Senior and Subordinated Debt shall be outstanding, and, prior to the receipt of any such written notice, the Trustee shall, subject to the provisions of Article 7, be entitled to assume that no such facts exist; *provided* that if on a date at least three Business days prior to the date upon which by the terms hereof any such moneys shall become payable for any purpose (including, without limitation, the payment of the principal of, or interest on any Debenture) the Trustee shall not have received with respect to such moneys the notice provided for in this Section, then, regardless of anything herein to the contrary, the Trustee shall have full power and authority to receive such moneys and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such prior date.

Regardless of anything to the contrary herein, nothing shall prevent (a) any payment by the Company or the Trustee to the Debentureholders of amounts in connection with a redemption of Debentures if (i) notice of such redemption has been given pursuant to Article 3 prior to the receipt by the Trustee of written notice as aforesaid, and (ii) such notice of redemption is given not earlier than 60 days before the redemption date, or (b) any payment by the Trustee to the Debentureholders of amounts deposited with it pursuant to Article 11.

The Trustee shall be entitled to rely on the delivery to it of a written notice by a person representing himself to be a holder of Senior and Subordinated Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior and Subordinated Debt or a trustee on behalf of any such holder. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior and Subordinated Debt to participate in any payment or distribution pursuant to this Article, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior and Subordinated Debt held by such person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article, and if such evidence is not furnished the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment.

SECTION 14.06. *Trustee's Relation to Senior and Subordinated Debt*. The Trustee and any agent of the Company or the Trustee shall be entitled to all the rights set forth in this Article with respect to any Senior and Subordinated Debt which may at any time be held by it in its individual or any other capacity to the same extent as any other holder of Senior and Subordinated Debt and nothing in this Indenture shall deprive the Trustee or any such agent, of any of its rights as such holder. Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Article 7.

With respect to the holders of Senior and Subordinated Debt, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article, and no implied covenants or obligations with respect to the holders of Senior and Subordinated Debt shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior and Subordinated Debt and, subject to the provisions of Article 7, the Trustee shall not be liable to any holder of Senior and Subordinated Debt if it shall pay over or deliver to holders of Debentures, the Company or any other person moneys or assets to which any holder of Senior and Subordinated Debt shall be entitled by virtue of this Article or otherwise.

SECTION 14.07. *No Impairment to Subordination*. No right of any present or future holder of any Senior and Subordinated Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

The First National Bank of Chicago, as Trustee, hereby accepts the trust in this Indenture declared and provided, upon the terms and conditions herein above set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

THE AES CORPORATION

By /s/ BARRY J. SHARP
Name: Barry J. Sharp
Title:Vice President and Chief Financial Officer

Attest:

By /s/ WILLIAM R. LURASCHI
Name: William R. Luraschi
Title:General Counsel and SEcretary

THE FIRST NATIONAL BANK OF CHICAGO, AS TRUSTEE

By /s/ MARY FONTI
Name: Mary Fonti
Title: Assistant Vice President

Attest:

By /s/ MELISSA WEISMAN
Name:Melissa Weisman
Title: Vice President

Exhibit 4.(b)

THE AES CORPORATION

AND

BANK ONE, NATIONAL ASSOCIATION

as Trustee

THIRD SUPPLEMENTAL INDENTURE

Dated as of October 14, 1999

TO

JUNIOR SUBORDINATED INDENTURE

Dated as of March 1, 1997

6.75% Junior Subordinated Convertible Debentures

Due October 15, 2029

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The Third Supplemental Indenture, dated as of the 14th day of October, 1999 (the "Third Supplemental Indenture"), between THE AES CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter sometimes referred to as the "Company"), and BANK ONE, NATIONAL ASSOCIATION, formerly known as THE FIRST NATIONAL BANK OF CHICAGO, a national banking association, as trustee (hereinafter sometimes referred to as the "Trustee") under the Junior Subordinated Indenture dated as of March 1, 1997 between the Company and the Trustee (the "Indenture") (except as otherwise set forth herein, all terms used and not defined herein are used as defined in the Indenture or in the Declaration of Trust);

WHEREAS, the Company executed and delivered the Indenture to the Trustee to provide for the future issuance of its junior subordinated securities (the "Debentures"), said Debentures to be issued from time to time in series as might be determined by the Company under the Indenture, in an unlimited aggregate principal amount which may be authenticated and delivered thereunder as in the Indenture provided; and

WHEREAS, pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Debentures to be known as its 6.75% Junior Subordinated Convertible Debentures due 2029 (said series being hereinafter referred to as the "Series 6.75% Debentures"), the form and substance of such Series 6.75% Debentures and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Third Supplemental Indenture; and

WHEREAS, the Company has caused to be formed AES Trust III ("AES Trust III" or the "Trust") as a statutory business trust under the Business Trust Act of the State of Delaware (12Del.Code § 3801et seq.) pursuant to a declaration of trust dated November 13, 1996 (the "Original Declaration") and the filing of a restated certificate of trust with the Secretary of State of the State of Delaware on October 14, 1999; and

WHEREAS, the Original Declaration is to be amended and restated in its entirety pursuant to an Amended and Restated Declaration of Trust dated as of October 14, 1999 (such Amended and Restated Declaration of Trust, as amended from time to time, the "Declaration of Trust"); and

WHEREAS, AES Trust III desires to issue its Trust Convertible Preferred Securities (the "Preferred Securities") and sell such Preferred Securities to certain underwriters; and

WHEREAS, in connection with such purchases of Preferred Securities and the related purchase by the Company of the Common Securities (as defined in the Declaration of Trust) of AES Trust III, AES Trust III will purchase as trust assets Series 6.75% Debentures; and

WHEREAS, pursuant to the Declaration of Trust, the legal title to the Series 6.75% Debentures shall be owned and held of record in the name of Bank One, National Association or its successor under the Declaration of Trust, as Property Trustee (the "Property Trustee"), in trust for the benefit of holders of the Preferred Securities and the Common Securities; and

WHEREAS, upon the occurrence of a Special Event (as defined in the Declaration of Trust) the Regular Trustees (as defined in the Declaration of Trust) of AES Trust III shall, unless the Series 6.75% Debentures are redeemed as described herein, dissolve AES Trust III and cause to be distributed to the holders of Preferred Securities and Common Securities, on a Pro Rata basis (determined as provided in the terms of the Preferred Securities and Common Securities attached as Exhibits B and C to the Declaration of Trust), Series 6.75% Debentures and, in connection with a Liquidation Distribution (as defined in the Declaration of Trust), the Regular Trustees may cause to be distributed to holders of Preferred Securities and Common Securities, on such a Pro Rata basis, Series 6.75% Debentures (each a "Dissolution Event"); and

WHEREAS, the Company desires and has requested the Trustee to join with it in the execution and delivery of this Third Supplemental Indenture, and all requirements necessary to make this Third Supplemental Indenture a valid instrument, in accordance with its terms, and to make the Series 6.75% Debentures, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company have been performed and fulfilled, and the execution and delivery hereof have been in all respects duly authorized;

NOW THEREFORE, in consideration of the purchase and acceptance of the Series 6.75% Debentures by the holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Series 6.75% Debentures and the terms, provisions and conditions thereof, the Company covenants and agrees with the Trustee as follows:

ARTICLE ONE

General Terms and Conditions of the Series 6.75% Debentures

SECTION 1.01. There shall be and is hereby authorized a series of Debentures designated the "6.75% Junior Subordinated Convertible Debentures Due 2029", limited in aggregate principal amount to $463,917,550 (except as provided in this Section 1.01 and Section 7.01). Upon exercise of the overallotment option set forth in the Underwriting Agreement (as defined in the Declaration of Trust), additional Series 6.75% Debentures in the aggregate principal amount of up to $69,587,650 may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Series 6.75% Debentures to or upon the written order of the Company, which order shall be accompanied by evidence satisfactory to the Trustee that the overallotment option has been exercised. The Series 6.75% Debentures shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon, including Compounded Interest (as hereinafter defined), on October 15, 2029 (the "Maturity Date").

SECTION 1.02. (a) Except as provided in Section 1.02(b), the Series 6.75% Debentures shall be issued in fully registered certificated form without interest coupons in denominations of $50 and integral multiples thereof. Principal and interest on the Series 6.75% Debentures issued in certificated form will be payable, the transfer of such Series 6.75% Debentures will be registrable and such Series 6.75% Debentures will be exchangeable for Series 6.75% Debentures bearing identical terms and provisions at the corporate trust office of the Trustee in the Borough of Manhattan, The City and State of New York;provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture register and that the payment of principal with respect to the Series 6.75% Debentures will only be made upon surrender of the Series 6.75% Debentures to the Trustee. Notwithstanding the foregoing, so long as the Property Trustee is the legal owner and record holder of the Series 6.75% Debentures, the payment of the principal of and interest (including Compounded Interest, if any) on the Series 6.75% Debentures held by the Property Trustee will be made by the Company in immediately available funds on the payment date therefor at such place and to the Property Account (as defined in the Declaration of Trust) established and maintained by the Property Trustee pursuant to the Declaration of Trust.

(b) In connection with a Dissolution Event:

(i) Series 6.75% Debentures in certificated form may be presented to the Trustee by the Property Trustee in exchange for a Global Debenture representing the Series 6.75% Debentures in an aggregate principal amount equal to all Outstanding Series 6.75% Debentures, to be registered in the name of the Depositary, or its nominee, and delivered by the Trustee to the Depositary for crediting to the accounts of its participants pursuant to the instructions of the Regular Trustees (as defined in the Declaration of Trust). The Company upon any such presentation shall execute a Global Debenture representing the Series 6.75% Debentures in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery in accordance with the Indenture and this Third Supplemental Indenture. Payments on the Series 6.75% Debentures issued as a Global Debenture will be made to the Depositary; and

(ii) if any Preferred Securities are held in non book-entry certificated form, Series 6.75% Debentures in certificated form may be presented to the Trustee by the Property Trustee and any Preferred Security Certificate (as defined in the Declaration of Trust) which represents Preferred Securities other than Preferred Securities held by the Clearing Agency (as defined in the Declaration of Trust) or its nominee ("Non Book-Entry Preferred Securities") will be deemed to represent beneficial interests in Series 6.75% Debentures presented to the Trustee by the Property Trustee having an aggregate principal amount equal to the aggregate liquidation amount of the Non Book-Entry Preferred Securities until such Preferred Security Certificate is presented to the Debenture Registrar for transfer or reissuance, at which time such Preferred Security Certificate will be canceled and a Series 6.75% Debenture, registered in the name of the holder of the Preferred Security Certificate or the transferee of the holder of such Preferred Security Certificate, as the case may be, with an aggregate principal amount equal to the aggregate liquidation amount of the Preferred Security Certificate canceled will be executed by the Company and delivered to the Trustee for authentication and delivery in accordance with the Indenture and this Third Supplemental Indenture. On issue of such Series 6.75% Debentures, Series 6.75% Debentures with an equivalent aggregate amount that were presented by the Property Trustee to the Trustee will be deemed to have been canceled.

(c) In addition to the events listed in Section 2.11(c) of the Indenture, Global Debentures, as defined in the Indenture, if and when issued pursuant to the terms hereof, will be exchanged by the Company for Series 6.75% Debentures in definitive registered certificated form, without coupons, in accordance with Section 2.11(c) of the Indenture, in the event that an Event of Default, as defined in the Indenture, has occurred with respect to the Series 6.75% Debentures.

SECTION 1.03. Each Series 6.75% Debenture will bear interest at the rate of 6.75% per annum from October 14, 1999 until the principal thereof becomes due and payable, and on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum, compounded quarterly, payable (subject to the provisions of Article Three) quarterly in arrears on January 15, April 15, July 15 and October 15 (each an "Interest Payment Date"), commencing on January 15, 2000, to the person in whose name such Series 6.75% Debenture or any predecessor Series 6.75% Debenture is registered at the close of business on the regular record date for such interest installment, which, except as set forth below, shall be, in respect of any Series 6.75% Debentures of which the Property Trustee is the registered holder or a Global Debenture, the close of business on the business day next preceding that Interest Payment Date. Notwithstanding the foregoing sentence, if the Preferred Securities are no longer in book-entry only form or if pursuant to the provisions of Section 2.11(c) of the Indenture the Series 6.75% Debentures are not represented by a Global Debenture, the regular record dates for such interest installment shall be the first date of the month in which the relevant Interest Payment Date occurs. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name the Series 6.75% Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of the Series 6.75% Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Series 6.75% Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series 6.75% Debentures is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date.

If at any time AES Trust III shall be required to pay any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the U.S., or any other taxing authority, then, in any such case, the Company will pay as additional interest ("Additional Interest") on the Series 6.75% Debentures such additional amounts as shall be required so that the net amounts received and retained by AES Trust III after paying any such taxes, duties, assessments or other governmental charges will be equal to the amounts AES Trust III would have received had no such taxes, duties, assessments or other governmental charges been imposed.

SECTION 1.04. The Series 6.75% Debentures are not subject to any sinking fund.

ARTICLE TWO

Optional Redemption of the Series 6.75% Debentures

SECTION 2.01. Except as provided in Section 2.02 and subject to the provisions below, Series 6.75% Debentures may not be redeemed by the Company prior to October 17, 2002. Subject to the terms of Article Three of the Indenture, the Company shall have the right to redeem the Series 6.75% Debentures, in whole or in part, from time to time, on or after October 17, 2002, upon not less than 30 nor more than 60 days' notice to the Holders of the Series 6.75% Debentures, at the following prices (expressed as percentages of the principal amount of the Series 6.75% Debentures) (the "Redemption Price"), together with any accrued and unpaid interest thereon, including Compounded Interest (as defined herein), if any, to, but excluding, the date of such redemption, if redeemed during the 12-month period beginning October 15:

Year	Redemption Price
2002	104.219%
2003	103.375%
2004	102.531%
2005	101.688%
2006	100.844%

and 100% if redeemed on or after October 15, 2007.

If the Series 6.75% Debentures are redeemed on any Interest Payment Date, accrued and unpaid interest shall be payable to Holders of record on the relevant record date.

The Company may not redeem any Series 6.75% Debentures unless all accrued and unpaid interest thereon, including Compounded Interest, if any, has been paid for all interest payment periods terminating on or prior to the date of notice of redemption. So long as the corresponding Trust Securities are outstanding, the proceeds from the redemption of the Series 6.75% Debentures will be used to redeem the Trust Securities.

If the Company gives a notice of redemption in respect of Junior Subordinated Debentures (which notice will be irrevocable), then, by 12:00 noon, New York City time, on the redemption date, the Company will deposit irrevocably with the Trustee funds sufficient to pay the applicable Redemption Price and will give irrevocable instructions and authority to pay such Redemption Price to the holders of the Junior Subordinated Debentures.

If notice of redemption shall have been given and funds deposited as required, then from the redemption date, interest will cease to accrue on the Series 6.75% Debentures called for redemption, such Series 6.75% Debentures will no longer be deemed to be outstanding and all rights of holders of such Series 6.75% Debentures so called for redemption will cease, except the right of the holders of such Series 6.75% Debentures to receive the applicable Redemption Price, but without interest on such Redemption Price.

If any date fixed for redemption of Junior Subordinated Debentures is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption.

If the Company fails to repay the Series 6.75% Debentures on maturity or the date fixed for redemption, or if payment of the Redemption Price in respect of Series 6.75% Debentures is improperly withheld or refused and not paid by the Company, interest on such Series 6.75% Debentures will continue to accrue, from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Redemption Price.

In the event of any redemption in part, the Company shall not be required to (i) issue, register the transfer of or exchange any Junior Subordinated Debentures during a period beginning at the opening of business 15 days before any selection for redemption of Junior Subordinated Debentures and ending at the close of business on the earliest date on which the relevant notice of redemption is deemed to have been given to all holders of Junior Subordinated Debentures to be redeemed and (ii) register the transfer of or exchange any Junior Subordinated Debentures so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Debentures being redeemed in part.

SECTION 2.02. If, at any time, a Tax Event (as defined below) shall occur or be continuing and (i) the Regular Trustees and the Company shall have received an opinion (a "Redemption Tax Opinion") of a nationally recognized independent tax counsel experienced in such matters that, as a result of a Tax Event, there is more than an insubstantial risk that the Company would be precluded from deducting the interest on the Series 6.75% Debentures for United States federal income tax purposes even if the Series 6.75% Debentures were distributed to the holders of Preferred Securities and Common Securities in liquidation of such holders' interest in AES Trust III as set forth in the Declaration of Trust or (ii) the Regular Trustees shall have been informed by such tax counsel that a No Recognition Opinion (as defined below) cannot be delivered to AES Trust III, the Company shall have the right at any time, upon not less than 30 nor more than 60 days' notice, to redeem the Series 6.75% Debentures in whole or in part for cash at a price equal to 100% of the principal amount thereof, together with any accrued and unpaid interest thereon, including Compounded Interest, if any, to, but excluding, the date of redemption, within 90 days following the occurrence of such Tax Event;provided, however, that, if at the time there is available to the Company or the Regular Trustees on behalf of AES Trust III the opportunity to eliminate, within such 90 day period, the Tax Event by taking some ministerial action ("Ministerial Action"), such as filing a form or making an election, or pursuing some other similar reasonable measure, which has no adverse effect on AES Trust III, the Company or the holders of the Preferred Securities, the Company or the Regular Trustees on behalf of AES Trust III will pursue such measure in lieu of redemption andprovided further that the Company shall have no right to redeem the Series 6.75% Debentures while the Regular Trustees on behalf of AES Trust III are pursuing any such Ministerial Action.

"Tax Event" means that the Company and the Regular Trustees shall have obtained an opinion of nationally recognized independent tax counsel experienced in such matters (a "Dissolution Tax Opinion") to the effect that on or after October 7, 1999 as a result of (a) any amendment to, or change in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein, (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), (c) any interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the theretofore generally accepted position or (d) any action taken by any governmental agency or regulatory authority, which amendment or change is enacted, promulgated, issued or effective or which interpretation or pronouncement is issued or announced or which action is taken, in each case on or after October 7, 1999 there is more than an insubstantial risk that (i) AES Trust III is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to income accrued or received on the Series 6.75% Debentures, (ii) AES Trust III is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges or (iii) interest payable by the Company to AES Trust III on the Series 6.75% Debentures is not, or within 90 days of the date thereof will not be, deductible by the Company for United States federal income tax purposes.

"No Recognition Opinion" means an opinion of a nationally recognized independent tax counsel experienced in such matters, which opinion may rely on any then applicable published revenue rulings of the Internal Revenue Service, to the effect that the holders of the Preferred Securities will not recognize any gain or loss for United States federal income tax purposes as a result of a dissolution of AES Trust III and distribution of the Series 6.75% Debentures as provided in the Declaration of Trust.

SECTION 2.03. If the Series 6.75% Debentures are only partially redeemed pursuant to this Article Two, the Series 6.75% Debentures will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided that if at the time of redemption, the Series 6.75% Debentures are registered as a Global Debenture, the Depository shall determine by lot the principal amount of such Series 6.75% Debentures held by each Debenture Holder to be redeemed in accordance with its customary procedures. Notwithstanding the foregoing, if a partial redemption of the Series 6.75% Debentures would result in the delisting of the Preferred Securities by any national securities exchange or other organization on which the Preferred Securities are then listed, the Company shall not be permitted to effect such partial redemption and will only redeem the Series 6.75% Debentures in whole.

ARTICLE THREE

Extension of Interest Payment Period

SECTION 3.01. So long as the Company is not in default in the payment of interest on the Series 6.75% Debentures, the Company shall have the right, at any time during the term of the Series 6.75% Debentures, from time to time to extend the interest payment period of such Series 6.75% Debentures for up to 20 consecutive quarterly interest periods (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest accrued and unpaid thereon (together with interest thereon at the rate of 6.75% per annum to the extent permitted by applicable law, compounded quarterly ("Compounded Interest"));provided that no Extended Interest Payment Period may extend beyond the Maturity Date or redemption date of the Series 6.75% Debentures. During such Extended Interest Payment Period the Company shall not declare or pay any dividend on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock or make any guarantee payments with respect thereto;provided that the foregoing will not apply to any stock dividends paid by the Company in Common Stock. Prior to the termination of any such Extended Interest Payment Period, the Company may pay all or any portion of the interest accrued on the Series 6.75% Debentures on any Interest Payment Date to holders of record on the regular record date for such Interest Payment Date or from time to time further extend such Period;provided that such Period together with all such further extensions thereof shall not exceed 20 consecutive quarterly interest periods or extend beyond the maturity of the Series 6.75% Debentures. Upon the termination of any Extended Interest Payment Period and upon the payment of all accrued and unpaid interest then due, together with Compounded Interest, the Company may select a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof. At the end of the Extended Interest Payment Period the Company shall pay all interest accrued and unpaid on the Series 6.75% Debentures including any Compounded Interest which shall be payable to the holders of the Series 6.75% Debentures in whose names the Series 6.75% Debentures are registered in the Debenture register on the first record date after the end of the Extended Interest Payment Period.

SECTION 3.02. (a) So long as the Property Trustee is the sole owner and holder of record of the Series 6.75% Debentures, at the time the Company selects an Extended Interest Payment Period, the Company shall give both the Property Trustee and the Trustee written notice of its selection of such Extended Interest Payment Period one business day prior to the earlier of (i) the next succeeding date on which distributions on the Preferred Securities are payable or (ii) the date AES Trust III is required to give notice of the record date or the date such distributions are payable to the New York Stock Exchange or other applicable self-regulatory organization or to holders of the Preferred Securities, but in any event not less than one business day prior to such record date. The Company shall cause AES Trust III to give notice of the Company's selection of such Extended Interest Payment Period to the holders of the Preferred Securities.

(b) If as a result of a Dissolution Event Series 6.75% Debentures have been distributed to holders of Preferred Securities and Common Securities, at the time the Company selects an Extended Interest Payment Period, the Company shall give the holders of the Series 6.75% Debentures and the Trustee written notice of its selection of such Extended Interest Payment Period at least 10 business days prior to the earlier of (i) the next succeeding Interest Payment Date or (ii) the date the Company is required to give notice of the record or payment date of such interest payment to the New York Stock Exchange or other applicable self-regulatory organization or to holders of the Series 6.75% Debentures.

SECTION 3.03. The quarter in which any notice is given pursuant to Section 3.02 shall be counted as one of the quarters permitted in the maximum Extended Interest Payment Period permitted under this Article Three.

ARTICLE FOUR

Covenants Applicable to Series 6.75% Debentures

SECTION 4.01. So long as any Preferred Securities remain outstanding, the Company will not declare or pay any dividends on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock or make any guarantee payments with respect thereto if at such time (i) the Company shall be in default with respect to its Guarantee Payments (as defined in the

Guarantee Agreement) or other payment obligations under the Guarantee Agreement, (ii) there shall have occurred any Event of Default under the Indenture with respect to the Series 6.75% Debentures or (iii) the Company shall have given notice of its election of an Extended Interest Payment Period and such Period, or any extension thereof, is continuing;provided that the foregoing will not apply to any stock dividends paid by the Company in Common Stock.

SECTION 4.02. In connection with the distribution of the Series 6.75% Debentures to the holders of the Preferred Securities upon a Dissolution Event, the Company will use its best efforts to list such Series 6.75% Debentures on the New York Stock Exchange or on such other exchange as the Preferred Securities are then listed and traded.

SECTION 4.03. The Company covenants and agrees for the benefit of the holders of the Preferred Securities to comply fully with all of its obligations and agreements under the Declaration of Trust, including, without limitation, its obligations under Article 4 thereof.

SECTION 4.04. Prior to the distribution of Series 6.75% Debentures to the holders of Preferred Securities upon a Dissolution Event, the Company covenants and agrees for the benefit of the holders of the Preferred Securities (i) to remain the sole direct or indirect owner of all of the outstanding common securities issued by AES Trust III and not to cause or permit the Common Securities to be transferred except as permitted by the Declaration of Trust;provided that any permitted successor of the Company under the Indenture may succeed to the Company's ownership of the Common Securities issued by AES Trust III and (ii) that it will use reasonable efforts to cause the Trust to continue to be treated as a grantor trust for United States federal income tax purposes, except in connection with a distribution of the Series 6.75% Debentures as provided in the Declaration of Trust.

ARTICLE FIVE

Conversion of Debentures

SECTION 5.01. Subject to and upon compliance with the provisions of this Article Five, the Series 6.75% Debentures are convertible at the option of the Holder, at any time through the close of business on October 15, 2029 (or, in the case of Series 6.75% Debentures called for redemption, prior to the close of business on the Business Day prior to the corresponding redemption date), into fully paid and nonassessable shares of Common Stock of the Company at an initial conversion rate of 0.7108 share of Common Stock for each $50 in aggregate principal amount of Series 6.75% Debentures (equal to a conversion price (as adjusted from time to time, the "Conversion Price") of $70.341 per share of Common Stock), subject to adjustment as described in this Article Five. A Holder of Series 6.75% Debentures may convert any portion of the principal amount of the Series 6.75%

Debentures into that number of fully paid and nonassessable shares of Common Stock obtained by dividing the principal amount of the Series 6.75% Debentures to be converted by such conversion price. All calculations under this Article Five shall be made to the nearest cent or to the nearest 1/10,000th of a share, as the case may be.

SECTION 5.02. (a) In order to convert all or a portion of the Series 6.75% Debentures, the Holder thereof shall deliver to the Conversion Agent an irrevocable Notice of Conversion setting forth the principal amount of Series 6.75% Debentures to be converted, together with the name or names, if other than the Holder, in which the shares of Common Stock should be issued upon conversion, and, if such Series 6.75% Debentures are definitive Series 6.75% Debentures, surrender to the Conversion Agent the Series 6.75% Debentures to be converted, duly endorsed or assigned to the Company or in blank. In addition, a holder of Trust Securities may exercise its right under the Declaration of Trust to convert such Trust Securities into Common Stock by delivering to the Conversion Agent an irrevocable Notice of Conversion setting forth the information called for by the preceding sentence and directing the Conversion Agent to (i) exchange such Trust Security for a portion of the Series 6.75% Debentures held by the Trust (at an exchange rate of $50 principal amount of Series 6.75% Debentures for each Trust Security) and (ii) immediately convert such Series 6.75% Debentures, on behalf of such holder, into Common Stock of the Company pursuant to this Article Five and, if such Trust Securities are in definitive form, surrendering such Trust Securities, duly endorsed or assigned to the Company or in blank. So long as any Trust Securities are outstanding, the Trust shall not convert any Series 6.75% Debentures except pursuant to a Notice of Conversion delivered to the Conversion Agent by a holder of Trust Securities. Any reference herein to a “holder” of Trust Securities shall mean a “Holder” of such securities as defined in the Declaration of Trust.

If a Preferred Security is surrendered for conversion after the close of business on any regular record date for payment of a Distribution and before the opening of business on the corresponding Distribution payment date, then, notwithstanding such conversion, the Distribution payable on such Distribution payment date will be paid in cash to the person in whose name the Series 6.75% Debenture is registered at the close of business on such record date, and (other than a Series 6.75% Debenture or a portion of a Series 6.75% Debenture called for redemption on a redemption date occurring after such record date and prior to such Distribution payment date) when so surrendered for conversion, the Series 6.75% Debenture must be accompanied by payment of an amount equal to the Distribution payable on such Distribution payment date. Except as otherwise provided in the immediately preceding sentence, in the case of any Series 6.75% Debenture which is converted, interest whose Maturity Date is after the date of conversion of such Series 6.75% Debenture shall not be payable, and the Company shall not make nor be required to make any other payment, adjustment or allowance with respect to accrued but unpaid interest on the Series 6.75% Debenture being converted, which shall be deemed to be paid in full. Each conversion shall be deemed to have been effected immediately prior to the close of business on the day on which the Notice of Conversion was received (the “Conversion Date”) by the Conversion Agent from the Holder or from a holder of the Preferred Securities effecting a conversion thereof pursuant to its conversion rights under the Declaration, as the case may be. The Person or Persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Stock as of the Conversion Date. As promptly as practicable on or after the Conversion Date, the Company shall issue and deliver at the office of the Conversion Agent, unless otherwise directed by the Holder in the Notice of Conversion, a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion, together with the cash payment, if any, in lieu of any fraction of any share to the Person or Persons entitled to receive the same. The Conversion Agent shall deliver such certificate or certificates to such Person or Persons.

(b) The Company's delivery upon conversion of the fixed number of shares of Common Stock into which the Series 6.75% Debentures are convertible (together with the cash payment, if any, in lieu of fractional shares) shall be deemed to satisfy the Company's obligation to pay the principal amount at maturity of the portion of Series 6.75% Debentures so converted and any unpaid interest (including Compounded Interest) accrued on such Series 6.75% Debentures at the time of such conversion.

(c) No fractional shares of Common Stock will be issued as a result of conversion, but in lieu thereof, the Company shall pay to the Conversion Agent a cash adjustment in an amount equal to the same fraction of the Closing Price of such fractional interest on the date on which the Series 6.75% Debentures were duly surrendered to the Conversion Agent for conversion, or, if such day is not a day on which any securities are traded on the national securities exchange or quotation system used to determine the Closing Price (a "Trading Day"), on the next Trading Day, and the Conversion Agent in turn will make such payment, if any, to the Holder of the Series 6.75% Debentures or the holder of the Preferred Securities so converted.

(d) In the event of the conversion of any Series 6.75% Debenture in part only, a new Series 6.75% Debenture or Series 6.75% Debentures for the unconverted portion thereof will be issued in the name of the Holder thereof upon the cancellation thereof in accordance with Section 2.05 of the Indenture.

(e) In effecting the conversion transactions described in this Section 5.02, the Conversion Agent is acting as agent of the holders of Preferred Securities (in the exchange of Preferred Securities for Series 6.75% Debentures) and as agent of the Holders of Series 6.75% Debentures (in the conversion of Series 6.75% Debentures into Common Stock), as the case may be. The Conversion Agent is hereby authorized (i) to exchange Series 6.75% Debentures held by the Trust from time to time for Preferred Securities in connection with the conversion of such Preferred Securities in accordance with this Article Five and (ii) to convert all or a portion of the Series 6.75% Debentures into Common Stock and thereupon to deliver such shares of Common Stock in accordance with the provisions of this Article Five and to deliver to the Trust a new Series 6.75% Debenture or Series 6.75% Debentures for any resulting unconverted principal amount.

SECTION 5.03. (a) The Conversion Price shall be adjusted from time to time as follows:

(i) In case the Company shall pay or make a dividend or other distribution on Common Stock in shares of Common Stock, then the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this subparagraph (i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company (except to the extent such dividend or distribution is being made with respect to such shares) but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

(ii) In case the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, then the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case the outstanding shares of Common Stock shall be combined into a smaller amount of shares of Common Stock, then the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(iii) In case the Company shall issue rights or warrants to all holders of Common Stock entitling them (for a period expiring within 45 days after the record date fixed for a distribution of such rights or warrants) to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price (as hereinafter defined) per share (determined as provided in subparagraph (vii) below) of Common Stock on the date fixed for the determination of shareholders entitled to receive such rights or warrants (other than pursuant to a dividend reinvestment plan), then the Conversion Price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such Conversion Price by a fraction the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this subparagraph (iii), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company agrees not to issue any rights or warrants in respect of shares of Common Stock held in the treasury of the Company. To the extent that shares of Common Stock are not delivered after the expiration of such rights or warrants, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made in respect of the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered.

(iv) Subject to the second paragraph of this subparagraph (iv), in case the Company shall, by dividend or otherwise, distribute to all holders of Common Stock (A) shares of capital stock of the Company (other than Common Stock), (B) evidence of indebtedness of the Company and/or (C) other assets (including securities, but excluding (1) any rights or warrants referred to in subparagraph (iii) above, (2) any rights or warrants to obtain capital stock of a company other than the Company or any subsidiary of the Company (including any rights offerings of the Company with respect to capital stock of companies in which the Company has an investment (a "Rights Offering")), (3) dividends or distributions in connection with the liquidation, dissolution or winding-up of the Company, (4) dividends payable solely in cash that may from time to time be fixed by the Board of Directors of the Company and (5) dividends or distributions referred to in subparagraph (i) above), then in each case (unless the Company makes the election referred to in the next sentence) the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the close of business on such record date by a fraction the numerator of which shall be the Current Market Price per share (determined as provided in subparagraph (vii) below) of the Common Stock on such record date (the "Reference Date") less the then fair market value on the Reference Date (as determined in good faith by the Board of Directors of the Company, whose determination shall be conclusive and shall be described in a statement filed with the Depositary and the Trustee) of the portion of the shares of capital stock of the Company, evidences of indebtedness or other assets so distributed (and for which an adjustment to the Conversion Price has not been made previously pursuant to the terms of this Article Five) applicable to one share of Common Stock and the denominator shall be such Current Market Price per share of the Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the Reference Date. However, the Company may elect, in its sole discretion, in lieu of the foregoing adjustment, to make adequate provision so that each holder of Securities shall have the right to receive upon conversion thereof the amount and kind of shares of capital stock, evidences of indebtedness or other assets such holder would have received had such holder converted such shares on such record date. If the Board of Directors of the Company determines the fair market value of any distribution for purposes of this subparagraph (iv) by reference to the actual or when issued trading market for any securities (including shares of capital stock or evidence of indebtedness of the Company) comprising a distribution of securities, it must in doing so consider the price in such market over the period used in computing the Current Market Price of the Common Stock.

For purposes of this subparagraph (iv), any dividend or distribution that includes both (x) any of the items described in clauses (A), (B) or (C) of the first paragraph of this subparagraph (iv) and (y) Common Stock or rights or warrants to subscribe for or purchase Common Stock of the type referred to in subparagraph (iii) shall be deemed to be (1) a dividend or distribution of shares of capital stock of the Company (other than Common Stock), evidences of indebtedness of the Company or other assets of the type referred to in clause (C) of the first paragraph of this subparagraph (iv) (making any Conversion Price reduction required by this subparagraph (iv)) immediately followed by (2) a dividend or distribution of such Common Stock or rights or warrants to purchase Common Stock of the type referred to in subparagraph (iii) (making any further Conversion Price reduction required by subparagraph (i) or (iii) of this Section 5.03(a)), except (A) the Reference Date of such dividend or distribution as defined in this subparagraph (iv) shall be substituted as “the date fixed for the determination of shareholders entitled to receive such rights or warrants” and “the date fixed for such determination” within the meaning of subparagraphs (i) and (iii) of this Section 5.03(a) and (B) any shares of Common Stock included in such dividend or distribution shall not be deemed “outstanding at the close of business on the date fixed for such determination” within the meaning of subparagraph (i) of this Section 5.03(a).

The occurrence of a distribution or the occurrence of any other event as a result of which holders of Series 6.75% Debentures converting such notes into Common Stock hereunder will not be entitled to receive rights issued pursuant to any shareholder protective rights agreement now or hereafter in effect (the “Other Rights”) in the same amount and manner as if such holders had converted such shares immediately prior to the occurrence of such distribution or other event shall be deemed a distribution of Other Rights for the purposes of conversion adjustments pursuant to this subparagraph (iv). In lieu of making any adjustment to the Conversion

Price under this subparagraph (iv) as a result of such a distribution of Other Rights, the Company may elect, in its sole discretion, to provide that Other Rights shall be issuable in the same amount and manner upon conversion of the Series 6.75% Debentures without regard to whether the shares of Common Stock issuable upon conversion of the Series 6.75% Debentures were issued before or after such distribution or other event.

(v) In case the Company shall, by dividend or otherwise, at any time distribute cash to all holders of Common Stock, excluding (A) any cash dividends on Common Stock to the extent that the aggregate cash dividends per share of Common Stock in any consecutive 12-month period do not exceed the greater of (x) the amount per share of Common Stock of the cash dividends paid on the Common Stock in the immediately preceding 12-month period, to the extent that such dividends for the immediately preceding 12-month period did not require an adjustment to the Conversion Price pursuant to this subparagraph (v) (as adjusted to reflect subdivisions or combinations of the Common Stock) and (y) 15% of the average of the daily Closing Prices (as hereinafter defined) of the Common Stock for the ten consecutive Trading Days immediately prior to the date of declaration of such dividend and (B) any dividend or distribution in connection with the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary; or any redemption of any Other Rights;provided,however, that no adjustment shall be made pursuant to this subparagraph (v) if such distribution would otherwise constitute a Fundamental Change (as hereinafter defined) and be reflected in a resulting adjustment to the Conversion Price as provided in this Article Five) then, in each case (unless the Company makes the election referred to in the proviso following this clause), the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect at the close of business on such record date by a fraction the numerator of which shall be the Closing Price of a share of Common Stock on such record date less the amount of cash so distributed (to the extent not excluded as provided above) applicable to one share of Common Stock, and the denominator shall be the Closing Price of a share of Common Stock, such reduction to become effective immediately prior to the opening of business on the day following such record date;provided,however, that the Company may elect, in its sole discretion, in lieu of the foregoing adjustment, to make adequate provision so that each holder of Securities shall thereafter have the right to receive upon conversion the amount of cash such holder would have received had such holder converted each Security on such record date. If any adjustment is required to be made as set forth in this subparagraph (v) as a result of a distribution which is a dividend described in clause (A) of this subparagraph (v), such adjustment will be based upon the amount by which such distribution exceeds the amount of the dividend permitted to be excluded pursuant to such clause (A) of this subparagraph (v). If an adjustment is required to be made pursuant to this subparagraph (v) as a result of a distribution which is not such a dividend, such adjustment would be based upon the full amount of such distribution.

(vi) In case of the consummation of a tender or exchange offer (other than an odd-lot tender offer) made by the Company or any subsidiary of the Company for all or any portion of the outstanding shares of Common Stock to the extent that the cash and fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be conclusive and shall be described in a resolution of such Board) of any other consideration included in such payment per share of Common Stock at the last time (the "Expiration Time") tenders or exchanges may be made pursuant to such tender or exchange offer (as amended) exceed by more than 10%, with any smaller excess being disregarded in computing the adjustment to the Conversion Price provided in this subparagraph (vi), the first reported sale price per share of Common Stock on the Trading Day next succeeding the Expiration Time, then the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Expiration Time by a fraction the numerator of which shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) on the Expiration Time multiplied by the first reported sale price of the Common Stock on the Trading Day next succeeding the Expiration Time and the denominator shall be the sum of (x) the fair market value (determined as aforesaid) of the aggregate consideration payable to shareholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on the Expiration Time and the first reported sale price of the Common Stock on the Trading Day next succeeding the Expiration Time, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Time.

(vii) For the purpose of any computation under this Article Five, the "Current Market Price per share" of Common Stock on any day shall be deemed to be the average of the daily Closing Prices (as hereinafter defined) per share of Common Stock for the ten consecutive Trading Days prior to and including the date in question;provided, however, that (1) if the "ex" date (as hereinafter defined) for any event (other than the issuance, distribution or Fundamental Change requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Article Five (the "Other Event") occurs during such ten consecutive Trading Days and prior to the "ex" date for the issuance, distribution or Fundamental Change requiring such computation (the "Current Event"), the Closing Price for each Trading Day prior to the "ex" date for such Other Event shall be adjusted by multiplying such Closing Price by the same fraction by which the Conversion Price is so required to be adjusted as a result of such Other Event, (2) if the "ex" date for any Other Event occurs on or after the "ex" date for the Current Event and on or prior to the date in question, the Closing Price for each Trading Day on and after the "ex" date for such Other Event shall be adjusted by multiplying such Closing Price by the reciprocal of the fraction by which the Conversion Price is so required to be adjusted as a result of such Other Event (provided that in the event that such fraction is required to be determined at a date subsequent to the date in question and with reference to events taking place subsequent to the date in question, the Board of Directors of the Company or, to the extent permitted by applicable law, a duly authorized committee thereof, whose determination shall be conclusive and described in a resolution of the Board of Directors of the Company or such duly authorized committee thereof, as the case may be, shall in good faith estimate such fraction based on assumptions it deems reasonable regarding such events taking place subsequent to the date in question, and such estimated fraction shall be used for purposes of such adjustment until such time as the actual fraction by which the Conversion Price is so required to be adjusted as a result of such Other Event is determined), and (3) if the "ex" date for the Current Event is on or prior to the date in question, after taking into account any adjustment required pursuant to clause (1) or (2) of this proviso, the Closing Price for each Trading Day on or after such "ex" date shall be adjusted by adding thereto the amount of any cash and the fair market value (as determined in good faith by the Board of Directors of the Company or, to the extent permitted by applicable law, a duly authorized committee thereof in a manner consistent with any determination of such value for purposes of this Article Five, whose determination shall be conclusive and described in a resolution of the Board of Directors of the Company or such duly authorized committee thereof, as the case may be) of the shares of capital stock, evidences of indebtedness or other assets being distributed applicable to one share of Common Stock as of the close of business on the day before such "ex" date. For purposes of this subparagraph (vii), the term "ex" date, (1) when used with respect to any issuance, distribution or Fundamental Change, means the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the Closing Price was obtained without the right to receive such issuance, such distribution or the cash, securities, property or other assets distributable in such Fundamental Change to holders of the Common Stock, (2) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective and (3) when used with respect to any tender or exchange offer means the first date on which the Common Stock trades regular way on such exchange or in such market after the Expiration Time of such offer.

(viii) No adjustment in the Conversion Price shall be required pursuant to this Section 5.03(a) unless the adjustment would require a change of at least 1% of such price;provided,however, that any adjustments which by reason of this subparagraph (viii) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations shall be made to the nearest cent (with .005 being rounded upward) or to the nearest 1/10,000th of a share (with .00005 of a share being rounded upward), as the case may be. Notwithstanding anything to the contrary in this Article Five, the Company from time to time may, to the extent permitted by law, reduce the Conversion Price by any amount for any period of at least 20 Business Days, in which case the Company shall give at least 15 days' notice of such reduction to the holders of Series 6.75% Debentures and the Trustee. In particular, the Company may, at its option, make such reductions in the Conversion Price in addition to those set forth in this Article Five, as it considers to be advisable in order to avoid or diminish any income tax to any holders of shares of Common Stock resulting from any dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock or from any event treated as such for income tax purposes or for any other reasons.

(ix) In any case in which this Article Five provides that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event (A) issuing to the holder of any Series 6.75% Debentures converted after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion by reason of the adjustment required by such event over and above the Common Stock issuable upon such conversion before giving effect to such adjustment and (B) paying to such holder any amount in cash in lieu of any fractional shares pursuant to this Article Five.

(x) For purposes of this Article Five, "Common Stock" includes any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of this Article Five, shares issuable on conversion of Series 6.75% Debentures shall include only shares of the class designated as the Company Common Stock on the date of the initial issuance of Series 6.75% Debentures by the Company or shares of any class or classes resulting from any reclassification or reclassification thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the

Company; provided, however, that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

(b) Whenever the Conversion Price is adjusted as herein provided:

(i) the Company shall compute the adjusted Conversion Price and shall prepare a certificate signed by the Chief Financial Officer or the Treasurer of the Company setting forth the adjusted Conversion Price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Trustee and the transfer agent for the Preferred Securities and the Series 6.75% Debentures; and

(ii) a notice stating the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall as soon as practicable be mailed by the Company to all record holders of Preferred Securities and the Series 6.75% Debentures at their last addresses as they appear upon the stock transfer books of the Company and the Trust.

SECTION 5.04. (a) In the event that the Company shall be a party to any transaction or series of transactions constituting a Fundamental Change, including, without limitation, (i) any recapitalization or reclassification of shares of Common Stock (other than a change in the par value or as a result of a subdivision or combination of the Common Stock), (ii) any consolidation of the Company with, or merger of the Company into, any other corporation or any merger of another corporation into the Company as a result of which holders of Common Stock shall be entitled to receive securities or other property or assets (including cash) with respect to or in exchange for Common Stock (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock), (iii) any sale or transfer of all or substantially all of the assets of the Company, or (iv) any compulsory share exchange, pursuant to any of which the holders of Common Stock shall be entitled to receive other securities, cash or other property, then appropriate provision shall be made as part of the terms of such transaction or series of transactions so that the holder of each Series 6.75% Debenture then outstanding shall have the right thereafter to convert such Series 6.75% Debenture only into (A) if any such transaction does not constitute a Common Stock Fundamental Change (as hereinafter defined), the kind and amount of the securities, cash or other property that would have been receivable upon such recapitalization, reclassification, consolidation, merger, sale, transfer or share exchange by a holder of the number of shares of Common Stock into which such Series 6.75% Debenture might have been converted immediately prior to such recapitalization, reclassification, consolidation, merger, sale, transfer or share exchange, after, in the case of a Non-Stock Fundamental Change (as hereinafter defined), giving effect to any adjustment in the Conversion Price required by the provisions which follow in subparagraph (i) of Section 5.04(c), and (B) in the case of a Common Stock Fundamental Change (as hereinafter defined), common stock of the kind received by holders of Common Stock as a result of such Common Stock Fundamental Change in an amount determined pursuant to the provisions which follow in subparagraph (ii) of Section 5.04(c). The company formed by such consolidation or resulting from such merger or which acquires such assets or which acquires the Common Stock, as the case may be, shall enter into a supplemental indenture with the Trustee, satisfactory in form to the Trustee, the provisions of which provide for adjustments which, for events subsequent to the effective date of such supplemental indenture, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article Five. The above provisions shall similarly apply to successive recapitalization, reclassifications, consolidations, mergers, sales, transfers or share exchanges.

(b) Notwithstanding any other provisions in this Article Five to the contrary, if any Fundamental Change (as hereinafter defined) occurs, then the Conversion Price in effect will be adjusted immediately following such Fundamental Change as described below in Section 5.04(c).

(c) For purposes of calculating any adjustment to be made pursuant to this Article Five in the event of a Fundamental Change, immediately following such Fundamental Change (and for such purposes a Fundamental Change shall be deemed to occur on the earlier of (a) the occurrence of such Fundamental Change and (b) the date, if any, fixed for determination of shareholders entitled to receive the cash, securities, property or other assets distributable in such Fundamental Change to holders of the Common Stock):

(i) in the case of a Non-Stock Fundamental Change, the Conversion Price per share of Common Stock shall be the lower of (A) the Conversion Price in effect immediately prior to such Non-Stock Fundamental Change, but after giving effect to any other prior adjustments effected pursuant to this Article Five, and (B) the product of (1) the greater of the Applicable Price (as hereinafter defined) or the then applicable Reference Market Price (as hereinafter defined) and (2) a fraction the numerator of which shall be $100 and the denominator of which shall be the amount set forth below (based on the date on which such Non-Stock Fundamental Change occurs). For the twelve month period beginning October 14:

Year	**Denominator**
1999	106.750%
2000	105.906%
2001	105.062%
2002	104.218%
2003	103.374%
2004	102.530%
2005	101.686%
2006	100.842%
and thereafter	100.000%;

(ii) in the case of a Common Stock Fundamental Change, the Conversion Price per share of Common Stock shall be the Conversion Price in effect immediately prior to such Common Stock Fundamental Change, but after giving effect to any other prior adjustments effected pursuant to this Article Five, multiplied by a fraction, the numerator of which is the Purchaser Stock Price (as hereinafter defined) and the denominator of which is the Applicable Price;<u>provided, however</u>, that in the event of a Common Stock Fundamental Change in which (A) 100% of the value of the consideration received by a holder of Common Stock is common stock of the successor, acquiror or other third party (and cash, if any, paid with respect to any fractional interests in such common stock resulting from such Common Stock Fundamental Change) and (B) all of the Common Stock shall have been exchanged for, converted into or acquired for common stock (and cash, if any, with respect to fractional interests) of the successor, acquiror or other third party, the Conversion Price per share of Common Stock immediately following such Common Stock Fundamental Change shall be the Conversion Price in effect immediately prior to such Common Stock Fundamental Change divided by the number of shares of common stock of the successor, acquiror, or other third party received by a holder of one share of Common Stock as a result of such Common Stock Fundamental Change.

(d) The following definitions shall apply to terms used in this Article Five:

(i) "Applicable Price" shall mean (A) in the event of a Non-Stock Fundamental Change in which the holders of Common Stock receive only cash, the amount of cash receivable by a holder of one share of Common Stock and (B) in the event of any other Fundamental Change, the average of the Closing Prices for one share of Common Stock during the ten Trading Days immediately prior to the record date for the determination of the holders of Common Stock entitled to receive cash, securities, property or other assets in connection with such Fundamental Change or, if there is no such record date, prior to the date upon which the holders of Common Stock shall have the right to receive such cash, securities, property or other assets.

(ii) "Closing Price" with respect to any securities on any day shall mean the closing sale price, regular way, on such day or, in case no such sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in each case on the New York Stock Exchange or, if such security is not listed or admitted to trading on such Exchange, on the principal national securities exchange or quotation system on which such security is quoted or listed or admitted to trading or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices of such security on the over-the-counter market on the date in question as reported by the

National Quotation Bureau Incorporated, or a similarly generally accepted reporting service or, if not so available, in such manner as furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors of the Company for that purpose or a price determined in good faith by the Board of Directors of the Company.

(iii) "Common Stock Fundamental Change" shall mean any Fundamental Change in which more than 50% of the value (as determined in good faith by the Board of Directors of the Company) of the consideration received by the holders of Common Stock pursuant to such transactions consists of shares of common stock that, for the ten consecutive Trading Days immediately prior to such Fundamental Change, has been admitted for listing or admitted for listing subject to notice of issuance on a national securities exchange or quoted on the Nasdaq National Market;provided, however, that a Fundamental Change shall not be a Common Stock Fundamental Change unless either (A) the Company continues to exist after the occurrence of such Fundamental Change and the outstanding Preferred Securities continue to exist as outstanding Preferred Securities, or (B) the outstanding Preferred Securities continue to exist as Preferred Securities and are convertible into common stock of the successor to the Company.

(iv) "Fundamental Change" shall mean the occurrence of any transaction or event or series of transactions or events pursuant to which all or substantially all of the Common Stock shall be exchanged for, converted into, acquired for or constitutes solely the right to receive cash, securities, property or other assets (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise); provided,however, in the case of a plan involving more than one such transaction or event, for purposes of adjustment of the Conversion Price, such Fundamental Change shall be deemed to have occurred when substantially all of the Common Stock has been exchanged for, converted into, or acquired for or constitutes solely the right to receive cash, securities, property or other assets, but the adjustment shall be based upon the consideration which the holders of Common Stock received in such transaction or event as a result of which more than 50% of the Common Stock shall have been exchanged for, converted into, or acquired for or shall constitute solely the right to receive cash, securities, property or other assets.

(v) "Non-Stock Fundamental Change" shall mean any Fundamental Change other than a Common Stock Fundamental Change.

(vi) "Purchaser Stock Price" shall mean, with respect to any Common Stock Fundamental Change, the average of the Closing Prices for one share of the common stock received by holders of Common Stock in such Common Stock Fundamental Change during the ten Trading Days immediately prior to the record date for the determination of the holders of Common Stock entitled to receive such common stock or, if there is no such record date, prior to the date upon which the holders of Common Stock shall have the right to receive such common stock.

(vii) "Reference Market Price" shall initially mean $38.125 (which is an amount equal to 66-2/3% of the last reported sale price for the Common Stock on the New York Stock Exchange on October 7, 1999) and, in the event of any adjustment to the Conversion Price other than as a result of a Fundamental Change, the Reference Market Price shall also be adjusted so that the ratio of the Reference Market Price to the Conversion Price after giving effect to any such adjustment shall always be the same as the ratio of the initial Reference Market Price to the initial Conversion Price set forth in this Article Five.

(e) In determining the amount and type of consideration received by a holder of Common Stock in the event of a Fundamental Change, consideration received by a holder of Common Stock pursuant to a statutory right of appraisal will be disregarded.

SECTION 5.05. In case:

(i) the Company shall declare a dividend (or any other distribution) on Common Stock that would cause an adjustment to the Conversion Price of the Series 6.75% Debentures pursuant to the terms of any of the subparagraphs above (including such an adjustment that would occur but for the terms of the first sentence of Section 5.03(a)(viii) above); or

(ii) the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock or combined into a smaller number of shares of Common Stock; or

(iii) the Company shall authorize the granting to the holders of Common Stock generally of rights or warrants (for a period expiring within 45 days after the record date fixed for a distribution of such rights and warrants) to subscribe for or purchase any shares of the Company's capital stock or other capital stock of any class or of any other rights (including any Rights Offerings); or

(iv) of any reclassification of Common Stock (other than a subdivision or combination of the outstanding shares of Common Stock), or of any consolidation, merger or share exchange to which the Company is a party and for which approval of any shareholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company or a compulsory share exchange; or

(v) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then the Company shall (i) if any Preferred Securities are outstanding, cause to be filed with the transfer agent for the Preferred Securities, and shall cause to be mailed to the holders of record of the Preferred Securities, at their last addresses as they shall appear upon the stock transfer books of the Trust or (ii) shall cause to be mailed to all Holders at their last addresses as they shall appear in the books and records of the Trust, at least 15 days prior to the applicable record or effective date hereinafter specified, a notice stating (A) the date on which a record (if any) is to be taken for the purpose of such dividend, distribution, rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined or (B) the date on which such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up (but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the corporate action required to be specified in such notice).

SECTION 5.06. The Company shall reserve, free from pre-emptive rights, out of its authorized but unissued shares, sufficient shares to provide for the conversion of the Series 6.75% Debentures from time to time as such Series 6.75% Debentures are presented for conversion;provided, that nothing contained herein shall be construed to preclude the Company from satisfying its obligations in respect of the conversion of Series 6.75% Debentures by delivery of repurchased shares of Common Stock which are held in the treasury of the Company.

If any shares of Common Stock to be reserved for the purpose of conversion of Series 6.75% Debentures hereunder require registration with or approval of any governmental authority under any Federal or State law before such shares may be validly issued or delivered upon conversion, then the Company covenants that it will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be;provided,however, that nothing in this Section 5.06 shall be deemed to affect in any way the obligations of the Company to convert Series 6.75% Debentures into Common Stock as provided in this Article Five.

Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value, if any, of the Common Stock, the Company will take all corporate action which may, in the Opinion of Counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

The Company covenants that all shares of Common Stock which may be issued upon conversion of Series 6.75% Debentures will upon issue be fully paid and non-assessable by the Company and free of pre-emptive rights.

SECTION 5.07. Notwithstanding the foregoing provisions, the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in shares of Common Stock under any such plan, and the issuance of any shares of Common Stock or options or rights to purchase such shares pursuant to any employee benefit plan or program of the Company or pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of October 7, 1999, shall not be deemed to constitute an issuance of Common Stock or exercisable, exchangeable or convertible securities by the Company to which any of the adjustment provisions described above applies. There shall also be no adjustment of the Conversion Price in case of the issuance of any stock (or securities convertible into or exchangeable for stock) of the Company except as specifically described in this Article Five.

SECTION 5.08. In case the Company shall, by dividend or otherwise, declare or make a distribution on the Common Stock referred to in Section 5.03(a)(iv) or 5.03(a)(v) (including, without limitation, dividends or distributions referred to in the last sentence of Section 5.03(a)(vi)), the Holder of the Series 6.75% Debentures, upon the conversion thereof subsequent to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution and prior to the effectiveness of the Conversion Price adjustment in respect of such distribution, shall also be entitled to receive for each share of Common Stock into which the Series 6.75% Debentures are converted, the portion of the shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock;provided, however, that, at the election of the Company (whose election shall be evidenced by a resolution of the Board of Directors) with respect to all Holders so converting, the Company may, in lieu of distributing to such Holder any portion of such distribution not consisting of cash or securities of the Company, pay such Holder an amount in cash equal to the fair market value thereof (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a resolution of the Board of Directors). If any conversion of Series 6.75% Debentures described in the immediately preceding sentence occurs prior to the payment date for a distribution to holders of Common Stock which the Holder of Series 6.75% Debentures so converted is entitled to receive in accordance with the immediately preceding sentence, the Company may elect (such election to be evidenced by a resolution of the Board of Directors) to distribute to such Holder a due bill for the shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash or assets to which such Holder is so entitled;provided, that such due bill (a) meets any applicable requirements of the principal national securities exchange or other market on which the Common Stock is then traded and (b) requires payment or delivery of such shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash or assets no later than the date of payment or delivery thereof to holders of shares of Common Stock receiving such distribution.

ARTICLE SIX

Form of Series 6.75% Debentures

SECTION 6.01. The Series 6.75% Debentures and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the following forms:

(FORM OF FACE OF DEBENTURE)

[IF THE NOTE IS TO BE A GLOBAL DEBENTURE, INSERT - This Debenture is a Global Debenture within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee of a Depositary. This Debenture is exchangeable for Debentures registered in the name of a person other than the Depositary or its nominee only in the limited circumstances described in the Indenture, and no transfer of this Debenture (other than a transfer of this Debenture as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary) may be registered except in limited circumstances.

Unless this Debenture is presented by an authorized representative to The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any Debenture issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.]

No. $

CUSIP NO. 00130HAR6

THE AES CORPORATION

6.75% JUNIOR SUBORDINATED DEBENTURE
DUE 2029

The AES Corporation, a corporation duly organized and existing under the laws of the State of Delaware (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to , or registered assigns, the principal sum of Dollars on October 15, 2029, and to pay interest on said principal sum from October 14, 1999 or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears commencing January 15, 2000 at the rate of 6.75% per annum plus Compounded Interest, if any, until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year twelve 30-day months. In the event that any date on which interest is payable on this Debenture is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Debenture (or one or more Predecessor Debentures, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, which shall be the close of business on the day next preceding such Interest Payment Date;provided if the Preferred Securities of AES Trust III are no longer in book-entry only form, the regular record dates shall be on the first (1st) day of the month in which such Interest Payment Date occurs [IF PURSUANT TO THE PROVISIONS OF SECTION 2.11(c) OF THE INDENTURE THE Series 6.75% Debentures ARE NOT REPRESENTED BY A GLOBAL DEBENTURE — which shall be on the first (1st) day of the month in which such Interest Payment Date occurs.] Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Debenture shall be payable at the corporate trust office of the Trustee in the Borough of Manhattan, The City and State of New York, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts;provided,however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture register and that the payment of principal will only be made upon the surrender of this Debenture to the Trustee. Notwithstanding the foregoing, so long as the owner and record holder of this Debenture is the Property Trustee (as defined in the Indenture referred to on the reverse hereof), the payment of the principal of (and premium, if any) and interest (including Compounded Interest, if any) on this Debenture will be made at such place and to such account of the Property Trustee as may be designated by the Property Trustee.

The indebtedness evidenced by this Debenture is, to the extent provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior and Subordinated Debt, and this Debenture is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Debenture, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the

Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his attorney-in-fact for any and all such purposes. Each Holder hereof, by his acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior and Subordinated Debt, whether now outstanding or hereafter incurred, and waives reliance by each such Holder upon said provisions.

This Debenture shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Debenture are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

Dated: ______________________________

The AES Corporation

By ______________________________

Attest:

By ______________________________
Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Debentures of the series of Debentures described in the within-mentioned Indenture.

Bank One, National Association
as Trustee

By ____
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Debenture is one of a duly authorized series of Debentures of the Company (herein sometimes referred to as the "Debentures"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of March 1, 1997 duly executed and delivered between the Company and Bank One, National Association, formerly known as The First National Bank of Chicago, a national banking association, as Trustee (herein referred to as the "Trustee"), as supplemented by the Third Supplemental Indenture dated as of October 14, 1999 between the Company and the Trustee (said Indenture as so supplemented being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Debentures, and, to the extent specifically set forth in the Indenture, the holders of Senior and Subordinated Debt and Preferred Securities. By the terms of the Indenture, the Debentures are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Debentures is designated the 6.75% Junior Subordinated Debentures due 2029 and is limited in aggregate principal amount as specified in said Third Supplemental Indenture.

Except as provided in the next paragraph, the Debentures may not be redeemed by the Company prior to October 17, 2002. The Company shall have the right to redeem this Debenture at the option of the Company, in whole or in part at any time on or after October 17, 2002 (an "Optional Redemption"), upon not less than 30 nor more than 60 days notice to the Holder of the Series 6.75% Debentures, at the following prices (as expressed as percentages of the principal amount of the Debentures) (the "Optional Redemption Price"), together with any accrued but unpaid interest, including any Compounded Interest, if any, to, but excluding, the date of such redemption, if redeemed during the 12-month period beginning October 15:

Year	Redemption Price
2002	104.219%
2003	103.375%
2004	102.531%
2005	101.688%
2006	100.844%

and 100% if redeemed on or after October 15, 2007.

If the Series 6.75% Debentures are redeemed on any Interest Payment Date, accrued and unpaid interest shall be payable to Holders of record on the relevant record date.

The Company may not redeem any Series 6.75% Debentures unless all accrued and unpaid interest thereon, including Compounded Interest, if any, has been paid for all quarterly periods terminating on or prior to the date of notice of redemption.

So long as the corresponding Trust Securities are outstanding, the proceeds from the redemption of the Series 6.75% Debentures will be used to redeem the Trust Securities.

If the Debentures are only partially redeemed by the Company pursuant to an Optional Redemption, the Debentures will be redeemed pro rata or by lot or by any other method utilized by the Trustee;provided if, at the time of redemption, the Debentures are registered as a Global Debenture, the Depository shall determine the principal amount of such Debentures held by each holder of Debentures to be redeemed in accordance with its customary procedures.

If, at any time, a Tax Event (as defined below) shall occur or be continuing after receipt of a Dissolution Tax Opinion (as defined below) and (i) the Regular Trustees and the Company shall have received an opinion (a “Redemption Tax Opinion”) of a nationally recognized independent tax counsel experienced in such matters that, as a result of a Tax Event, there is more than an insubstantial risk that the Company would be precluded from deducting the interest on the Series 6.75% Debentures for United States federal income tax purposes even if the Series 6.75% Debentures were distributed to the holders of Preferred Securities and Common Securities in liquidation of such holder’s interest in AES Trust III as set forth in the Declaration of Trust or (ii) the Regular Trustees shall have been informed by such tax counsel that a No Recognition Opinion (as defined below) cannot be delivered to AES Trust III, the Company shall have the right at any time, upon not less than 30 nor more than 60 days’ notice, to redeem the Series 6.75% Debentures in whole or in part for cash at a price equal to 100% of the principal amount thereof, together with any accrued and unpaid interest thereon, including Compounded Interest if any, to, but excluding the date of redemption, within 90 days following the occurrence of such Tax Event;provided,however, that, if at the time there is available to the Company or the Regular Trustees on behalf of AES Trust III the opportunity to eliminate, within such 90 day period, the Tax Event by taking some ministerial action (“Ministerial Action”), such as filing a form or making an election, or pursuing some other similar reasonable measure, which has no adverse effect on AES Trust III, the Company or the holders of the Preferred Securities, the Company or the Regular Trustees on behalf of AES Trust III will pursue such measure in lieu of redemption andprovided further that the Company shall have no right to redeem the Series 6.75% Debentures while the Regular Trustees on behalf of AES Trust III are pursuing any such Ministerial Action.

“Tax Event” means that the Company and the Regular Trustees shall have obtained an opinion of nationally recognized independent tax counsel experienced in such matters (a “Dissolution Tax Opinion”) to the effect that on or after October 7, 1999, as a result of (a) any amendment to, or change in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein, (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), (c) any interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the theretofore generally accepted position or (d) any action taken by any governmental agency or regulatory authority, which amendment or change is enacted, promulgated, issued or effective or which interpretation or pronouncement is issued or announced or which action is taken, in each case on or after October 7, 1999, there is more than an insubstantial risk that (i) AES Trust III is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to income accrued or received on the Series 6.75% Debentures, (ii) AES Trust III is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges or (iii) interest payable by the Company to AES Trust III on the Series 6.75% Debentures is not, or within 90 days of the date thereof will not be, deductible by the Company for United States federal income tax purposes.

"No Recognition Opinion" means an opinion of a nationally recognized independent tax counsel experienced in such matters, which opinion may rely on any then applicable published revenue ruling of the Internal Revenue Service, to the effect that the holders of the Preferred Securities will not recognize any gain or loss for United States federal income tax purposes as a result of a dissolution of AES Trust III and distribution of the Series 6.75% Debentures as provided in the Declaration of Trust.

If the Debentures are only partially redeemed by the Company pursuant to an Optional Redemption or as a result of a Tax Event as described above, the Debentures will be redeemed pro rata or by lot or in some other equitable manner determined by the Trustee. Notwithstanding the foregoing, if a partial redemption of the Series 6.75% Debentures would result in the delisting of the Preferred Securities by any national securities exchange or other organization on which the Preferred Securities are then listed, the Company shall not be permitted to effect such partial redemption and will only redeem the Series 6.75% Debentures in whole.

In the event of redemption of this Debenture in part only, a new Debenture or Debentures of this series for unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Debentures may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Debenture upon compliance by the Company with certain conditions set forth therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Debentures of each series affected at the time outstanding, as defined in the Indenture (and, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of holders of the Preferred Securities and the Common Securities of such AES Trust) as may be required under the Declaration of Trust of such AES Trust to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Debentures;provided, however, that no such modification may, without the consent of the holder of each outstanding Series 6.75% Debenture affected thereby (i) extend the fixed maturity of any Debentures of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Debenture so affected or (ii) reduce the aforesaid percentage of Debentures, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Debenture (and, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Security Exchange has not theretofore occurred, such consent of the holders of the Preferred Securities and the Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust) then outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Debentures of a series at the time outstanding affected thereby (subject, in the case of any series of Debentures held as trust assets of an AES Trust and with respect to which a Securities Exchange has not theretofore occurred, to such consent of holders of Preferred Securities and Common Securities of such AES Trust as may be required under the Declaration of Trust of such AES Trust), on behalf of the Holders of the Debentures of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Debentures of such series. Any such consent or waiver by the registered Holder of this Debenture (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Debenture and of any Debenture issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Debenture.

Subject to Section 13.12 of the Indenture, no reference herein to the Indenture (other than such Section) and no provision of this Debenture or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Debenture at the time and place at the rate and in the money herein prescribed.

So long as the Company is not in default in the payment of interest on the Debentures, the Company shall have the right, at any time during the term of the Debentures, from time to time to extend the interest payment period of such Debentures for up to 20 consecutive quarterly interest periods (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest then accrued and unpaid (together with interest thereon at the rate of 6.75% per annum to the extent permitted by applicable law, compounded quarterly ("Compounded Interest"));provided that no Extended Interest Payment Period may extend beyond the date of maturity or any redemption date of the Debentures. During such Extended Interest Payment Period the Company shall not declare or pay any dividend on, or redeem, purchase, acquire or make a distribution or liquidation payment with respect to, any of its common stock or preferred stock, or make any guarantee payments with respect thereto;provided that the foregoing will not apply to any stock dividends, paid by the Company in Common Stock. Prior to the termination of any such Extended Interest Payment Period, the Company may pay all or any portion of the interest accrued on the Debentures on any Interest Payment Date to holders of record on the regular record date for such Interest Payment Date or from time to time further extend such Extended Interest Payment Period;provided that such Period together with all such further extensions thereof shall not exceed 20 consecutive quarterly interest periods. At the termination of any such Extended Interest Payment Period and upon the payment of all accrued and unpaid interest then due, together with Compounded Interest, the Company may select a new Extended Interest Payment Period, subject to the foregoing requirements. No interest on this Debenture shall be due and payable during an Extended Interest Payment Period, except at the end thereof. At the end of the Extended Interest Payment Period the Company shall pay all interest accrued and unpaid on the Series 6.75% Debentures including any Compounded Interest which shall be payable to the holders of the Series 6.75% Debentures in whose names the Series 6.75% Debentures are registered in the Debenture register on the first record date after the end of the Extended Interest Payment Period.

As provided in the Indenture and subject to certain limitations therein set forth, this Debenture is transferable by the registered holder hereof on the Debenture register of the Company, upon surrender of this Debenture for registration of transfer at the corporate trust office of the Trustee in the Borough of Manhattan, The City and State of New York accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered holder hereof or his attorney duly authorized in writing, and thereupon one or more new Debentures of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Debenture, the Company, the Trustee, any paying agent and any Debenture Registrar may deem and treat the registered holder hereof as the absolute owner hereof (whether or not this Debenture shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Debenture Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Debenture Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Debenture, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

The Holder of any Debenture has the right, exercisable at any time through the close of business (New York time) on October 15, 2029 (or, in the case of a Debenture called for redemption, prior to the close of business on the Business Day prior to the corresponding redemption date), to convert the principal amount thereof (or any portion thereof that is an integral multiple of $50) into shares of Common Stock at the initial conversion rate of 0.7108 share of Common Stock for each Debenture (equivalent to a Conversion Price of $70.341 per share of Common Stock), subject to adjustment under certain circumstances.

To convert a Debenture, a Holder must (a) complete and sign a conversion notice substantially in the form attached hereto, (b) surrender the Debenture to a Conversion Agent, (c) furnish appropriate endorsements or transfer documents if required by the Conversion Agent and (d) pay any transfer or similar tax, if required. If a Debenture is surrendered for conversion after the close of business on any regular record date for payment of a Distribution and before the opening of business on the corresponding Distribution payment date, then, notwithstanding such conversion, the Distribution payable on such Distribution payment date will be paid in cash to the person in whose name the Debenture is registered at the close of business on such record date, and (other than a Debenture or a portion of a Debenture called for redemption on a redemption date occurring after such record date and on or prior to such Distribution payment date) when so surrendered for conversion, the Debenture must be accompanied by payment of an amount equal to the Distribution payable on such Distribution payment date. The number of shares issuable upon conversion of a Debenture is determined by dividing the principal amount of the Debenture converted by the Conversion Price in effect on the Conversion Date. No fractional shares will be issued upon conversion but a cash adjustment will be made for any fractional interest. The outstanding principal amount of any Debenture shall be reduced by the portion of the principal amount thereof converted into shares of Common Stock.

[If certificated Debentures — The Debentures of this series are issuable only in registered form without coupons in denominations of $50 and any integral multiple thereto.] [If Global Debenture — This Global Debenture is exchangeable for Debentures in definitive form under certain limited circumstances set forth in the Indenture. Debentures of this series so issued are issuable only in registered form without coupons in denominations of $50 or any integral multiple thereof.] As provided in the Indenture and subject to certain limitations [If Global Debenture — herein and] therein set forth, Debentures of this series [If Global Debenture — so issued] are exchangeable for a like aggregate principal amount of Debentures of this series of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Debenture which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

[FORM OF ELECTION TO CONVERT]
ELECTION TO CONVERT

To: The AES Corporation

The undersigned owner of this Convertible Debenture hereby irrevocably exercises the option to convert this Debenture, or the portion below designated, into Common Stock of THE AES CORPORATION, in accordance with the terms of the Indenture referred to in this Debenture, and directs that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Date: ______________________________

in whole

Portions of Debenture to be converted ($50 or integral multiples thereof):
$ ____________

____
Signature (for conversion only)

Please Print or Typewrite Name and Address, Including Zip Code, and Social Security or Other Identifying Number

____
____
____

Signature Guarantee:(a) ____________

(a) Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Conversion Agent, which requirements include membership of participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Conversion Agent in addition to, or in substitution for, STAMP, all in accordance with the Securities and Exchange Act of 1934, as amended.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Debenture to:

(Insert assignee's social security or tax identification number)

FOR VALUE RECEIVED, the undersigned assigns and transfers this Debenture to:

(Insert address and zip code of assignee)

and irrevocably appoints

agent to transfer this Debenture on the books of the Trust. The agent may substitute another to act for him or her.

(Insert assignee's social security or tax identification number)

Date: ______________________________

Signature:______________________________
(Sign exactly as your name appears on the other side of this Debenture)

Signature
Guarantee(b): ____

(b) Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Conversion Agent, which requirements include membership of participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Conversion Agent in addition to, or in substitution for, STAMP, all in accordance with the Securities and Exchange Act of 1934, as amended.

ARTICLE SEVEN

Original Issue of Series 6.75% Debentures

SECTION 7.01. Except as provided in Section 1.01 and this Section 7.01, Series 6.75% Debentures in the aggregate principal amount equal to $463,917,550 may, upon execution of this Third Supplemental Indenture, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Debentures to or upon the written order of the Company, signed by its Chairman, its President, or any Vice President and its Treasurer or an Assistant Treasurer, without any further action by the Company. Upon exercise of the overallotment option set forth in the Underwriting Agreement, additional Series 6.75% Debentures in the aggregate principal amount of up to $69,587,650 may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Series 6.75% Debentures executed as aforesaid by the Company, to or upon the written order of the Company, which order shall be accompanied by evidence satisfactory to the Trustee that the overallotment option has been exercised.

ARTICLE EIGHT

Amendments to the Indenture

SECTION 8.01. For purposes of the Series 6.75% Debentures, "Senior and Subordinated Debt" means the principal of (and premium, if any) and interest on all Debt of the Company whether created, incurred or assumed before, on or after the date of this Third Supplemental Indenture; provided that such Senior and Subordinated Debt shall not include (i) Debt to any Affiliate, (ii) Debt of the Company that, when incurred and without respect to any election under Section 1111(b) of Title 11, U.S. Code, was without recourse, (iii) any other Debt of the Company which by the terms of the instrument creating or evidencing the same is specifically designated as not being senior in right of payment to the Series 6.75% Debentures, and in particular the Series 6.75% Debentures shall rank pari passu with all other debt securities and guarantees issued to any trust, partnership or other entity affiliated with the Company which is a financing vehicle of the Company in connection with an issuance of preferred securities by such financing entity and (iv) redeemable stock of the Company.

ARTICLE NINE

Miscellaneous Provisions

SECTION 9.01. Except as otherwise expressly provided in this Third Supplemental Indenture or in the form of Series 6.75% Debenture or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Series

6.75% Debenture that are defined in the Indenture shall have the several meanings respectively assigned to them thereby.

SECTION 9.02. The Indenture, as supplemented by this Third Supplemental Indenture, is in all respects ratified and confirmed. This Third Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 9.03. The recitals herein contained are made by the Company and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Third Supplemental Indenture.

SECTION 9.04. This Third Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed on the date or dates indicated in the acknowledgments and as of the day and year first above written.

THE AES CORPORATION

By

Name:
Title:

Attest:

Name:
Title:

BANK ONE, NATIONAL ASSOCIATION
as Trustee

By

Name:
Title:

Attest:

Name:
Title:

THE AES CORPORATION

AND

BANK ONE, NATIONAL ASSOCIATION

(FORMERLY KNOWN AS THE FIRST NATIONAL BANK OF CHICAGO)

as Trustee

THIRD SUPPLEMENTAL INDENTURE

Dated as of September 12, 2000

TO

SENIOR INDENTURE

Dated as of December 8, 1998

9.375% Senior Notes due 2010

The Third Supplemental INDENTURE, is dated as of this 12th day of September, 2000 (the "Third Supplemental Indenture"), between THE AES CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter sometimes referred to as the "Company"), and BANK ONE, NATIONAL ASSOCIATION (formerly known as THE FIRST NATIONAL BANK OF CHICAGO), a national banking association, as trustee (hereinafter sometimes referred to as the "Trustee").

WHEREAS, the Company entered into a Senior Indenture dated as of December 8, 1998 between the Company and the Trustee (the "Indenture") to provide for the future issuance of its senior debentures, notes or other evidences of indebtedness (collectively, the "Securities"), said Securities to be issued from time to time in series as might be determined by the Company pursuant to the Indenture and, in an unlimited aggregate principal amount; and

WHEREAS, pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Securities to be known as its 9.375% Senior Notes due 2010 (said series being hereinafter referred to as the "Series C Senior Notes"), the form and substance of such Series C Senior Notes and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Third Supplemental Indenture; and

WHEREAS, the Company desires and has requested the Trustee to join with it in the execution and delivery of this Third Supplemental Indenture, and all requirements necessary to make this Third Supplemental Indenture a valid instrument, in accordance with its terms, and to make the Series C Senior Notes, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company;

NOW, THEREFORE, in consideration of the purchase and acceptance of the Series C Senior Notes by the Holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Series C Senior Notes and the terms, provisions and conditions thereof, the Company covenants and agrees with the Trustee as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.1. TERMS DEFINED IN THE INDENTURE.

Each capitalized term used not but defined in this Third Supplemental Indenture shall have the meaning assigned to such term in the Indenture.

SECTION 1.2. CERTAIN DEFINITIONS.

The following definitions are hereby added to the definitions contained in Section 1.1 of the Indenture, but only with respect to the Series C Senior Notes-issued in accordance with the provisions hereof:

"Attributable Debt" means the present value (discounted at the rate of 9.375% per annum compounded monthly) of the obligations for rental payments required to be paid during the remaining term of any lease of more than 12 months.

"Consolidated Net Assets" means the aggregate amount of assets (less reserves and other deductible items) after deducting current liabilities, as shown on the consolidated balance sheet of the Company and its Subsidiaries contained in the latest annual report to the stockholders of the Company and prepared in accordance with GAAP.

"DTC" shall have the meaning provided in Section 2.1 hereof.

"Funded Debt" means indebtedness for borrowed money having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the determination of the amount thereof.

"Principal Property" means any building, structure or other facility (together with the land on which it is erected and fixtures comprising a part thereof) used primarily for manufacturing, processing, research, warehousing or distribution, owned or leased by the Company and having a net book value in excess of 2% of Consolidated Net Assets, other than any such building, structure or other facility or portion thereof which is a pollution control facility financed by state or local governmental obligations or which the principal executive officer, president and principal financial officer of the Company determine in good faith is not of material importance to the total business conducted or assets owned by the Company and its Subsidiaries as an entirety.

ARTICLE TWO

THE SERIES C SENIOR NOTES

SECTION 2.1. FORM.

The Series C Senior Notes shall be substantially in the form of Exhibit A hereto, which is a part of this Third Supplemental Indenture, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by the Indenture and this Third Supplemental Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the Officers of the Company executing such Series C Senior Notes, as evidenced by their execution of the Series C Senior Notes.

The Series C Senior Notes will initially be issued as Registered Global Securities.

The Company initially appoints The Depository Trust Company ("DTC") and the Trustee to act as Depositary and custodian, respectively, with respect to the Series C Senior Notes.

The Company initially appoints the Trustee to act as Paying Agent and Registrar with respect to the Series C Senior Notes.

SECTION 2.2. DESIGNATION AND AMOUNT.

(a) The Series C Senior Notes shall be entitled the "9.375% Senior Notes due 2010" of the Company.

(b) The Trustee shall authenticate and deliver Series C Senior Notes for original issue on the date hereof in an aggregate principal amount of $850,000,000. The aggregate principal amount of Series C Senior Notes that may be authenticated and delivered under the Indenture may not exceed the amount set forth in the foregoing sentence, except for Series C Senior Notes that may be authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Series C Senior Notes pursuant to Sections 2.7, 2.8, 2.10, 3.3 or 9.4 of the Indenture.

(c) The Company may not issue new Series C Senior Notes to replace Series C Senior Notes that it has paid or delivered to the Trustee for cancellation.

SECTION 2.3. INTEREST.

Interest on the Series C Senior Notes shall be payable in the amount, on the dates and in the manner provided for in the form of the Series C Senior Note attached hereto as Exhibit A.

SECTION 2.4. DENOMINATIONS.

The Series C Senior Notes shall be Registered Securities in denominations of $1,000 or any integral multiple thereof.

SECTION 2.5. PLACE OF PAYMENT.

The place of payment for the Series C Senior Notes shall be the Borough of Manhattan, The City of New York. So long as the Series C Senior Notes are in the form of Registered Global Securities, the Company agrees that payments of interest on, and any portion of the Principal of, the Series C Senior Notes shall be made by the Paying Agent, upon receipt from the Company of immediately available funds, directly to the Depositary (by Federal funds wire transfer).

ARTICLE THREE

OPTIONAL REDEMPTION OF
THE SERIES C SENIOR NOTES

SECTION 3.1. OPTIONAL REDEMPTION.

The Series C Senior Notes may be redeemed at the option of the Company, as a whole or from time to time in part, at the times and at the Redemption Price specified in the form of the Series C Senior Note attached hereto as Exhibit A.

ARTICLE FOUR

ADDITIONAL COVENANTS APPLICABLE
TO THE SERIES C SENIOR NOTES

SECTION 4.1. RESTRICTIONS ON SECURED DEBT.

If the Company shall incur, issue, assume or guarantee any indebtedness for borrowed money represented by notes, bonds, debentures or other similar evidences of indebtedness, secured by a mortgage, pledge or other lien on any Principal Property or any capital stock or indebtedness held directly by the Company of any Subsidiary of the Company, the Company shall secure the Series C Senior Notes equally and ratably with (or prior to) such indebtedness, so long as such indebtedness shall be so secured, unless after giving effect thereto the aggregate amount of all such indebtedness so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Properties, would not exceed 15% of the Consolidated Net Assets of the Company.

The foregoing restriction shall not apply to, and there shall be excluded in computing secured indebtedness for the purpose of such restriction, indebtedness secured by (a) property of any Subsidiary of the Company, (b) liens on property of, or on any shares of stock or debt of, any corporation existing at the time such corporation becomes a Subsidiary, (c) liens in favor of the Company or any Subsidiary, (d) liens in favor of U.S. or foreign governmental bodies to secure partial, progress, advance or other payments, (e) liens on property, shares of stock or debt existing at the time of acquisition thereof (including acquisition through merger or consolidation), purchase money mortgages and construction cost mortgages existing at or incurred within 180 days of the time of acquisition thereof, (f) liens existing on the first date on which any Series C Senior Note is authenticated by the Trustee, (g) liens under one or more credit facilities for indebtedness in an aggregate principal amount not to exceed $900,000,000 at any time outstanding, (h) liens incurred in connection with pollution control, industrial revenue or similar financings, and (i) any extension, renewal or replacement of any debt secured by any liens referred to in the foregoing clauses (a) through (h), inclusive.

SECTION 4.2. RESTRICTIONS ON SALES AND LEASEBACKS.

The Company shall not enter into any sale and leaseback transaction involving any Principal Property, the acquisition or completion of construction and commencement of full operation of which has occurred more than 180 days prior thereto, unless (a) the Company could incur a lien on such property under the restrictions described in Section 4.1 hereof in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Series C Senior Notes or (b) the Company, within 180 days after the sale or transfer by the Company, applies to the retirement of its Funded Debt an amount equal to the greater of (i) the net proceeds of the sale of the Principal Property sold and leased pursuant to such arrangement or (ii) the fair market value of the Principal Property so sold and leased as determined by the board of directors of the Company;provided that the amount to be applied to the retirement of Funded Debt of the Company shall be reduced by (A) the principal amount of any Series C Senior Notes delivered within 180 days after such sale or transfer to the Trustee for retirement and cancellation, and (B) the principal amount of Funded Debt, other than Series C Senior Notes, voluntarily retired by the Company within 180 days after such sale or transfer; provided further that no retirement referred to in this clause (b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

ARTICLE FIVE

ADDITIONAL EVENTS OF DEFAULT APPLICABLE
TO THE SERIES C SENIOR NOTE

SECTION 5.1. ADDITIONAL EVENTS OF DEFAULT.

Pursuant to Section 6.1 (f) of the Indenture, an “Event of Default” shall be deemed to occur with respect to the Series C Senior Notes if an event of default, as defined in any indenture or instrument evidencing or under which the Company has as of the date of this Third Supplemental Indenture or shall thereafter have outstanding any indebtedness, shall happen and be continuing and either (a) such default results from the failure to pay the principal of such indebtedness in excess of $50 million at final maturity of such indebtedness or (b) as a result of such default the maturity of such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not be rescinded or annulled within 60 days and the principal amount of such indebtedness, together with the principal amount of any other indebtedness of the Company in default, or the maturity of which has been accelerated, aggregates $50 million or more; provided that the Trustee shall not be charged with knowledge of any such default unless written notice thereof shall have been given to the Trustee by the Company, by the holder or an agent of the holder of any such indebtedness, by the trustee then acting under any indenture or other instrument under which such default shall have occurred, or by the holders of not less than 25% in the aggregate principal amount of the Series C Senior Notes at the time outstanding; andprovided further that if such default shall be remedied or cured by the Company or waived by the holder of such indebtedness, then the Event of Default described under this Third Supplemental Indenture shall be deemed likewise to have been remedied, cured or waived without further action on the part of the Trustee, any Holder of Series C Senior Notes or any other person.

ARTICLE SIX

MISCELLANEOUS PROVISIONS

SECTION 6.1. RATIFICATION.

The Indenture, as supplemented by this Third Supplemental Indenture, is in all respects ratified and confirmed. This Third Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent provided herein and therein.

SECTION 6.2. COUNTERPARTS.

This Third Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed and attested, on the date or dates indicated in the acknowledgments and as of the day and year first above written.

THE AES CORPORATION, as
the Company

By: /s/ William R. Luraschi
Name: WILLIAM R. LURASCHI
Title: VICE PRESIDENT
AND SECRETARY

Attest:

By: [ILLEGIBLE]
Name:
Title: Senior VP

BANK ONE, NATIONAL ASSOCIATION
(formerly known as THE FIRST NATIONAL
BANK OF CHICAGO), as Trustee

By: /s/ Mary R. Fonti
Name: Mary R. Fonti
Title: Authorized Officer

Attest:

By: /s/ Michael D. Pinzon
Name: Michael D. Pinzon
Title: Authorized Officer

EXHIBIT A

[FORM OF FACE OF SERIES C SENIOR NOTE]

[INSERT IF THE NOTE IS TO BE A REGISTERED GLOBAL SECURITY - This Series C Senior Note is a Registered Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee of a Depositary. This Series C Senior Note is exchangeable for Series C Senior Notes registered in the name of a person other than the Depositary or its nominee only in the limited circumstances described in the Indenture. Unless and until it is exchanged in whole or in part for Securities in definitive registered form, this Security may not be transferred except as a whole by the Depositary to the nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

Unless this Series C Senior Note is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any Series C Senior Note issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.]

No. CUSIP NO.: 00104C AA 6

$

9.375% SENIOR NOTE DUE 2010

THE AES CORPORATION promises to pay
to or registered assigns the
principal sum of Dollars on
September 15, 2010.

Interest Payment Dates: March 15 and September 15 of each year, commencing March 15, 2001

Record Dates: The fifteenth calendar day prior to each Interest Payment Date.

By: ________________________
Authorized Signature

By: ________________________
Authorized Signature

Dated: September 12, 2000

Certificate of Authentication

This is one of the 9.375% Senior Notes due 2010 referred to in the within-mentioned Indenture.

Bank One, National Association (formerly known as
The First National Bank of Chicago), as Trustee

By: ________________________
Authorized Signatory

[FORM OF REVERSE OF SERIES C SENIOR NOTE]

THE AES CORPORATION

9.375% SENIOR NOTE DUE 2010

1. Interest. THE AES CORPORATION, a Delaware corporation (the "Company," which definition shall include any successor thereto in accordance with the Indenture (as defined below), promises to pay, until the principal hereof is paid or made available for payment, interest on the principal amount set forth on the reverse side hereof at a rate of 9.375% per annum. Interest on the Series C Senior Notes will accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from September 12, 2000 through but excluding the date on which interest is paid. Interest shall be payable in arrears on March 15 and September 15 of each year (each an "Interest payment Date"), commencing March 15, 2001. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. Method of Payment. The Company will pay interest on the Series C Senior Notes (except defaulted interest) to the Persons who are registered Holders of Series C Senior Notes at the close of business on the fifteenth calendar day prior to each Interest payment Date (each, a "Regular Record Date"). Holders must surrender Series C Senior Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. At the Company's option, interest may be paid by check mailed to the registered address of the Holder of this Series C Senior Note.

3. Paying Agent and Registrar. Initially, Bank One, National Association (formerly known as The First National Bank of Chicago) (the "Trustee") will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-Registrar without notice.

4. Indenture. The Company issued the Series C Senior Notes under an Indenture dated as of December 8, 1998 between the Company and the Trustee as supplemented by the Third Supplemental Indenture dated as of September 12, 2000 between the Company and the Trustee (said Indenture, as so supplemented, the "Indenture"). This Series C Senior Note is one of an issue of Securities of the Company issued under the Indenture. The terms of the Series C Senior Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code §§ 77aaa-77bbbb) as amended from time to time. The Series C Senior Notes are subject to all such terms, and Holders of the Series C Senior Notes are referred to the Indenture and such Act for a statement of them. Capitalized terms used herein and not otherwise defined have the meanings set forth in the Indenture. The Series C Senior Notes are general unsecured and unsubordinated obligations of the Company ranking pari passu with all of the Company's unsecured and unsubordinated obligations, limited in aggregate principal amount to $850,000,000. The Indenture limits the ability of the Company to incur certain secured indebtedness and to enter into certain sale and leaseback transactions.

5. Optional Redemption. The Series C Senior Notes are subject to redemption upon not less than 30 nor more than 60 days notice mailed to each holder of Series C Senior Notes to be redeemed at its address appearing in the Security Register, at any time prior to maturity as a whole or in part, at the election of the Company at a price (the "Redemption Price") equal to the sum of (i) 100% of the principal amount thereof plus accrued interest to the redemption date plus (ii) the Make-Whole Amount, if any.

"Make-Whole Amount" means the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Reinvestment Rate (determined on the Business Day preceding the date of such redemption) from the respective dates on which such principal and interest would have been payable if such payment had not been made, over (ii) the aggregate principal amount of the Series C Senior Notes being redeemed.

"Reinvestment Rate" means 0.50% (one-half of one percent) plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the maturity of the principal being prepaid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities or if such statistical release is not published at the time of any determination under the Indenture, then such other reasonably comparable index which shall be designated by the Company.

6. Mandatory Redemption. No sinking fund is provided for the Series C Senior Notes.

7. Denominations, Transfer, Exchange. The Series C Senior Notes are in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. A Holder may transfer or exchange Series C Senior Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay to it any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Series C Senior Notes or portion of a Series C Series Note selected for redemption, or transfer or exchange any Series C Series Notes for a period of 15 days before selection of such Series C Series Notes to be redeemed.

8. Persons Deemed Owners. The registered holder of a Series C Senior Note may be treated as the owner of it for all purposes.

9. Unclaimed Money. If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent will pay the money back to the Company at its written request. After that, Holders entitled to the money must look to the Company for payment as general creditors unless an "abandoned property" law designates another Person.

10. Amendment, Supplement, Waiver. The Company and the Trustee may, without the consent of the holders of any outstanding Series C Senior Notes, amend, waive or supplement the Indenture or the Series C Senior Notes for certain specified purposes, including, among other things, curing ambiguities, defects or inconsistencies, maintaining the qualification of the Indenture under the Trust Indenture Act of 1939 or making any other change that does not adversely affect the rights of any Holder in any material respect. Other amendments and modifications of the Indenture or the Series C Senior Notes may be made by the Company and the Trustee with the consent of the Holders of not less than a majority of the aggregate principal amount of the outstanding Securities of all series affected, subject to certain exceptions requiring the consent of the Holders of the particular Series C Senior Notes.

11. Successor Corporation. When a successor corporation assumes all the obligations of its predecessor under the Series C Senior Notes and the Indenture and the transaction complies with the terms of Article 5 of the Indenture, the predecessor corporation, subject to certain exceptions, will be released from those obligations.

12. Defaults and Remedies. Events of Default are set forth in the Indenture. Subject to certain limitations in the Indenture, if an Event of Default (other than an Event of Default specified in Section 6.1(d) or (e) of the Indenture with respect to the Company) occurs and is continuing, then the holders of not less than 25% in aggregate principal amount of the outstanding Series C Senior Notes may, or the Trustee may, declare the principal of, plus accrued interest, if any, to be due and payable immediately. If an Event of Default specified in Section 6.1(d) or (e) of the Indenture with respect to the Company occurs and is continuing, the principal of and accrued interest on all of the Series C Senior Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. Holders of the Series C Senior Notes may not enforce the Indenture or the Series C Senior Notes except as provided in the Indenture. The Trustee may require indemnity reasonably satisfactory to it before it enforces the Indenture or the Series C Senior Notes. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Series C Senior Notes may direct the Trustee in its exercise of any trust or power. The trustee may withhold from Holders of the Series C Senior Notes notice of any continuing default (except a default in payment of principal or interest or a failure to comply with Article 5 of the Indenture) if it determines in good faith that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

13. Trustee Dealing with Company. The Trustee, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee.

14. No Recourse Against Others. A director, officer, employee, stockholder or beneficiary, as such, of the Company shall not have any liability for any obligations of the

Company under the Series C Senior Notes or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder of the Series C Senior Notes by accepting a Series C Senior Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Series C Senior Notes.

15. Defeasance. The Indenture contains provisions (which provisions apply to this Series C Senior Note) for defeasance at any time of (a) the entire indebtedness of the Company in respect of this Series C Senior Note and (b) certain restrictive covenants and Defaults and Events of Default, in each case upon compliance by the Company with certain conditions set forth therein.

16. Authentication. This Series C Senior Note shall not be valid until the Trustee signs the certificate of authentication on the other side of this Series C Senior Note.

17. Abbreviations. Customary abbreviations may be used in the name of a Holder of Series C Senior Notes or an assignee, such as: TEN COM (= tenants in common), TENANT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

18. GOVERNING LAW. THE INDENTURE AND THIS SERIES C SENIOR NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

The Company will furnish to any Holder of Series C Senior Notes upon written request and without charge a copy of the Indenture. Requests may be made to:

THE AES CORPORATION
1001 North 19th Street, Suite 2000
Arlington, Virginia 22209
Telephone: (703) 522-1315
Telecopy: (703) 528-4510

Attention: General Counsel

ASSIGNMENT FORM

If you the holder want to assign this Series C Senior Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Series C Senior Note to ______________________________

____

(Insert assignee's social security or tax ID number) ______________________________

(Print or type assignee's name, address and zip code) and irrevocably appoint ______________________

agent to transfer this Series C Senior Note on the books of the Company. The agent may substitute another to act for him.

____

Date: ______________________ Your signature: ______________________

(Sign exactly as your name appears on the other side of this Series C Senior Note)

Signature Guarantee: ______________________________

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

THE AES CORPORATION

as Issuer

AND

WELLS FARGO BANK, N.A.

as Trustee

THIRTEENTH SUPPLEMENTAL INDENTURE

Dated as of May 19, 2008

TO

SENIOR INDENTURE

Dated as of December 8, 1998

8.00% Senior Notes due 2020

The THIRTEENTH SUPPLEMENTAL INDENTURE, is dated as of this 19th day of May, 2008 (the "Thirteenth Supplemental Indenture"), between THE AES CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter sometimes referred to as the "Company"), and WELLS FARGO BANK, N.A., a national banking association, as trustee (hereinafter referred to as the "Trustee"), as successor trustee to BANK ONE, NATIONAL ASSOCIATION.

WHEREAS, the Company entered into a Senior Indenture dated as of December 8, 1998 between the Company and the Trustee to provide for the future issuance of its senior debentures, notes or other evidences of indebtedness (collectively, the "Securities"), said Securities to be issued from time to time in series as might be determined by the Company pursuant to the Indenture and, in an unlimited aggregate principal amount;

WHEREAS, the Company and the Trustee have entered into a First Supplemental Indenture, a Second Supplemental Indenture, a Third Supplemental Indenture, a Fourth Supplemental Indenture, a Fifth Supplemental Indenture, a Sixth Supplemental Indenture, a Seventh Supplemental Indenture, an Eighth Supplemental Indenture, a Ninth Supplemental Indenture, a Tenth Supplemental Indenture, an Eleventh Supplemental Indenture, and a Twelfth Supplemental Indenture providing for the creation and issuance of various series of Securities and/or amendments to the Indenture (the Indenture, as so amended and supplemented by the forgoing supplemental indentures and this Thirteenth Supplemental Indenture is hereinafter referred to as, the "Indenture");

WHEREAS, pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Securities to be known as its 8.00% Senior Notes due 2020, the form and substance of such Notes and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Thirteenth Supplemental Indenture; and

WHEREAS, the Company desires and has requested the Trustee to join with it in the execution and delivery of this Thirteenth Supplemental Indenture, and all requirements necessary to make this Thirteenth Supplemental Indenture a valid instrument, in accordance with its terms, and to make the 8.00% Senior Notes due 2020, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company have been satisfied;

NOW, THEREFORE, in consideration of the purchase and acceptance of the Notes by the Holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the 8.00% Senior Notes due 2020 and the terms, provisions and conditions thereof, the Company covenants and agrees with the Trustee as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.1. TERMS DEFINED IN THE INDENTURE.

Each capitalized term used but not defined in this Thirteenth Supplemental Indenture shall have the meaning assigned to such term in the Indenture.

SECTION 1.2. CERTAIN DEFINITIONS.

The following definitions are hereby added to the definitions contained in Section 1.1 of the Indenture, but only with respect to the 8.00% Senior Notes due 2020 issued in accordance with the provisions hereof:

"Additional Notes" means any notes issued under this Thirteenth Supplemental Indenture in addition to the Initial Notes or Exchange Notes having the same terms in all respects as the Initial Notes or Exchange Notes, as the case may be.

"Additional Interest" has the meaning ascribed to such term in the Registration Rights Agreement.

"Attributable Debt" means the present value (discounted at the rate of 8.00% per annum compounded monthly) of the obligations for rental payments required to be paid during the remaining term of any lease of more than 12 months.

"Board of Directors" means either the Board of Directors of the Company or (except for the purposes of clause (iii) of the definition of "Change of Control") any committee of such Board duly authorized to act under the Indenture.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of, or interests in (however designated), the equity of such Person which is outstanding or issued on or after the date of the Indenture, including, without limitation, all Common Stock and Preferred Stock and partnership and joint venture interests of such Person.

"Common Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of common stock of such Person which is outstanding or issued on or after the date of the Indenture, including, without limitation, all series and classes of such common stock.

"Change of Control" means the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company (determined on a consolidated basis) to any Person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) of Persons, (ii) a Person or group (as so defined) of Persons shall have become the beneficial owner of more than 50% of the outstanding Voting Stock of the Company, or (iii) during any one-year period, individuals who at the beginning of such period constitute the Board of Directors (together with any new director whose election or nomination was approved by a majority of the directors then in office who were either directors at the beginning of such period or who were previously so approved) cease to constitute a majority of the Board of Directors.

"Change of Control Offer" has the meaning provided in Section 4.1.

"Consolidated Net Assets" means the aggregate amount of assets (less reserves and other deductible items) after deducting current liabilities, as shown on the consolidated balance sheet of the Company and its Subsidiaries contained in the latest annual report to the stockholders of the Company and prepared in accordance with GAAP.

"DTC" has the meaning provided in Section 2.1.

"Exchange Notes" means the 8.00% Senior Notes due 2020 (the terms of which are identical to the Initial Notes except that the Exchange Notes shall be registered under the Securities Act, and shall not contain the restrictive legend on the face of the Initial Notes), to be issued in exchange for the Initial Notes pursuant to the registered Exchange Offer.

"Exchange Offer" means the offer by the Company to each Holder of the Initial Notes to exchange the aggregate principal amount of Initial Notes held by such Holder for an equal aggregate principal amount of Exchange Notes, all in accordance with the terms and conditions of the Registration Rights Agreement.

"Funded Debt" means indebtedness for borrowed money having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the date of the determination of the amount thereof.

"Global Securities" has the meaning provided in Section 2.1

"Initial Notes" means the 8.00% Senior Notes due 2020 of the Company issued on May 19, 2008 and delivered under this Supplemental Indenture.

"Issue Date" means May 19, 2008, the date of the original issuance of the Initial Notes.

"Notes" means the Initial Notes, the Exchange Notes and any Additional Notes issued on or after the Issue Date in accordance with clause (iii) of Section 2.2(a) treated as a single class of securities, as amended or supplemented from time to time in accordance with the terms hereof, that are issued pursuant to this Indenture.

"Offshore Global Securities" has the meaning provided in Section 2.1.

"Offshore Physical Securities" has the meaning provided in Section 2.1.

"Physical Securities" has the meaning provided in Section 2.1.

"Preferred Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of preferred or preference stock of such Person which is outstanding or issued on or after the date of the Indenture.

"Principal Property" means any building, structure or other facility (together with the land on which it is erected and fixtures comprising a part thereof) used primarily for manufacturing, processing, research, warehousing or distribution, owned or leased by the Company and having a net book value in excess of 2% of Consolidated Net Assets, other than any such building, structure or other facility or portion thereof which is a pollution control facility financed by state or local governmental obligations or which the principal executive officer, president and principal financial officer of the Company determine in good faith is not of material importance to the total business conducted or assets owned by the Company and its Subsidiaries as an entirety.

"Private Placement Legend" has the meaning provided in Section 2.5.

"QIB" means any "qualified institutional buyer" (as defined under the Securities Act).

"Registration Default" has the meaning ascribed to such term in the Registration Rights Agreement.

"Registration Rights Agreement" means the Registration Rights Agreement, dated the Issue Date between the Company and Citigroup Global Markets Inc., as representative of the initial purchasers named in Schedule I to the Registration Rights Agreement.

"Regulation S" means Regulation S under the Securities Act.

"Repurchase Date" shall have the meaning provided in Section 4.1 hereof.

"Restricted Security" has the meaning assigned to such term in Rule 144(a)(3) under the Securities Act;provided that the Trustee shall be entitled to request and conclusively rely on an Officers' Certificate with respect to whether any Security constitutes a Restricted Security.

"Rule 144A" means Rule 144A under the Securities Act.

"Unrestricted Global Security" means a Security evidencing all or a part of a series of Unrestricted Securities.

"Unrestricted Security" means a Security that does not and is not required to bear the Private Placement Legend, including, without limitation, the Exchange Notes and any Notes registered under the Securities Act pursuant to and in accordance with the Registration Rights Agreement and any Security issued pursuant to Section 2.7 hereof in exchange for a Restricted Security; which Security shall be identical to the Initial Securities and the Restricted Securities except that (i) it shall not bear the Private Placement Legend, (ii) it shall not include provisions relating to Additional Interest and (iii) it shall have a CUSIP number that is different than the CUSIP number on a Restricted Security.

"U.S. Global Securities" has the meaning provided in Section 2.1.

"U.S. Physical Securities" has the meaning provided in Section 2.1.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors of such Person or other Persons performing similar functions.

ARTICLE TWO

THE NOTES

SECTION 2.1. FORM AND DATING.

(a) The Notes shall be substantially in the form of Exhibit A hereto, which is a part of this Thirteenth Supplemental Indenture, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by the Indenture and this Thirteenth Supplemental Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the Officers of the Company executing such Notes, as evidenced by their execution of the Notes. The Notes will initially be issued as Global Securities. The Company initially appoints The Depository Trust Company ("DTC") and the Trustee to act as Depositary and custodian, respectively, with respect to the Notes. The Company initially appoints the Trustee to act as Paying Agent and Registrar with respect to the Notes. Notes offered and sold in reliance on Rule 144A shall be issued initially in the form of one or more permanent global Notes in registered form, substantially in the form set forth in Exhibit A (the "U.S. Global Securities"), registered in the name of the nominee of the Depository, deposited with the Trustee, as custodian for the Depository, duly executed by the Company and authenticated by the Trustee as hereinafter provided, and shall bear the legends set forth in Section 2.5. The aggregate principal amount of the U.S. Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, as hereinafter provided.

(b) Securities issued in exchange for interests in the U.S. Global Securities pursuant to 2.6 may be issued in the form of Physical Securities ("U.S. Physical Securities") and shall bear the first legend set forth in Section 2.5.

(c) Securities offered and sold in offshore transactions in reliance on Regulation S shall be issued initially in the form of one or more global Securities in registered form, substantially in the form set forth in Exhibit A (the "Offshore Global Securities"), registered in the name of the nominee of the Depository, deposited with the Trustee, as custodian for the Depository, duly executed by the Company and authenticated by the Trustee as hereinafter provided, and shall bear the legends set forth in Section 2.5. The aggregate principal amount of the Offshore Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, as hereinafter provided.

(d) Securities issued in exchange for interests in the Offshore Global Securities may be issued in the form of Physical Securities in registered form (the "Offshore Physical Securities").

(e) The Offshore Physical Securities and the U.S. Physical Securities are sometimes collectively herein referred to as the "Physical Securities." The U.S. Global Securities and the Offshore Global Securities are sometimes referred to herein as the "Global Securities.

SECTION 2.2. EXECUTION AND AUTHENTICATION

(a) The Trustee shall authenticate (i) Initial Notes for original issue on the Issue Date in the aggregate principal amount of $625,000,000, (ii) Exchange Notes and (iii) any Additional Notes, (such Notes to be substantially in the form of Exhibit A) in an unlimited amount, in each case, upon written orders of the Company in the form of an Officers' Certificate. Each such Officers' Certificate shall specify the amount of Notes to be authenticated, the date on which the Notes are to be authenticated, whether the Notes are to be Initial Notes, Exchange Notes or Additional Notes issued under clause (i), (ii) or (iii), respectively, of the preceding sentence, and the aggregate principal amount of Notes outstanding on the date of authentication, and shall further specify the amount of such Notes to be issued as a Global Security or Physical Securities. Such Notes shall initially be in the form of one or more Global Securities, which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, the Notes to be issued, (ii) shall be registered in the name of the Depository for such Global Security or Securities or its nominee and (iii) shall be held by the Trustee as custodian for the Depository or pursuant to the Depository's instruction.

(b) The Notes shall be issuable only in registered form without coupons in the principal amount of at least $1,000 and integral multiples of $1,000 thereafter.

SECTION 2.3. INTEREST.

Interest on the Notes shall be payable in the amount, on the dates and in the manner provided for in the form of the Note attached hereto as Exhibit A. Upon the occurrence of a Registration Default under the Registration Rights Agreement, the Notes shall be entitled to Additional Interest accruing during the periods described in the Registration Rights Agreement. All references in the Indenture and the Notes to "interest" shall be deemed to include any Additional Interest.

SECTION 2.4. PLACE OF PAYMENT.

(a) The place of payment for the Notes shall be the Borough of Manhattan, The City of New York, or Minneapolis, Minnesota. So long as the Notes are in the form of Registered Global Securities, the Company agrees that payments of interest on, and any portion of the Principal of, the Notes shall be made by the Paying Agent, upon receipt from the Company of immediately available funds, directly to the Depositary (by Federal funds wire transfer)

SECTION 2.5. RESTRICTIVE LEGENDS.

(a) Unless and until an Initial Note (i) is exchanged for an Exchange Note or sold in connection with an effective registration statement under the Securities Act pursuant to the Registration Rights Agreement, or (ii) the Private Placement Legend has been removed from such Initial Note in accordance with Section 2.7 or, with respect to a Restricted Global Security, all of the beneficial interests in such Restricted Global Security have been exchanged for beneficial interests in the Unrestricted Global Security in accordance with Section 2.7, the U.S. Global Securities, U.S. Physical Securities and Offshore Global Securities shall bear the following legend set forth below (the "Private Placement Legend") on the face thereof:

> THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE LAWS OF ANY STATE OR OTHER JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER (1) REPRESENTS THAT (A) IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT OR (B) IT IS NOT A UNITED STATES PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT), AND (2) AGREES FOR THE BENEFIT OF THE AES CORPORATION ("AES") THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ONLY (A) TO AES, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) ABOVE, AES RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY RULE 144 EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Each Global Security shall also bear the following legend on the face thereof:

UNLESS AND UNTIL THIS NOTE IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY, OR BY ANY SUCH NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO. OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN SECTION 2.6 OF THE SUPPLEMENTAL INDENTURE GOVERNING THIS NOTE.

SECTION 2.6. SPECIAL TRANSFER PROVISIONS.

(a) The following provisions shall apply with respect to the registration of any proposed transfer of a Note constituting a Restricted Security to any institutional accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) (an "Accredited Investor" or an "Institutional Accredited Investor") which is not a QIB (excluding transfers to Non-U.S. Persons, which shall be governed by clause (c)):

(i) The Registrar shall register the transfer in an aggregate principal amount of at least $250,000 of any Note constituting a Restricted Security, whether or not such Security bears the Private Placement Legend, if the proposed transferee has delivered to the Registrar a certificate substantially in the form Exhibit B hereto, and the proposed transferee has delivered to the Registrar and the Company an opinion of counsel acceptable to the Company that such transfer is in compliance with the Securities Act and such other certifications, legal opinions or other information that the Trustee may reasonably request in order to confirm that such transaction is being made pursuant to an exemption form or in a transaction not subject to the registration requirements of the Securities Act; and

(ii) If the proposed transferor is a member of, or participant in, the Depository (an "Agent Member") holding a beneficial interest in a U.S. Global Security, whether or not such Note bears a Private Placement Legend, upon receipt by the Registrar of (x) the certificate and opinion, if any, required by paragraph (i) above and (y) instructions given in accordance with the Depository's and the Registrar's procedures, whereupon (a) the Registrar shall reflect on its books and records the date and a decrease in the principal amount of the applicable U.S. Global Security in an amount equal to the principal amount of the beneficial interest in such U.S. Global Security to be transferred, and an increase in the applicable Global Security to which the beneficial interest is to be transferred or shall authenticate and deliver one or more U.S. Physical Securities of like tenor and amount.

(b) The following provisions shall apply with respect to the registration of any proposed transfer of a Note to a QIB (excluding transfers to Non U.S. Persons, which shall be governed by clause (c)):

(i) if the Note to be transferred consists of (x) either Offshore Physical Securities prior to the removal of the Private Placement Legend or U.S. Physical Securities, the Registrar shall register the transfer if such transfer is being made by a proposed transferor who has checked the box provided for on the form of Note stating, or has otherwise advised the Company and the Registrar in writing, that the sale has been made in compliance with the provisions of Rule 144A to a transferee who has signed the certification provided for on the form of Note stating, or has otherwise advised the Company and the Registrar in writing that it is purchasing the Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A or (y) an interest in the U.S. Global Securities, the transfer of such interest may be effected only through the book entry system maintained by the Depositary; and

(ii) if the proposed transferee is an Agent Member, and the Notes to be transferred consist of U.S. Physical Securities which after transfer are to be evidenced by an interest in a U.S. Global Security, upon receipt by the Registrar of instructions given in accordance with the Depository's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the applicable U.S. Global Security in an amount equal to the principal amount of the U.S. Physical Securities to be transferred, and the Trustee shall cancel the U.S. Physical Securities so transferred.

(c) The following provisions shall apply with respect to any transfer of a Note to a Non-U.S. Person:

(i) prior to the 41st day after the date on which such Note is originally issued, the Registrar shall register any proposed transfer of a Note to a Non-U.S. Person upon receipt of a certificate substantially in the form of Exhibit C hereto from the proposed transferor and the Registrar shall register any proposed transfer to any Non-U.S. Person if the Note to be transferred is a U.S. Physical Security or an interest in U.S. Global Securities, upon receipt of a certificate substantially in the form of Exhibit C hereto from the proposed transferor;

(ii) on or after the 41st day after the date on which such Note is originally issued, the Registrar shall register any proposed transfer of any Offshore Physical Security or Offshore Global Security without requiring any certification; and

(iii) (a) if the proposed transferor is an Agent Member holding a beneficial interest in the U.S. Global Securities, upon receipt by the Registrar of (x) the documents, if any, required by paragraph (i) or (ii) and (y) instructions in accordance with the Depositary's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and a decrease in the principal amount of the U.S. Global Securities in an amount equal to the principal amount of the beneficial interest in the U.S. Global Securities to be transferred, and (b) if the proposed transferee is an Agent Member, upon receipt by the Registrar of instructions given in accordance with the Depository's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Offshore Global Securities in an amount equal to the principal amount of the U.S. Physical Securities or the U.S. Global Securities, as the case may be, to be transferred, and the Trustee shall cancel the U.S. Physical Security, if any, so transferred or decrease the amount of the U.S. Global Security.

(d) Upon the registration of transfer, exchange or replacement of Notes not bearing the Private Placement Legend, the Registrar shall deliver Notes that do not bear the Private Placement Legend. Upon the registration of transfer, exchange or replacement of Notes bearing the Private Placement Legend, the Registrar shall deliver only Notes that bear the Private Placement Legend unless (i) the transferee certifies that it is not an Affiliate of the Company and the requested transfer is after the first anniversary of the later of (a) the date on which such Notes are originally issued and (b) the last date on which the Company or an

Affiliate of the Company was the owner of such Notes (or any predecessor Securities) or such shorter period of time as permitted by Rule 144(d) under the Securities Act or any successor provision thereunder or (ii) the circumstance contemplated by paragraph (c)(ii) of this Section 2.6 exists, (iii) there is delivered to the Registrar an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act or until such time as the Private Placement Legend is no longer required pursuant to Sections 2.5 and 2.7 and such Private Placement Legend is removed pursuant to Sections 2.5 and 2.7.

(e) By its acceptance of any Note bearing the Private Placement Legend, each Holder of such Note acknowledges the restrictions on transfer of such Note set forth in this Indenture and in the Private Placement Legend and agrees that it shall transfer such Note only as provided in this Indenture. The Registrar shall retain copies of all letters, notices and other written communications received pursuant to this Section 2.6 in accordance with its customary procedures. The Company, at its own expense, shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Registrar.

SECTION 2.7 EXCHANGE FROM RESTRICTED GLOBAL SECURITY INTO AN UNRESTRICTED GLOBAL SECURITY.

(a) Beneficial interests in the Restricted Global Security may be automatically exchanged into beneficial interests in the Unrestricted Global Security on or after May 20, 2009 upon compliance with the conditions set forth in this Section 2.7. The Company shall (i) provide written notice to the Trustee at least 10 calendar days prior to such mandatory exchange, instructing the Trustee to direct the Depository to exchange all of the outstanding beneficial interests in a particular Restricted Global Security to the Unrestricted Global Security, which the Company shall have previously otherwise made eligible for exchange with DTC, (ii) provide prior written notice to all Holders of such exchange at least 10 calendar days prior to such mandatory exchange, which notice must include the date of such exchange, the CUSIP number of the relevant Restricted Global Security and the CUSIP number of the Unrestricted Global Security into which such Holders' beneficial interests shall be exchanged, and (iii) on or prior to the date of such exchange, deliver to the Trustee for authentication one or more Unrestricted Global Securities, duly executed by the Company, in an aggregate principal amount equal to the aggregate principal amount of Restricted Global Securities to be exchanged.

(b) As a condition to any such exchange pursuant to this Section 2.7, the Company shall provide, and the Trustee shall be entitled to rely upon, an Officers' Certificate, in the form and substance reasonably satisfactory to the Trustee to the effect that the Private Placement Legend and the related restrictions on transfer are not required or advisable in order to maintain compliance with the provisions of the Securities Act.

(c) Upon such exchange of beneficial interests pursuant to this Section 2.7, the aggregate principal amount of the Global Securities may be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, to reflect the relevant increase or decrease in the principal amount of such Global Security resulting from the applicable exchange.

ARTICLE THREE

OPTIONAL REDEMPTION OF THE NOTES

SECTION 3.1. OPTIONAL REDEMPTION.

(a) The Notes may be redeemed at the option of the Company, as a whole or from time to time in part, at the times and at the Redemption Price specified in the form of the Note attached hereto as Exhibit A.

ARTICLE FOUR

REPURCHASE OF NOTES UPON CHANGE OF CONTROL

SECTION 4.1. REPURCHASE OF NOTES UPON A CHANGE OF CONTROL.

(a) Upon a Change of Control, each holder of the Notes shall have the right to require that the Company repurchase such holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder of the Notes with a copy to the Trustee stating

(i) that a Change of Control has occurred and that such Holder has the right to require the Company to repurchase such Holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase (the "Change of Control Offer"),

(ii) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control),

(iii) the repurchase date (which shall be not earlier than 30 days or later than 60 days from the date such notice is mailed) (the "Repurchase Date"),

(iv) that any Notes not tendered shall continue to accrue interest,

(v) that any Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Repurchase Date,

(vi) that Holders electing to have a Note purchased pursuant to a Change of Control Offer will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes completed, to the paying agent at the address specified in the notice prior to the close of business on the Repurchase Date,

(vii) that Holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the third Business Day (or such shorter periods as may be required by applicable law) preceding the Repurchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes the Holder delivered for purchase, and a statement that such Holder is withdrawing his election to have such Notes purchased, and

(viii) that Holders which elect to have their Notes purchased only in part will be issued new Notes of the same series in a principal amount equal to the unpurchased portion of the Notes surrendered.

(c) On the Repurchase Date, the Company shall (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer; (ii) deposit with the Trustee money sufficient to pay the purchase price of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee Notes so accepted together with an Officers' Certificate identifying the Notes or portions thereof tendered to the Company.

(d) The Trustee shall promptly mail to the Holders of the Notes so accepted payment in an amount equal to the purchase price, and promptly authenticate and mail to such Holders a new Note of the same series in a principal amount equal to any unpurchased portion of the Notes surrendered. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Repurchase Date.

(e) The Company shall comply with all applicable tender offer rules, including without limitation Rule 14e-1 under the Exchange Act, in connection with a Change of Control Offer.

ARTICLE FIVE

ADDITIONAL COVENANTS APPLICABLE TO THE NOTES

SECTION 5.1. RESTRICTIONS ON SECURED DEBT.

(a) If the Company shall incur, issue, assume or guarantee any indebtedness for borrowed money represented by notes, bonds, debentures or other similar evidences of indebtedness, secured by a mortgage, pledge or other lien on any Principal Property or any capital stock or indebtedness held directly by the Company of any Subsidiary of the Company, the Company shall secure the Notes equally and ratably with (or prior to) such indebtedness, so long as such indebtedness shall be so secured, unless after giving effect thereto the aggregate amount of all such indebtedness so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Properties, would not exceed 15% of the Consolidated Net Assets of the Company.

(b) The foregoing restriction shall not apply to, and there shall be excluded in computing secured indebtedness for the purpose of such restriction, indebtedness secured by (a) property of any Subsidiary of the Company, (b) liens on property of, or on any shares of stock or debt of, any corporation existing at the time such corporation becomes a Subsidiary, (c) liens in favor of the Company or any Subsidiary, (d) liens in favor of U.S. or foreign governmental bodies to secure partial, progress, advance or other payments, (e) liens on property, shares of stock or debt existing at the time of acquisition thereof (including acquisition through merger or consolidation), purchase money mortgages and construction cost mortgages existing at or incurred within 180 days of the time of acquisition thereof, (f) liens existing on the first date on which any Note is authenticated by the Trustee, (g) liens under one or more credit facilities for indebtedness in an aggregate principal amount not to exceed $900,000,000 at any time outstanding, (h) liens incurred in connection with pollution control, industrial revenue or similar financings, and (i) any extension, renewal or replacement of any debt secured by any liens referred to in the foregoing clauses (a) through (h), inclusive.

SECTION 5.2. RESTRICTIONS ON SALES AND LEASEBACKS.

(a) The Company shall not enter into any sale and leaseback transaction involving any Principal Property, the acquisition or completion of construction and commencement of full operation of which has occurred more than 180 days prior thereto, unless (a) the Company could incur a lien on such property under the restrictions described in Section 5.1 hereof in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Notes or (b) the Company, within 180 days after the sale or transfer by the Company, applies to the retirement of its Funded Debt an amount equal to the greater of (i) the net proceeds of the sale of the Principal Property sold and leased pursuant to such arrangement or (ii) the fair market value of the Principal Property so sold and leased as determined by the board of directors of the Company;provided that the amount to be applied to the retirement of Funded Debt of the Company shall be reduced by (A) the principal amount of any Notes delivered within 180 days after such sale or transfer to the Trustee for retirement and cancellation, and (B) the principal amount of Funded Debt, other than Notes, voluntarily retired by the Company within 180 days after such sale or transfer; provided further that no retirement referred to in this clause (b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

ARTICLE SIX

ADDITIONAL EVENTS OF DEFAULT APPLICABLE TO THE NOTE

SECTION 6.1. ADDITIONAL EVENTS OF DEFAULT.

(a) Pursuant to Section 6.1 (f) of the Indenture, an "Event of Default" shall be deemed to occur with respect to the Notes if an event of default, as defined in any indenture or instrument evidencing or under which the Company has as of the date of this Thirteenth Supplemental Indenture or shall thereafter have outstanding any indebtedness, shall happen and be continuing and either (i) such default results from the failure to pay the principal of such indebtedness in excess of $50 million at final maturity of such indebtedness or (ii) as a result of such default the maturity of such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not be rescinded or annulled within 60 days and the principal amount of such indebtedness, together with the principal amount of any other indebtedness of the Company in default, or the maturity of which has been accelerated, aggregates $50 million or more;provided that the Trustee shall not be charged with knowledge of any such default unless written notice thereof shall have been given to the Trustee by the Company, by the holder or an agent of the holder of any such indebtedness, by the trustee then acting under any indenture or other instrument under which such default shall have occurred, or by the holders of not less than 25% in the aggregate principal amount of the Notes at the time outstanding; andprovided further that if such default shall be remedied or cured by the Company or waived by the holder of such indebtedness, then the Event of Default described under this Thirteenth Supplemental Indenture shall be deemed likewise to have been remedied, cured or waived without further action on the part of the Trustee, any Holder of Notes or any other person.

ARTICLE SEVEN

MISCELLANEOUS PROVISIONS

SECTION 7.1. RATIFICATION.

(a) The Indenture, as supplemented by this Thirteenth Supplemental Indenture, is in all respects ratified and confirmed. This Thirteenth Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent provided herein and therein.

SECTION 7.2. COUNTERPARTS.

(a) This Thirteenth Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Thirteenth Supplemental Indenture to be duly executed and attested, on the date or dates indicated in the acknowledgments and as of the day and year first above written.

THE AES CORPORATION, as the Issuer

By: ______________________________
Name:
Title:

Attest:

By: ______________________________
Name :
Title:

WELLS FARGO BANK, N.A., as Trustee

By: ______________________________
Name:
Title:

Attest:

By: ______________________________
Name :
Title:

Exhibit A

[FORM OF NOTE]*

[FACE OF NOTE]

THE AES CORPORATION.

8.00% Senior Note due 2020

CUSIP No.
ISIN No.

No. Principal Amount $

THE AES CORPORATION, a Delaware corporation (the "Company"), for value received promises to pay to or registered assigns, the principal sum of Dollars ($) on June 1, 2020.

Interest Payment Dates: June 1 and December 1; commencing December 1, 2008.

Record Dates: The fifteenth calendar day prior to each Interest Payment Date.

Reference is made to the further provisions of this Note contained herein, which shall for all purposes have the same effect as if set forth at this place

---

* Add Private Placement Legend to Initial Note and, if applicable, Global Security Legend.

By: ______________________________

Authorized Signature

By: ______________________________

Authorized Signature

Dated:

Certificate of Authentication

This is one of the 8.00% Senior Notes due 2020 referred to in the within-mentioned Indenture.

Wells Fargo Bank, N.A., as Trustee

By: ______________________________

Authorized Signatory

[REVERSE OF FORM OF NOTE]

THE AES CORPORATION

8.00% SENIOR NOTE DUE 2020

1.— Interest. THE AES CORPORATION, a Delaware corporation (the "Company," which definition shall include any successor thereto in accordance with the Indenture (as defined below), promises to pay, until the principal hereof is paid or made available for payment, interest on the principal amount set forth on the reverse side hereof at a rate of 8.00% per annum plus any Additional Interest payable pursuant to the Registration Rights Agreement. All references in this Note to "interest" shall mean and include any Additional Interest. Interest on the Notes will accrue from and including the most recent date to which interest has been paid or, if no interest has been paid, from May 19, 2008 through but excluding the date on which interest is paid. Interest shall be payable in arrears on June 1 and December 1 of each year (each an "Interest Payment Date"), commencing December 1, 2008. Interest will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date.

2.— Method of Payment. The Company will pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders of Notes at the close of business on the fifteenth calendar day prior to each Interest Payment Date (each, a "Regular Record Date"). Holders must surrender Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. At the Company's option, interest may be paid by check mailed to the registered address of the Holder of this Note.

3.— Paying Agent and Registrar. Initially, Wells Fargo Bank, N.A. (the "Trustee") will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-Registrar without notice.

4.— Indenture. The Company issued the Notes under an Indenture dated as of December 8, 1998 between the Company and the Trustee as supplemented by the Ninth Supplemental Indenture dated as of April 3, 2003 and the Thirteenth Supplemental Indenture dated as of May 19, 2008 between the Company and the Trustee (said Indenture, as so supplemented, the "Indenture"). This Note is one of an issue of Securities of the Company issued under the Indenture. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code §§ 77aaa-77bbbb) as amended from time to time. The Notes are subject to all such terms, and Holders of the Notes are referred to the Indenture and such Act for a statement of them. Capitalized terms used herein and not otherwise defined have the meanings set forth in the Indenture. The Notes are general unsecured and unsubordinated obligations of the Company ranking pari passu with all of the Company's unsecured and unsubordinated obligations. The Company may, subject to the terms of the Indenture and applicable law, issue Additional Notes under the Thirteenth Supplemental Indenture. The Notes issued on May 19, 2008 and any additional Notes subsequently issued shall be treated as a single class for all purposes of the Thirteenth Supplemental Indenture. The Indenture limits the ability of the Company to incur certain secured indebtedness and to enter into certain sale and leaseback transactions.

5.— Optional Redemption. The Notes are subject to redemption upon not less than 30 nor more than 60 days notice mailed to each holder of Notes to be redeemed at its address appearing in the Security Register, at any time prior to maturity as a whole or in part, at the election of the Company at a price (the "Redemption Price") equal to the sum of (i) 100% of the principal amount thereof plus accrued interest to the redemption date plus (ii) the Make-Whole Amount, if any.

"Make-Whole Amount" means the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Reinvestment Rate (determined on the Business Day preceding the date of such redemption) from the respective dates on which such principal and interest would have been payable if such payment had not been made, over (ii) the aggregate principal amount of the Notes being redeemed.

"Reinvestment Rate" means 0.50% (one-half of one percent) plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the maturity of the principal being prepaid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination under the Indenture, then such other reasonably comparable index which shall be designated by the Company.

6.— Change of Control Offer. Upon the occurrence of a Change of Control, the Company shall be required, as and to the extent set forth in the Indenture, to offer to purchase all of the outstanding Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of repurchase (subject to the right of the

Holders of record on the relevant date to receive interest due on the relevant interest payment date).

7. Sinking Fund. No sinking fund is provided for the Notes.

8. Denominations, Transfer, Exchange. The Notes are in registered form without coupons in denominations of $1,000 and integral multiples of $1,000 thereafter. A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay to it any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Notes or portion of a Note selected for redemption, or transfer or exchange any Notes for a period of 15 days before selection of such Notes to be redeemed.

9. Persons Deemed Owners. The registered holder of a Note may be treated as the owner of it for all purposes.

10. Unclaimed Money. If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent will pay the money back to the Company at its written request. After that, Holders entitled to the money must look to the Company for payment as general creditors unless an "abandoned property" law designates another Person.

11. Amendment, Supplement, Waiver. The Company and the Trustee may, without the consent of the holders of any outstanding Notes, amend, waive or supplement the Indenture or the Notes for certain specified purposes, including, among other things, curing ambiguities, defects or inconsistencies, maintaining the qualification of the Indenture under the Trust Indenture Act of 1939 or making any other change that does not adversely affect the rights of any Holder in any material respect. Other amendments and modifications of the Indenture or the Notes may be made by the Company and the Trustee with the consent of the Holders of not less than a majority of the aggregate principal amount of the outstanding Securities of all series affected, subject to certain exceptions requiring the consent of the Holders of the particular Securities.

12. Successor Corporation. When a successor corporation assumes all the obligations of its predecessor under the Notes and the Indenture and the transaction complies with the terms of Article 5 of the Indenture, the predecessor corporation, subject to certain exceptions, will be released from those obligations.

13. Defaults and Remedies. Events of Default are set forth in the Indenture. Subject to certain limitations in the Indenture, if an Event of Default (other than an Event of Default specified in Section 6.1(d) or (e) of the Indenture with respect to the Company) occurs and is continuing, then the holders of not less than 25% in aggregate principal amount of the outstanding Notes may, or the Trustee may, declare the principal of, plus accrued interest, if any, to be due and payable immediately. If an Event of Default specified in Section 6.1(d) or (e) of the Indenture with respect to the Company occurs and is continuing, the principal of and accrued interest on all of the Notes shall*ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. Holders of the Notes may

not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity reasonably satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Securities of all series issued under the Indenture that are affected may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing default (except a default in payment of principal or interest) if it determines in good faith that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

14.– Trustee Dealing with Company. The Trustee, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee.

15.– No Recourse Against Others. A director, officer, employee, stockholder or beneficiary, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

16.– Defeasance. The Indenture contains provisions (which provisions apply to this Note) for defeasance at any time of (a) the entire indebtedness of the Company in respect of this Note and (b) certain restrictive covenants and Defaults and Events of Default, in each case upon compliance by the Company with certain conditions set forth therein.

17.– Authentication. This Note shall not be valid until the Trustee signs the certificate of authentication on the other side of this Note.

18.– Abbreviations. Customary abbreviations may be used in the name of a Holder of Notes or an assignee, such as: TEN COM (= tenants in common), TENANT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

19.– GOVERNING LAW. THE INDENTURE AND THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

The Company will furnish to any Holder of Notes upon written request and without charge a copy of the Indenture. Requests may be made to:

THE AES CORPORATION
4300 Wilson Boulevard
Arlington, Virginia 22203
Telephone: (703) 522-1315
Telecopy: (703) 558-4879
Attention: Legal Department

ASSIGNMENT FORM

If you the holder want to assign this Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Note to ______________________________

____

(Insert assignee's social security or tax ID number) ____

____

(Print or type assignee's name, address and zip code) and irrevocably appoint ______________________ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

____

Date: ________________________________ Your signature: ______________________________

(Sign exactly as your name appears on the other side of this Note)

Signature Guarantee: ____

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended

OPTION OF HOLDER TO ELECT TO PURCHASE

Wells Fargo Bank, N.A.
Corporate Trust Services
625 Marquette Avenue
MAC N9311-110
Minneapolis, MN. 55479
Attn: AES Corporation Administrator

[Date]

Attention:

Re: The AES Corporation
8.00% Senior Notes due 2020 (the "Notes")

The undersigned hereby elects to have [all] [a portion of] its Notes purchased by the Company pursuant to Section 4.1 of the Indenture.

If the undersigned elects to have only part of its Notes purchased by the Company pursuant to Section 4.1 of the Indenture, state the principal amount (in multiples of $1,000):

$

Dated: ____________________ Signed: ____________________

(Sign exactly as name appears on the other side of this Security)

Signature Guarantee:

____

Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor program reasonably acceptable to the Trustee)

[Check One]

(1) ☐ to the Company; or

(2) ☐ pursuant to and in compliance with Rule 144A under the Securities Act; or

(3) ☐ To an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that has furnished to the Trustee a signed letter containing certain representations and agreements (the form of which letter can be obtained from the Trustee); or

(4) ☐ outside the United States to a Person that is not a U.S. Person in compliance with Rule 904 of Regulation S under the Securities Act; or

(5) ☐ pursuant to the exemption from registration provided by Rule 144 under the Securities Act; or

(6) ☐ pursuant to an effective registration statement under the Securities Act; or

(7) ☐ pursuant to another available exemption from the registration requirements of the Securities Act;

and unless the box below is checked, the undersigned confirms that such Security is not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act of 1933, as amended (an "Affiliate"):

☐ The transferee is an Affiliate of the Company.

Unless one of the items is checked, the Trustee shall refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered Holder thereof;provided that if box (3), (4), (5) or (7) is checked, the Company or the Trustee may require, prior to registering any such transfer of the Notes, in its sole discretion, such legal opinions, certifications (including an investment letter in the case of box (3) or (4)) and other information as the Trustee or the Company have reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

If none of the foregoing boxes is checked, the Trustee or Registrar shall not be obligated to register this Note in the name of any person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 2.6 of the Indenture shall have been satisfied.

Dated:______________________ Signed: ______________________

(Sign exactly as name appears on the other side of this Security)

Signature Guarantee: ______________________

TO BE COMPLETED BY PURCHASER IF (2) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: ______________________

Exhibit B

Form of Certificate to be
Delivered in Connection with
Transfers to Non-QIB Accredited Investors

[Date]

Attention:

Re: The AES Corporation
8.00% Senior Notes due 2020 (the "Notes")

Ladies and Gentlemen:

In connection with our proposed purchase of The AES Corporation (the "Company"), we confirm that:

1. We understand that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the indenture relating to the Notes and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act of 1933, as amended (the "Securities Act").

2. We understand that the offer and sale of the Notes have not been registered under the Securities Act, and that the Notes may not be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we should sell or otherwise transfer any Notes prior to the date which is two years after the original issuance of the Notes, we will do so only (i) to the Company or any of their subsidiaries, (ii) inside the United States in accordance with Rule 144A under the Securities Act to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act), (iii) inside the United States to an institutional "accredited investor" (as defined below) that, prior to such transfer, furnishes (or has furnished on its behalf by a U.S. broker-dealer) to the Trustee (as defined in the Indenture relating to the Notes), a signed letter containing certain representations and agreements relating to the restrictions on transfer of the Notes and, if such transfer is in respect of any aggregate principal amount of Notes of less than $250,000, also furnishes an opinion of counsel acceptable to the Company that such transfer complies with the Securities Act, (iv) outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, (v) pursuant to the exemption from registration provided

by Rule 144 under the Securities Act (if available), or (vi) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any person purchasing any of the Notes from us a notice advising such purchaser that resales of the Notes are restricted as stated herein.

3. We understand that, on any proposed resale of any Notes, we will be required to furnish to the Trustee and the Company such certification, legal opinions and other information as the Trustee and the Company may reasonably require to confirm that the proposed sale complies with the foregoing restrictions. We further understand that the Notes purchased by us shall bear a legend to the foregoing effect.

4. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or their investment, as the case may be.

5. We are acquiring the Notes purchased by us for our account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion, and we are not acquiring the Notes with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act.

6. The principal amount of the Notes to which this Certificate relates is $.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

By: ______________________________

Name:
Title:

Form of Certificate to Be
Delivered in Connection with
Transfers Pursuant to Regulation S

Wells Fargo Bank, N.A. [Date]
Corporate Trust Services
625 Marquette Avenue
MAC N9311-110
Minneapolis, MN. 55479
Attn: AES Corporation Administrator

Attention:

Re: The AES Corporation
8.00% Senior Notes due 2020 (the "Notes")

In connection with our proposed sale of $ aggregate principal amount of the Notes, we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, we represent that:

1. the offer of the Notes was not made to a person in the United States;

2. either (a) at the time the buy offer was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States, or (b) the transaction was executed in, on or through the facilities of a designated off-shore securities market and neither we nor any person acting on our behalf knows that the transaction has been pre-arranged with a buyer in the United States;

3. no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable;

4. the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; and

5. we have advised the transferee of the transfer restrictions applicable to the Notes.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this certificate have the meanings set forth in Regulation S.

Very truly yours,

[Name of Transferor]

By: ______________________________
Authorized Signature

Exhibit 4.(m)

THE AES CORPORATION
as the Company

and

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

as Trustee

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8 3/4% Second Priority Senior Secured Notes due 2013
9% Second Priority Senior Secured Notes due 2015

Senior Indenture

Dated as of May 8, 2003

TABLE OF CONTENTS(1)

(1) Note: The Table of Contents shall not for any purposes be deemed to be a part of the Indenture.

Article 4
COVENANTS

Article 5
SUCCESSOR CORPORATION

Article 6
DEFAULT AND REMEDIES

Article 11
SECURITY ARRANGEMENTS

INDENTURE, dated as of May 8, 2003, between The AES Corporation (the "**Company**"), a Delaware corporation, as the issuer, and Wells Fargo Bank Minnesota, National Association, a national banking association, as trustee (the "**Trustee**").

RECITALS OF THE COMPANY

WHEREAS, the Company has duly authorized the execution and delivery of the Indenture to provide for the issuance from time to time of up to such Principal amount or amounts as may from time to time be authorized of the Company's 8¾% Second Priority Senior Secured Notes Due 2013 (the "**Notes due 2013**") and the Company's 9% Second Priority Senior Secured Notes Due 2015 (the "**Notes due 2015**" and collectively with the Notes due 2013, the "**Notes**") in accordance with the terms of this Indenture; and

WHEREAS, all things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done, and the Company has done all things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company as hereinafter provided;

NOW, THEREFORE THIS INDENTURE WITNESSETH

For and in consideration of the premises and the purchases of the Notes by the Holders thereof, the Company and the Trustee mutually covenant and agree for the equal and proportionate benefit of the respective Holders as follows:

ARTICLE 1
DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01. *Definitions.*

"**Additional Collateral Trust Agreement Collateral**" means the "Additional Second Priority Collateral Trust Agreement Collateral" referred to in the Collateral Trust Agreement.

"**Additional Notes**" means any notes issued under the Indenture in addition to the Original Notes having the same terms in all respects as the Original Notes due 2013 or the Original Notes due 2015, as the case may be, except that interest will accrue on the Additional Notes from the most recent date to which interest has been paid on the Notes of the applicable Series (other than Additional Notes) or, if no interest has been paid, from the Original Issue Date.

"**Affiliate**" means, as applied to any Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”) when used with respect to any Person is defined to mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“**Agent**” means any Registrar, Paying Agent, transfer agent or Authenticating Agent.

“**Agent Member**” means a member of, or a participant in, the Depositary.

“**Announced Asset Sale**” means the sale by the Company of (i) its majority ownership of Songas Limited, a gas-to-electricity business currently under construction in Tanzania, (ii) its ownership interest in two generation businesses in Bangladesh (AES Haripur Private Limited, a 360 MW gas fired combined cycle power plant and AES Meghnaghat Limited, a 450 MW gas fired combined cycle power plant) and (iii) approximately 32% of the ownership interest in AES Oasis Limited, a newly created company that will own two electric generation and desalination plants in Oman and Qatar, the oil-fired generating facilities AES LalPir and AES PakGen in Pakistan and other future power projects in the Middle East.

“**Asset Disposition**” means, with respect to any Person, any sale, transfer, conveyance, lease or other disposition (including by way of merger, consolidation or sale-leaseback) by such Person or any of its Subsidiaries to any Person (other than to the Company or a Consolidated Subsidiary of the Company and other than in the ordinary course of business) of (i) any assets (excluding cash and cash equivalents) of such Person or any of its Subsidiaries or (ii) any shares of Capital Stock of such Person’s Subsidiaries.

For purposes of this definition, any disposition in connection with directors’ qualifying shares or investments by foreign nationals mandated by applicable law shall not constitute an Asset Disposition. In addition, the term “Asset Disposition” shall not include any sale, transfer, conveyance, lease or other disposition of assets governed by Article 5. The term “Asset Disposition” also shall not include (i) any sale of shares of Preferred Stock of a Subsidiary other than a Collateral Subsidiary, (ii) the grant of a security interest by any Person in any assets or shares of Capital Stock securing a borrowing by, or contractual performance obligation of, such Person or any Subsidiary of such Person, (iii) a sale-leaseback transaction involving substantially all of the assets of a Power Supply Business where a Subsidiary of the Company sells the Power Supply Business to a Person in exchange for the assumption by that Person of the Debt financing the Power Supply Business and the Subsidiary leases the Power Supply Business from such Person, (iv) dispositions of contract rights, development rights and resource data made in connection with the initial development of a Power Supply Business, made prior to the commencement of commercial operation of such Power Supply Business, (v) transactions made in order to enhance the repatriation of cash proceeds in connection with a Foreign Asset Disposition or in order to increase the after-tax proceeds thereof available for immediate distribution, (vi) any dividend or other distribution on any shares of such Person's Capital Stock, (vii) any payment on account of the purchase, redemption, retirement or acquisition for value of such Person's Capital Stock or any option, warrant or other right to purchase shares of such Person's Capital Stock, (viii) any defeasance, redemption, repurchase or other acquisition or retirement for value of any First-Priority Secured Debt or Debt of any Subsidiary of the Company or (ix) any conversion of such Person's Debt into Capital Stock of such Person or its Subsidiaries. Notwithstanding the foregoing, any sale, transfer, conveyance, lease or other disposition of assets (excluding cash and cash-equivalents or any grant of a security interest) by a Collateral Subsidiary to the Company or a Subsidiary of the Company that is not a Collateral Subsidiary shall be an Asset Disposition unless such Subsidiary becomes a Collateral Subsidiary or such assets are pledged as Collateral under the Second-Priority Security Documents, in each case, substantially concurrently with such sale, transfer, conveyance, lease or other disposition.

"**Attributable Debt**" means the present value (discounted at the rate of 8¾% per annum compounded monthly) of the obligations for rental payments required to be paid during the remaining term of any lease of more than 12 months.

"**Board of Directors**" means either the Board of Directors of the Company or (except for the purposes of clause (iii) of the definition of "Change of Control") any committee of such Board duly authorized to act hereunder.

"**Board Resolution**" means one or more resolutions of the Board of Directors, certified by the secretary or an assistant secretary to have been duly adopted and to be in full force and effect on the date of certification, and delivered to the Trustee.

"**Business Day**" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in the City of New York.

"**BVI Cayman Pledge Agreement**" means the Second-Priority Charge and Assignment over Shares dated May 8, 2003 between AES International Holdings II, Ltd., as Chargor, Wells Fargo Bank Minnesota, National Association, as Corporate Trustee and Jeffery T. Rose, as Individual Trustee.

"**BVI Collateral**" means the "Collateral" referred to in the BVI Cayman Pledge Agreement.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participants or other equivalents (however designated, whether voting or non-voting) of, or interests in (however designated), the equity of such Person which is outstanding or issued on or after the date hereof, including, without limitation, all Common Stock and Preferred Stock and partnership and joint venture interests of such Person.

“**Capitalized Lease**” means, as applied to any Person, any lease of any Property of which the discounted present value of the rental obligations of such Person as lessee, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person; and “**Capitalized Lease Obligation**” is defined to mean the rental obligations, as aforesaid, under such lease.

“**Change of Control**” means the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company (determined on a consolidated basis) to any Person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) of Persons, (ii) a Person or group (as so defined) of Persons (other than management of the Company on the date of the Indenture or their Affiliates) shall have become the beneficial owner of more than 35% of the outstanding Voting Stock of the Company, or (iii) during any one-year period, individuals who at the beginning of such period constitute the Board of Directors (together with any new director whose election or nomination was approved by a majority of the directors then in office who were either directors at the beginning of such period or who were previously so approved) cease to constitute a majority of the Board of Directors

“**Clearstream**” means Clearstream Banking S.A.

“**Collateral**” means the Security Agreement Collateral, the Additional Collateral Trust Agreement Collateral and the BVI Collateral and any other assets pledged to secure the Notes.

“**Collateral Assets**” means the Collateral and any and all assets and Capital Stock of or owned by any Collateral Subsidiary.

“**Collateral Subsidiary**” means a Consolidated Subsidiary of the Company all or a portion of the Capital Stock of which has been pledged as Collateral pursuant to the Second-Priority Security Documents and any Subsidiary thereof.

“**Collateral Trust Agreement**” means the agreement dated May 8, 2003 among the Grantors referred to therein and the Collateral Trustees.

“**Collateral Trustees**” means Wells Fargo Bank Minnesota, National Association, as Corporate Trustee and Jeffery T. Rose, as Individual Trustee under the Collateral Trust Agreement (or their respective successors in such capacities).

“**Commission**” means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act.

“**Common Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of common stock of such Person which is outstanding or issued on or after the date of the Indenture, including, without limitation, all series and classes of such common stock.

“**Company**” means the party named as such in the first paragraph of this Indenture until a successor replaces it pursuant to Article 5 of this Indenture and thereafter means the successor.

“**Consolidated Fixed Charge Ratio**” means the ratio of (i) Parent Operating Cash Flow for the Reference Period immediately prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Ratio (the “**Transaction Date**”) to (ii) the aggregate Consolidated Fixed Charges of the Company during such Reference Period; *provided* that in calculating the Consolidated Fixed Charges pro forma effect shall be given to (A) the acquisition or disposition of companies, divisions or lines of business by the Company and its Subsidiaries during the Reference Period or subsequent to the Reference Period and on or prior to the Transaction Date (or any person that became a Subsidiary of the Company or was merged into the Company or any Subsidiary of the Company during the Reference Period or subsequent to the Reference Period and on or prior to the Transaction Date) and (B) the incurrence or repayment of any Debt during the Reference Period or subsequent to the Reference Period and on or prior to the Transaction Date and, in the case of any incurrence, the application of the proceeds therefrom, in each case as if such events had occurred on the first day of the Reference Period.

“**Consolidated Fixed Charges**” means, with respect to any Person, for any period, the aggregate of (i) Consolidated Interest Expense, (ii) the interest component of Capitalized Leases, determined on a consolidated basis for such Person and its Consolidated Subsidiaries in accordance with GAAP, excluding any interest component of Capitalized Leases in respect of that portion of a Capitalized Lease Obligation of a Subsidiary that is Non-Recourse to such Person and (iii) cash and non-cash dividends due (whether or not declared) on any Redeemable Stock of such Person or on any Preferred Stock of a Subsidiary of such Person.

“**Consolidated Interest Expense**” means, with respect to any Person, for any period, the aggregate interest expense in respect of Debt (including amortization of original issue discount and non-cash payments or accruals) of such Person and its Consolidated Subsidiaries, determined on a consolidated basis in accordance with GAAP, including all commissions, discounts, other fees and charges owed with respect to letters of credit and bankers’ acceptance and net costs associated with Interest Rate Agreements and any amounts paid during such period in respect of such interest expense, commissions, discounts, other fees and charges that have been capitalized; *provided* that Consolidated Interest Expense of the Company shall not include any interest expense (including all commissions, discounts, other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs associated with Interest Rate Agreements) in respect of that portion of Debt of a Subsidiary of the Company that is Non-Recourse to the Company; and *provided further* that Consolidated Interest Expense of the Company in respect of a Guarantee by the Company of any Debt of a Subsidiary shall be equal to the commissions, discounts, other fees and charges that would be due with respect to a hypothetical letter of credit issued under the Senior Secured Credit Facilities that can be drawn by the beneficiary thereof in the amount of the Debt so guaranteed if (i) the Company is not actually making directly or indirectly interest payments on such Debt and (ii) GAAP does not require the Company on an unconsolidated basis to record such Debt as a liability of the Company.

“**Consolidated Net Assets**” means the aggregate amount of assets (less reserves and other deductible items) after deducting current liabilities, as shown on the consolidated balance sheet of the Company and its Subsidiaries contained in the latest annual report to the stockholders of the Company and prepared in accordance with GAAP.

“**Consolidated Subsidiary**” means, at any date with respect to any Person, any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date.

“**Corporate Trust Office**” means the office of the Trustee at which the corporate trust business of the Trustee in Minnesota, shall, at any particular time, be principally administered, which office is, at the date of this Indenture, located at Sixth Street and Marquette Avenue, Minneapolis, Minnesota.

“**Currency Agreement**” means with, respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values to or under which such Person or any of its Subsidiaries is a party or a beneficiary on the date hereof or becomes a party or a beneficiary thereafter.

“**Debt**” of any Person means at any date, without duplication, (i) all indebtedness of such Person for borrowed money; (ii) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iii) all Obligations of such Person in respect of letters of credit or bankers acceptance or other similar instruments (or reimbursement Obligations with respect thereto); (iv) all Obligations of such Person to pay the deferred purchase price of property or services, except Trade Payables; (v) all Obligations of such Person as lessee under Capitalized Leases; (vi) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person; *provided* that, for purposes of determining the amount of any Debt of the type described in this clause, if recourse with respect to such Debt is limited to such asset, the amount of such Debt shall be limited to the lesser of the fair market value of such asset or the amount of such Debt; (vii) all Debt of others Guaranteed by such Person to the extent such Debt is Guaranteed by such Person; (viii) all Redeemable Stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and (ix) to the extent not otherwise included in this definition, all Obligations of such Person under Currency Agreements and Interest Rate Agreements.

“**Default**” means any Event of Default as defined in Section 6.01 and any event that is, or after notice or passage of time or both would be, an Event of Default.

“**Depositary**” means the depositary of each Global Note, which initially will be DTC or, as to an Offshore Global Note, a common depositary for Euroclear and Clearstream, unless and until a successor Depositary shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Depositary” shall mean or include each Person who is then a Depositary hereunder.

“**DTC**” means The Depository Trust Company, a New York corporation.

“**DTC Legend**” means the legend set forth in Exhibit C.

“**Equity Interest**” means, with respect to any Person, shares of Capital Stock of (or other ownership or profit interests in) such Person, warrants, options or other rights for the purchase or other acquisition from such Person of shares of Capital Stock of (or other ownership or profit interests in) such Person, securities convertible into or exchangeable for shares of Capital Stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or other acquisition from such Person of such shares of (or such other interests in), such Person (including, without limitation, partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are authorized or otherwise existing on any date of determination.

"**Euroclear**" means Euroclear Bank S.A./N.V., and its successors or assigns, as operator of the Euroclear system.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"First-Priority Collateral Documents" means (i) the security agreement dated December 12, 2002 by and among the Company, the other Persons listed on the signature page thereof and the Additional Grantors (as defined therein), as grantors, to Wilmington Trust Company, as corporate trustee and Bruce L. Bisson, as individual trustee, under the collateral trust agreement referred to in the following clause (ii), (ii) the collateral trust agreement dated December 12, 2002 among the grantors referred to therein, as grantors and the collateral trustees, (iii) the charge and assignment over shares dated December 12, 2002 between AES International Holdings II, Ltd., as chargor, Wilmington Trust Company, as corporate trustee and Bruce L. Bisson, as individual trustee, each as amended from time to time, and (iv) any other agreement that creates a first-priority Lien on the Collateral securing Debt of the Company that is permitted to be secured by a first-priority Lien on the Collateral pursuant to Section 4.07 and Section 4.06 hereof.

"**First-Priority Secured Debt**" means Debt of the Company secured by a first-priority lien on the Collateral pursuant to the First-Priority Collateral Documents; *provided* that Debt owed to an Affiliate of the Company shall not be First-Priority Secured Debt.

"**Foreign Asset Disposition**" means any Asset Disposition in respect of the Capital Stock and/or Property of any Subsidiary of any Person where such Subsidiary is organized under the laws of any jurisdiction other than the U.S. or any state thereof or any Subsidiary of the type described in Section 936 of the Internal Revenue Code of 1986, as amended, to the extent that the proceeds of such Asset Disposition are received by a Person subject in respect of such proceeds to the tax laws of a jurisdiction other than the U.S. or any state thereof.

"**Funded Debt**" means indebtedness for borrowed money having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the determination of the amount thereof.

"**GAAP**" means generally accepted accounting principles in the U.S. as in effect, as of the date hereof applied on a basis consistent with the principles, methods, procedures and practices employed in the preparation of the Company's audited financial statements, including, without limitation, those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as is approved by a significant segment of the accounting profession.

"**Global Note**" means a Registered Note in global form without interest coupons.

"**Guarantee**" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such Person (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**Holder**" or "**Noteholder**" means the registered holder of any Note.

"**Incur**" means with respect to any Debt, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Debt; *provided* that neither the accrual of interest (whether such interest is payable in cash or kind) nor the accretion of original issue discount shall be considered an Incurrence of Debt.

"**Independent Financial Advisor**" means a nationally recognized investment banking firm (i) which does not (and whose directors, officers, employees and Affiliates do not) have a direct or indirect material financial interest in the Company and (ii) which, in the sole judgment of the Board of Directors, is otherwise independent and qualified to perform the task for which such firm is being engaged.

"**Indenture**" means this Indenture as originally executed and delivered or as it may be amended or supplemented from time to time by one or more indentures supplemental to this Indenture entered into pursuant to the applicable provisions of this Indenture.

"**Interest Payment Date**" means each May 15 and November 15 of each year, commencing with November 15, 2003.

"**Interest Rate Agreement**" means with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates to or under which such Person or any of its Subsidiaries is a party or a beneficiary on the date hereof or becomes a party or a beneficiary thereafter.

"**Investment**" means:

(i) any direct or indirect advance, loan or other extension of credit to another Person,

(ii) any capital contribution to another Person, by means of any transfer of cash or other property or in any other form,

(iii) any purchase or acquisition of Capital Stock, bonds, notes or other Debt, or other instruments or securities issued by another Person, including the receipt of any of the above as consideration for the disposition of assets or rendering of services, or

(iv) any Guarantee of any obligation of another Person.

"**Investment Grade**" means with respect to any security, a rating of Baa3 or higher of such security by Moody's Investors Service Inc. (or any successor) together with a rating of BBB- or higher of such security by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. (or any successor).

"**Joint Venture**" means a joint venture, partnership or other similar arrangement, whether in corporate, partnership or other legal form; *provided* that, as to any such arrangement in corporate form, such corporation shall not, as to any Person of which such corporation is a Subsidiary, be considered to be a Joint Venture to which such Person is a party.

"**Lien**" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Indenture, the Company or any of its Subsidiaries shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"**Make-Whole Amount**" means, the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of Principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semi-annual basis, such Principal and interest at the Reinvestment Rate (determined on the Business Day preceding the date of such redemption) from the respective dates on which such Principal and interest would have been payable if such payment had not been made, over (ii) the aggregate Principal amount of the applicable series of Notes being redeemed.

"**Material Subsidiary**" of the Company means, as of any date, any Subsidiary of which the Company's proportionate share of such Subsidiary's total assets (after intercompany eliminations) exceeds 15 percent of the total assets of the Company on a consolidated basis.

"**Net Cash Proceeds**" from an Asset Disposition, means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received (including any cash received upon sale or disposition of such note or receivable), excluding any other consideration received in the form of assumption by the acquiring Person of Debt or other obligations relating to the Property disposed of in such Asset Disposition or received in any other noncash form) therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred (including, without limitation, consent and waiver fees and any applicable premiums, earn-out or working interest payments or payments in lieu or in termination thereof), and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP (i) as a consequence of such Asset Disposition, (ii) as a result of the repayment of any Debt in any jurisdiction other than the jurisdiction where the Property disposed of was located or (iii) as a result of any repatriation to the U.S. of any proceeds of such Asset Disposition and, in each case, net of a reasonable reserve for the after tax-cost of any indemnification payments (fixed and contingent) attributable to seller's indemnities to the purchaser undertaken by the Company or any of its Subsidiaries in connection with such Asset Disposition (but excluding any payments, which by the terms of the indemnities will not, under any circumstances, be made during the term of the Notes), and net of all payments made on any Debt which is secured by such Property, in accordance with the terms of any lien upon or with respect to such Property or which must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition and net of all distributions and other payments made to minority interest holders in Subsidiaries or Joint Ventures as a result of such Asset Disposition.

"**Net Income**" of any Person for any period means the net income (loss) of such Person for such period, determined in accordance with GAAP, except that extraordinary and non-recurring gains and losses as determined in accordance with GAAP shall be excluded.

"**Non-Recourse**" to a Person as applied to any Debt (or portion thereof) means that such Person is not directly or indirectly liable to make any payments with respect to such Debt (or portion thereof), that no Guarantee of such Debt (or portion thereof) has been made by such Person and that such Debt (or portion thereof) is not secured by a Lien on any asset of such Person.

"**Notes**" means any of the notes, as defined in the first paragraph of the recitals hereof, that are authenticated and delivered under this Indenture including any Additional Notes.

"**Obligation**" means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not such claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 6.01(f) or (g) of this Indenture. Without limiting the generality of the foregoing, the Obligations of the Company under the Indenture include (a) the obligation to pay principal, interest, charges, expenses, fees, attorneys' fees and disbursements, indemnities and other amounts payable by the Company under the Indenture and (b) the obligation of the Company to reimburse any amount in respect of any of the foregoing that the Trustee, in its sole discretion, may elect to pay or advance on behalf of the Company.

"**Officer**" means, with respect to the Company, the chairman of the Board of Directors, the president or chief executive officer, any vice president, the chief financial officer, the treasurer or any assistant treasurer, or the secretary or any assistant secretary.

"**Officers' Certificate**" means a certificate signed in the name of the Company (i) by the chairman of the board of directors, the president or chief executive officer or a vice president and (ii) by the chief financial officer, the treasurer or any assistant treasurer, or the secretary or any assistant secretary, complying with Section 10.03 and delivered to the Trustee. Each such certificate shall include (except as otherwise expressly provided in this Indenture) the statements provided in Section 10.03.

"**Offshore Global Note**" means a Global Note representing Notes issued and sold pursuant to Regulation S.

"**Opinion of Counsel**" means a written opinion signed by legal counsel, who may be an employee of or counsel to the Company, satisfactory to the Trustee and complying with Section 10.03. Each such opinion shall include the statements provided in Section 10.03, if and to the extent required thereby.

"**Original Issue Date**" means the date on which the Original Notes are first issued under the Indenture.

"**Original Notes**" means collectively, the Original Notes due 2013 and the Original Notes due 2015.

"**Original Notes due 2013**" means the Notes due 2013 issued on the Original Issue Date and any Notes issued in replacement thereof.

"**Original Notes due 2015**" means the Notes due 2015 issued on the Original Issue Date and any Notes issued in replacement thereof.

"**Outstanding AES Notes**" means (i) the Company's outstanding 8.00% Senior Notes, Series A, Due 2008, 8.75% Senior Notes, Series G, Due 2008, 9.50% Senior Notes, Series B, Due 2009, 9.375% Senior Notes, Series C, Due 2010, 8.875% Senior Notes, Series E, Due 2011, 8.375% Senior Notes, Series F, Due 2011, 7.375% Remarketable or Redeemable Securities Due 2013, 8.375% Senior Subordinated Notes Due 2007, 10.25% Senior Subordinated Notes Due 2006, 8.50% Senior Subordinated Notes Due 2007, 8.875% Senior Subordinated Notes Due 2027 and 4.50% Convertible Junior Subordinated Debentures Due 2005 and (ii) the 6.75% Trust Convertible Preferred Securities of AES Trust III and 6.0% Trust Convertible Preferred Securities of AES Trust VII and any of the Company's subordinated debentures related thereto and, in each case, any Debt of the Company (other than First-Priority Secured Debt) issued in exchange therefor or the proceeds of which were used to refinance such obligations.

"**Parent Operating Cash Flow**" means for any period, the sum of the following amounts (determined without duplication), but only to the extent received in cash by the Company from a Person during such period:

(i) dividends paid to the Company by its Subsidiaries during such period;

(ii) consulting and management fees paid to the Company for such period;

(iii) tax sharing payments made to the Company during such period;

(iv) interest and other distributions paid during such period with respect to cash and other temporary cash investments other than amounts on deposit to secure contingent exposure under letters of credit issued under the Senior Secured Credit Facilities or any successor facility or facilities; and

(v) other cash payments made to the Company by its Subsidiaries other than (A) returns of invested capital; (B) payments of the principal of

Debt of any such Subsidiary to the Company; and (C) payments in an amount equal to the aggregate amount released from debt service reserve accounts upon the issuance of letters of credit for the account of the Company and for the benefit of the beneficiaries of such accounts.

For purposes of determining Parent Operating Cash Flow:

(1) net cash payments received by a Qualified Holding Company whose Equity Interests have been pledged to the Collateral Trustees under the Second Priority Collateral Documents during any period which could have been (without regard for any cash held by such Qualified Holding Company at the beginning of such period), but were not, paid as a dividend to the Company during such period due to tax or other cash management considerations may be included in Parent Operating Cash Flow for such period; *provided* that any amounts so included will not be included in Parent Operating Cash Flow if and when paid to the Company in any subsequent period; and

(2) Net Cash Proceeds from asset sales, equity issuances or the incurrence of Debt received by the Company shall not be included in Parent Operating Cash Flow for any period.

"**Permitted Payments**" means with respect to the Company or any of its Subsidiaries:

(i) any dividend on shares of Capital Stock payable (or to the extent paid) solely in shares of Capital Stock (other than Redeemable Stock) or in options, warrants or other rights to purchase Capital Stock (other than Redeemable Stock) and any distribution of Capital Stock (other than Redeemable Stock) in respect of the exercise of any right to convert or exchange any instrument (whether Debt or equity and including Redeemable Stock);

(ii) the repurchase or other acquisition or retirement for value of any shares of Capital Stock of the Company, or any option, warrant or other right to purchase shares of Capital Stock of the Company, in each case, with additional shares of, or out of the proceeds of a substantially contemporaneous issuance of, Capital Stock of the Company other than Redeemable Stock (unless the redemption provisions of such Redeemable Stock prohibit the redemption thereof prior to the date on which the Capital Stock to be acquired or retired was by its terms required to be redeemed);

(iii) the declaration and payment of dividends to holders, or any payment on account of the purchase, redemption, retirement or acquisition for value, of any class or series of Redeemable Stock; and

(iv) any other Restricted Payment that, together with all other Restricted Payments made pursuant to this clause (iv) after the date hereof, does not exceed $50 million.

"**Person**" means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"**Power Supply Business**" means an electric power or thermal energy generation or cogeneration facility or related facilities, or electric power transmission, distribution, fuel supply and fuel transportation facilities, or any combination thereof (all subject to relevant security interests, if any, under related project financing arrangements), together with its or their related power supply, thermal energy and fuel contracts as well as other contractual arrangements with customers, suppliers and contractors.

"**Preferred Stock**" means with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of preferred or preference stock of such Person which is outstanding or issued on or after the date hereof.

"**Principal**" of a Note means the principal amount of, and, unless the context indicates otherwise, includes any premium payable on, the Note.

"**Principal Property**" means any building, structure or other facility (together with the land on which it is erected and fixtures comprising a part thereof) used primarily for manufacturing, processing, research, warehousing or distribution owned or leased by the Company and having a net book value in excess of 2% of Consolidated Net Assets, other than any such building, structure or other facility or portion thereof which is a pollution control facility financed by state or local governmental obligations or which the principal executive officer, president and principal financial officer of the Company determine in good faith is not of material importance to the total business conducted or assets owned by the Company and its Subsidiaries as an entirety.

"**Property**" of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent consolidated balance sheet of such Person under GAAP.

"**Qualified Capital Stock**" means any Capital Stock of a Person that is not Redeemable Stock.

"**Qualified Holding Company**" means any Wholly-Owned Consolidated Subsidiary of the Company and any direct or indirect holding company (other than the Company) of such Wholly-Owned Consolidated Subsidiary, which is also a Wholly-Owned Consolidated Subsidiary of the Company, whose direct and indirect interest in any Power Supply Business is limited to the ownership of Capital Stock or Debt obligations of a Person with a direct or indirect interest in such Power Supply Business.

"**Redeemable Stock**" means any class or series of Capital Stock of any Person that by its terms or otherwise is (i) required to be redeemed prior to the Stated Maturity of the Notes, (ii) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (iii) convertible into or exchangeable for (unless solely at the option of the Company) Capital Stock referred to in clause (i) or (ii) above or Debt having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Redeemable Stock but for provisions thereof giving holders thereof the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or a "change of control" occurring prior to the Stated Maturity of the Notes shall not constitute Redeemable Stock if the "asset sale" or "change of control" provision applicable to such Capital Stock is no more favorable to the holders of such Capital Stock than the provisions contained in Sections 4.09 and 4.10 hereof, and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company's repurchase of Notes required to be repurchased by the Company under Sections 4.09 and 4.10 hereof.

"**Reference Period**" means the four fiscal quarters for which financial information is available immediately preceding the date of a transaction giving rise to the need to make a financial calculation.

"**Registered Note**" means any Note registered on the Note Register (as defined in Section 2.05).

"**Regular Record Date**" for the interest payable on any Interest Payment Date means the fifteenth calendar day preceding such Interest Payment Date.

"**Regulation S**" means Regulation S under the Securities Act.

"**Regulation S Certificate**" means a certificate substantially in the form of Exhibit D hereto.

“**Reinvestment Rate**” means 1.00% (one percent) plus the arithmetic mean of the yields under the respective headings “This Week” and “Last Week” published in the Statistical Release under the caption “Treasury Constant Maturities” for the applicable maturity (rounded to the nearest month) corresponding to the date on which the applicable Series of Notes are first redeemable at par. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

“**Responsible Officer**” means, when used with respect to the Trustee, any senior trust officer, any vice president, any trust officer, any assistant trust officer, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

“**Restricted Legend**” means the legend set forth in Exhibit B hereto.

“**Restricted Payment**” means (i) the declaration or payment of any dividend or other distribution on any shares of the Company’s Capital Stock, (ii) any payment on account of the purchase, redemption, retirement or acquisition for value of the Company’s Capital Stock, (iii) any Investment (excluding any Investment of cash or cash-equivalents or any direct or indirect advance, loan or other extension of credit to any Person or Guarantee of any obligation of another Person) by the Company or a Collateral Subsidiary in any Subsidiary of the Company that is not a Collateral Subsidiary unless such Subsidiary becomes a Collateral Subsidiary or the assets invested are pledged as Collateral under the Second-Priority Security Documents, in each case, substantially concurrently with the making of such Investment and (iv) any dividend or other distribution (excluding any dividend or other distribution of cash or cash-equivalents) on any shares of Capital Stock of a Collateral Subsidiary payable to the Company or a Subsidiary of the Company that is not a Collateral Subsidiary unless such Subsidiary becomes a Collateral Subsidiary or the assets subject to such dividend or other distribution are pledged as Collateral under the Second-Priority Security Documents, in each case, substantially concurrently with the payment of such dividend or other distribution. Notwithstanding the foregoing, “Restricted Payment” shall not include any Permitted Payment.

“**Restricted Period**” means the relevant 40 day distribution compliance period as defined in Regulation S.

"**Rule 144A**" means Rule 144A under the Securities Act.

"**Rule 144A Certificate**" means a written certification addressed to the Company and the Trustee to the effect that the Person making such certification (i) is acquiring such Note (or beneficial interest) for its own account or one or more accounts with respect to which it exercises sole investment discretion and that it and each such account is a qualified institutional buyer within the meaning of Rule 144A, (ii) is aware that the transfer to it or exchange, as applicable, is being made in reliance upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and (iii) acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A(d)(4) or has determined not to request such information.

"**Second Priority Collateral Documents**" means (i) the Security Agreement, the Collateral Trust Agreement, the BVI Cayman Pledge Agreement and any other agreement that creates or purports to create a Lien in favor of the Collateral Trustees (as defined in the Collateral Trust Agreement) for the benefit of the Secured Holders (including the Holders of the Notes), each as amended from time to time and (ii) any other agreement that creates a second-priority Lien on the Collateral securing Debt of the Company that is permitted to be secured by a second-priority Lien on the Collateral pursuant to Section 4.07 and Section 4.06 hereof.

"**Second-Priority Secured Debt**" means Debt of the Company that is secured by a Lien on the Collateral that is *pari passu* with the Lien securing the Notes.

"**Secured Holders**" has the meaning set forth in the Collateral Trust Agreement.

"**Secured Leverage Ratio**" means, on any date, the ratio of

(x) the sum of the First-Priority Secured Debt and the Second-Priority Secured Debt outstanding on such date to

(y) the aggregate amount of Parent Operating Cash Flow for the Reference Period.

In making the foregoing calculation, pro forma effect will be given to the acquisition or disposition of companies, divisions or lines of business by the Company and its Subsidiaries, including any acquisition or disposition of a company, division or line of business since the beginning of the Reference Period by a Person that became a Subsidiary after the beginning of the Reference Period, as if such events had occurred, and, in the case of any disposition, the proceeds thereof applied, on the first day of the Reference Period. To the extent that pro forma effect is to be given to an acquisition or disposition of a company, division or line of business, the pro forma calculation will be based upon the most recent four full fiscal quarters for which the relevant financial information is available.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Security Agreement**" means the security agreement dated May 8, 2003 by the Company, the other Persons listed on the signature page thereof and the Additional Grantors (as defined therein), as Grantors, to Wells Fargo Bank Minnesota, National Association, as Corporate Trustee and Jeffery T. Rose, as Individual Trustee, under the Collateral Trust Agreement, as amended from time to time.

"**Security Agreement Collateral**" means the "Collateral" referred to in the Security Agreement.

"**Senior Secured Credit Facilities**" means the Amended and Restated Credit and Reimbursement Agreement dated as of December 12, 2002, as further amended between the Company, as Borrower, the Subsidiary Guarantors (as defined therein), as Subsidiary Guarantors, Citicorp USA, Inc., as Administrative Agent and Collateral Agent, Salomon Smith Barney, Inc., as Lead Arranger and Book Runner, Bank of America, N.A., as Lead Arranger and Book Runner and as Syndication Agent, Union Bank of California, N.A., as Lead Arranger and Book Runner and as Syndication Agent, the Banks listed therein, the Revolving Banks (as defined therein) and the Drax LOC Fronting Banks (as defined therein) listed therein and any related notes, guarantees, letters of credit, collateral documents, rate protection or hedging arrangements, instruments and agreements executed in connection therewith, and in each case, as amended, modified, renewed, refunded, replaced or refinanced from time to time, including any agreement (i) extending or shortening the maturity of any indebtedness incurred thereunder or contemplated thereby; (ii) adding or deleting borrowers or guarantors thereunder; or (iii) otherwise altering the terms and conditions thereof.

"**Senior Secured Credit Facility Obligations**" means all Obligations of the Company and its Subsidiaries outstanding under the Senior Secured Credit Facilities, including, without limitation, interest accruing subsequent to the filing of, or which would have accrued but for the filing of, a petition for bankruptcy, whether or not such interest is an allowable claim in such bankruptcy proceeding.

"**Series**" means either the Notes due 2013 or the Notes due 2015, but not both, as the context requires.

"**Stated Maturity**" means , with respect to any debt security or any installment of interest thereon, the date specified in such debt security as the fixed date on which any principal of such debt security or any such installment of interest is due and payable.

"**Statistical Release**" means the statistical release designated "**H.15(519)**" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination under the Indenture, then such other reasonably comparable index which shall be designated by the Company.

"**Subsidiary**" means, with respect to any Person, any corporation, association or other business entity of which a majority of the Voting Stock is at the time directly or indirectly owned by such Person.

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Restricted Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"**Trustee**" means the party named as such in the first paragraph of this Indenture until a successor replaces it in accordance with the provisions of Article 7 and thereafter means such successor.

"**Unrelated Business**" means any business not of the same general type now conducted by the Company and its Subsidiaries.

"**U.S. Global Note**" means a Global Note that bears the Restricted Legend representing Notes issued and sold pursuant to Rule 144A.

"**U.S. Government Obligations**" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not collectible or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"**Voting Stock**" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors of such Person or other Persons performing similar functions.

"**Wholly-Owned Consolidated Subsidiary**" means any Subsidiary all of the shares of Capital Stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Company.

"**Wholly-Owned Subsidiary**" means, with respect to any Person, any Subsidiary of such Person if all the Voting Stock in such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) is owned directly or indirectly by such Person.

Section 1.02. *Other Definitions.* Each of the following terms is defined in the section set forth opposite such term:

Term	Section
Authenticating Agent	2.02
Change of Control Offer	4.10
Event of Default	6.01
Extinguished Covenants	4.16
Judgment Currency	10.14
Note Register	2.05
Paying Agent	2.05
Purchase Date	4.09
Registrar	2.05
Repurchase Date	4.10
Required Currency	10.14
special record date	2.14
Tender Offer	4.15

Section 1.03. *Rules of Construction.* Unless the context otherwise requires:

(i) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(ii) words in the singular include the plural, and words in the plural include the singular;

(iii) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(iv) all references to Sections or Articles refer to Sections or Articles of this Indenture unless otherwise indicated; and

(v) use of masculine, feminine or neuter pronouns should not be deemed a limitation, and the use of any such pronouns should be construed to include, where appropriate, the other pronouns.

ARTICLE 2
THE NOTES

Section 2.01. *Forms Generally, Certain Issues Regarding Preconditions for Transfer and Payment.* (a) Each Note due 2013 and the related Trustee's certificate of authentication will be substantially in the form attached hereto as Exhibit A-1 and each Note due 2015 and the related Trustee's certificate of authentication will be substantially in the form attached as Exhibit A-2. The terms and provisions contained in the form of the Notes annexed as Exhibits A-1 and A-2 constitute, and are hereby expressly made, a part of the Indenture. The Notes may have notations, legends or endorsements required by law, rules of or agreements with national securities exchanges to which the Company is subject, or usage.

(b) Except as otherwise provided in paragraph (c), each Note will bear the Restricted Legend.

(c) If the Company determines (upon the advice of counsel and such other certifications and evidence as the Company may reasonably require) that any Note is eligible for resale pursuant to Rule 144(k) under the Securities Act (or a successor provision) and that the Restricted Legend is no longer necessary or appropriate in order to ensure that subsequent transfers of the Note (or a beneficial interest therein) are effected in compliance with the Securities Act, the Company may instruct the Trustee to cancel the Note and issue to the Holder thereof (or to its transferee) a new Note of like tenor and amount, registered in the name of the Holder thereof (or its transferee), that does not bear the Restricted Legend, and the Trustee will comply with such instruction.

(d) By its acceptance of any Note bearing the Restricted Legend (or any beneficial interest in such a Note), each Holder thereof and each owner of a beneficial interest therein acknowledges the restrictions on transfer of such Note (and any such beneficial interest) set forth in the Indenture and in the Restricted

Legend and agrees that it will transfer such Note (and any such beneficial interest) only in accordance with the Indenture and such legend.

Section 2.02. *Execution and Authentication.* Two Officers shall execute the Notes for the Company by facsimile or manual signature in the name and on behalf of the Company. If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note shall nevertheless be valid.

The Trustee, at the expense of the Company, may appoint an authenticating agent (the "**Authenticating Agent**") to authenticate Notes. The Authenticating Agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such Authenticating Agent.

A Note shall not be valid until the Trustee or Authenticating Agent manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture. In authenticating the Notes, the Trustee shall be entitled to receive prior to the first authentication of any Notes and (subject to Article 7) shall be fully protected in relying upon, unless and until such documents have been superseded or revoked:

(a) any Board Resolution by or pursuant to which the form and terms of the Notes were established;

(b) an Officers' Certificate setting forth the form and terms of the Notes, stating that the form and terms of the Notes have been, or will be when established in accordance with such procedures as shall be referred to therein, established in compliance with this Indenture; and

(c) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee.

Section 2.03. *Amount Unlimited.* The aggregate principal amount of Notes which may be authenticated and delivered under this Indenture is unlimited. The Company may issue Additional Notes under the Indenture from time to time.

Section 2.04. *Denomination and Date of Securities; Payment of Interest.* The Notes shall be issuable in denominations of $1,000 and any integral multiple thereof. If as a result of the exchange or redemption in part of any Notes issued hereunder any Holder is entitled to receive Notes in an aggregate principal amount that is not an integral multiple of $1,000, the principal amount of such Holder's notes shall be reduced to the nearest $1,000 and such Holder shall receive a substitute cash payment equal to the principal amount by which that

Holder's Notes are reduced. The Notes shall be numbered, lettered or otherwise distinguished in such manner or in accordance with such plan as the Officers of the Company executing the same may determine, as evidenced by their execution thereof.

Each Note shall be dated the date of its authentication. The Notes of each Series shall bear interest from the most recent date to which interest has been paid on the Notes of such Series or, if no interest has been paid, from the Original Issue Date. Interest on the Notes shall be payable on each Interest Payment Date.

The person in whose name any Note is registered at the close of business on any Regular Record Date with respect to any Interest Payment Date shall be entitled to receive the interest, if any, payable on such Interest Payment Date notwithstanding any transfer or exchange of such Note subsequent to the Regular Record Date and prior to such Interest Payment Date, except if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date for such Series, in which case the provisions of Section 2.14 shall apply.

Section 2.05. *Registrar and Paying Agent; Agents Generally.* The Company shall maintain an office or agency where Notes may be presented for registration, registration of transfer or for exchange (the "**Registrar**") and an office or agency where Notes may be presented for payment (the "**Paying Agent**"), which shall be in the Borough of Manhattan, The City of New York. The Company shall cause the Registrar to keep a register of the Notes due 2013 and the Notes due 2015 and of their registration, transfer and exchange (each a "**Note Register**"). The Company may have one or more additional Paying Agents or transfer agents with respect to the Notes.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall give prompt written notice to the Trustee of the name and address of any Agent and any change in the name or address of an Agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such. The Company may remove any Agent upon written notice to such Agent and the Trustee; *provided* that no such removal shall become effective until (i) the acceptance of an appointment by a successor Agent to such Agent as evidenced by an appropriate agency agreement entered into by the Company and such successor Agent and delivered to the Trustee or (ii) notification to the Trustee that the Trustee shall serve as such Agent until the appointment of a successor Agent in accordance with clause (i) of this proviso. The Company or any Affiliate of the Company may act as Paying Agent or Registrar; *provided* that neither the Company nor an Affiliate of the Company shall act as Paying Agent in connection with the defeasance of the Notes or the discharge of this Indenture under Article 8.

The Company initially appoints the Trustee as Registrar, Paying Agent and Authenticating Agent. If, at any time, the Trustee is not the Registrar, the Registrar shall make available to the Trustee ten days prior to each Interest Payment Date and at such other times as the Trustee may reasonably request the names and addresses of the Holders as they appear in the Note Register.

Section 2.06. *Paying Agent to Hold Money in Trust.* Not later than 10:00 a.m. New York City time on each due date of any Principal or interest on any Notes, the Company shall deposit with the Paying Agent money in immediately available funds sufficient to pay such Principal or interest. The Company shall require each Paying Agent other than the Trustee to agree in writing that such Paying Agent shall hold in trust for the benefit of the Holders of such Notes or the Trustee all money held by the Paying Agent for the payment of Principal of and interest on such Notes and shall promptly notify the Trustee of any default by the Company in making any such payment. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed, and the Trustee may at any time during the continuance of any payment default, upon written request to a Paying Agent, require such Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed. Upon doing so, the Paying Agent shall have no further liability for the money so paid over to the Trustee. If the Company or any Affiliate of the Company acts as Paying Agent, it will, on or before each due date of any Principal of or interest on the Notes, segregate and hold in a separate trust fund for the benefit of the Holders thereof a sum of money sufficient to pay such Principal or interest so becoming due until such sum of money shall be paid to such Holders or otherwise disposed of as provided in this Indenture, and will promptly notify the Trustee in writing of its action or failure to act as required by this Section.

Section 2.07. *Restrictions on Transfer and Exchange.* (a) The transfer or exchange of any Note (or a beneficial interest therein) may only be made in accordance with this Section, Section 2.08 and in the case of a Global Note (or a beneficial interest therein), the applicable rules and procedures of the Depositary. The Trustee shall refuse to register any requested transfer or exchange that does not comply with the preceding sentence.

(b) The transfer or exchange of any Note (or a beneficial interest therein) that bears the Restricted Legend may only be made in compliance with the provisions of the Restricted Legend.

(c) The transfer or exchange of a beneficial interest in an Offshore Global Note for a beneficial interest in a U.S. Global Note may only be made upon receipt by the Trustee of a duly completed Rule 144A Certificate.

(d) The transfer or exchange of a beneficial interest in a U.S. Global Note for a beneficial interest in an Offshore Global Note may only be made upon receipt by the Trustee of a duly completed Regulation S Certificate.

(e) During the Restricted Period, beneficial interests in an Offshore Global Note may be held through the Depositary only through Euroclear and Clearstream, and their respective direct and indirect participants.

(f) The Trustee will retain copies of all certificates, opinions and other documents received in connection with the transfer or exchange of a Note (or a beneficial interest therein), and the Company will have the right to inspect and make copies thereof at any reasonable time upon written notice to the Trustee.

Section 2.08. *Registration, Transfer and Exchange.* (a) *Registered Global Form Only*. The Notes will be issued in registered form only, without coupons. The Notes will be issued in global form only except for Notes to be issued under the circumstances described in clause (b)(iv) of this Section which shall be issued as certificated notes.

(b) *Global Notes*. (i) Each Global Note will be registered in the name of the Depositary or its nominee and, so long as DTC is serving as the Depositary thereof, will bear the DTC Legend.

(ii) Each Global Note will be delivered to the Trustee as custodian for the Depositary. Transfers of a Global Note (but not a beneficial interest therein) will be limited to transfers thereof in whole, but not in part, to the Depositary, its successors or their respective nominees, except as set forth in paragraph (b)(iv) of this Section.

(iii) Agent Members will have no rights under the Indenture with respect to any Global Note held on their behalf by the Depositary, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and Holder of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, the Depositary or its nominee may grant proxies and otherwise authorize any person (including any Agent Member and any Person that holds a beneficial interest in a Global Note through an Agent Member) to take any action which a Holder is entitled to take under the Indenture or the Notes, and nothing herein will impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any security.

(iv) If (x) the Depositary (1) notifies the Company that it is unwilling or unable to continue as Depositary for a Global Note and a successor depositary is not appointed by the Company within 90 days of the notice or (2) has ceased to be a clearing agency registered under the Exchange Act, (y) an Event of Default has occurred and is continuing and the Trustee has received a request from the Depositary, or (z) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of certificated notes, the Trustee will promptly exchange each beneficial interest in a Global Note for one or more certificated notes of the applicable Series in authorized denominations having an equal aggregate principal amount registered in the name of the owner of such beneficial interest, as identified to the Trustee by the Depositary, and thereupon the Global Note will be deemed canceled. Each certificated note issued in exchange therefor will bear the Restricted Legend.

(c) *Transfers and Exchanges Generally*. A Holder may transfer a Note (or a beneficial interest therein) to another Person or exchange a Note (or a beneficial interest therein) for another Note or Notes of the same Series of any authorized denomination by presenting to the Trustee a written request therefor stating the name of the proposed transferee or requesting such an exchange, accompanied by any certification, opinion or other document required by Section 2.07. The Trustee will promptly register any such transfer or exchange that meets the requirements of this Section by noting the same in the register maintained by the Trustee for the purpose; *provided* that (x) no transfer or exchange will be effective until the transfer or exchange is registered in such register and (y) the Trustee will not be required (i) to issue, register the transfer of or exchange any Note for a period of 15 days before a selection of Notes to be redeemed, (ii) to register the transfer of or exchange any Note so selected for redemption in whole or in part, except, in the case of a partial redemption, that portion of any such Note not being redeemed, or (iii) if a redemption is to occur after a Regular Record Date but on or before the corresponding Interest Payment Date, to register the transfer of or exchange any Note on or after such Regular Record Date and before the date of redemption. Prior to the registration of any transfer, the Company, the Trustee and their agents will treat the person in whose name a Note is registered as the owner and Holder thereof for all purposes (whether or not any Note is overdue), and will not be affected by notice to the contrary.

From time to time the Company will execute and the Trustee will authenticate replacement or substitute Notes of the applicable Series as necessary in order to permit the registration of a transfer or exchange in accordance with this Section.

No service charge will be imposed in connection with any transfer or exchange of any Note, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer tax or other similar governmental charge payable upon exchange pursuant to paragraph (b)(iv) of this Section).

(d) *Procedures to Be Followed by the Trustee*. *Global Note to Global Note*. A beneficial interest in a Global Note may only be transferred or exchanged for a beneficial interest in another Global Note of the same Series. If a beneficial interest in a Global Note is transferred or exchanged for a beneficial interest in another Global Note of the same Series, the Trustee will (x) record a decrease in the principal amount of the Global Note of the same Series being transferred or exchanged equal to the principal amount of such transfer or exchange and (y) record a like increase in the principal amount of the other Global Note of the same Series. Any beneficial interest in one Global Note that is transferred to a Person who takes delivery in the form of an interest in another Global Note of the same Series, or exchanged for an interest in another Global Note of the same Series, will, upon transfer or exchange, cease to be an interest in such Global Note and become an interest in the other Global Note of the same Series and, accordingly, will thereafter be subject to all transfer and exchange restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note of the same Series for as long as it remains such an interest.

Section 2.09. *Replacement Notes.* If a defaced or mutilated Note is surrendered to the Trustee or if a Holder claims that its Note has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Note of the same Series and of such tenor and principal amount bearing a number not contemporaneously outstanding. If required by the Trustee or the Company, an indemnity bond must be furnished that is sufficient in the judgment of both the Trustee and the Company to protect the Company, the Trustee and any Agent from any loss that any of them may suffer if a Note is replaced. The Company may charge such Holder for its expenses and the expenses of the Trustee (including without limitation attorneys' fees and expenses) in replacing a Note. In case any such mutilated, defaced, lost, destroyed or wrongfully taken Note has become or is about to become due and payable, the Company in its discretion may pay such Note of the same Series instead of issuing a new Note in replacement thereof.

Every replacement Note is an additional obligation of the Company and shall be entitled to the benefits of this Indenture.

To the extent permitted by law, the foregoing provisions of this Section are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or wrongfully taken Notes.

Section 2.10. *Outstanding Notes.* Notes outstanding at any time are all Notes that have been authenticated by the Trustee except for those cancelled by it, those delivered to it for cancellation and those described in this Section as not outstanding.

If a Note is replaced pursuant to Section 2.09, it ceases to be outstanding unless and until the Trustee and the Company receive proof satisfactory to them that the replaced Note is held by a holder in due course.

If the Paying Agent (other than the Company or an Affiliate of the Company) holds on the maturity date or any redemption date or date for repurchase of Notes of either or both Series money sufficient to pay Notes of such Series payable or to be redeemed or repurchased on that date, then on and after that date such Notes cease to be outstanding and interest on them shall cease to accrue.

A Note does not cease to be outstanding because the Company or one of its Affiliates holds such Note, provided, however, that, in determining whether the Holders of the requisite principal amount of the outstanding Notes of such Series have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company or any Affiliate of the Company shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes as to which a Responsible Officer of the Trustee has received written notice to be so owned shall be so disregarded. Any Notes so owned which are pledged by the Company, or by any Affiliate of the Company, as security for loans or other obligations, otherwise than to another such Affiliate of the Company, shall be deemed to be outstanding, if the pledgee is entitled pursuant to the terms of its pledge agreement and is free to exercise in its or his discretion the right to vote such Notes, uncontrolled by the Company or by any such Affiliate.

Section 2.11. *Temporary Notes.* Until definitive Notes of the respective Series are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes of such Series. Temporary Notes of the respective Series shall be substantially in the form of definitive Notes of such Series but may have insertions, substitutions, omissions and other variations determined to be appropriate by the Officers executing the temporary Notes, as evidenced by their execution of such temporary Notes. If temporary Notes are issued, the Company will cause definitive Notes of such Series to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes of such Series shall be exchangeable for definitive Notes of such Series of such tenor upon surrender of such temporary Notes at the office or agency of the Company designated for such purpose pursuant to Section 4.02, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Notes of such Series and of such tenor and authorized denominations. Until so exchanged, any temporary Notes shall be entitled to the same benefits under this Indenture as definitive Notes.

Section 2.12. *Cancellation.* The Company at any time may deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee for cancellation any Notes previously authenticated hereunder which the Company has not issued and sold. The Registrar, any transfer agent and the Paying Agent shall forward to the Trustee any Notes surrendered to them for transfer, exchange or payment. The Trustee shall retain, cancel and destroy all Notes surrendered for transfer, exchange, payment or cancellation and shall deliver a certificate of destruction, or copies of the cancelled Notes to the Company. The Company may not issue new Notes of any Series to replace Notes of such Series it has paid in full or delivered to the Trustee for cancellation.

Section 2.13. *CUSIP Numbers.* The Company in issuing the Notes may use "CUSIP" and "CINS" numbers for each Series, and the Trustee shall use CUSIP numbers or CINS numbers, as the case may be, in notices of redemption or exchange as a convenience to Holders and no representation shall be made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of redemption or exchange.

Section 2.14. *Defaulted Interest.* If the Company defaults in a payment of interest on the Notes of either or both Series, it shall pay, or shall deposit with the Paying Agent money in immediately available funds sufficient to pay, the defaulted interest plus (to the extent lawful) any interest payable on the defaulted interest to the Persons who are Holders on a subsequent special record date, which shall mean the 15th day next preceding the date fixed by the Company for the payment of defaulted interest, whether or not such day is a Business Day. At least 15 days before such special record date, the Company shall mail to each Holder of such Series of Notes and to the Trustee a notice that states the special record date, the payment date and the amount of defaulted interest to be paid on such Notes.

ARTICLE 3
REDEMPTION

Section 3.01. *Optional Redemption.* With respect to each Series of Notes, at any time and from time to time, the Company may redeem the Notes of either or both Series in whole or in part at a redemption price equal to (a) the sum of (i) 100% of the Principal amount thereof plus accrued and unpaid interest to the redemption date plus (ii) a Make-Whole Amount, if any, if redeemed prior to May 15, 2008; or (b) if redeemed on or after May 15, 2008, at a redemption price equal to the percentage of Principal amount set forth below for the applicable Series, plus accrued and unpaid interest to the redemption date if redeemed during the 12 month period commencing on May 15, of the years set forth below ; *provided* that if the date fixed for redemption is May 15 or November 15, then the interest payable on such date shall be paid to the holder of record on the immediately preceding Regular Record Date.

8¾% Second Priority Senior Secured Notes due 2013

12-month period commencing May 15 in Year	Percentage
2008	104.375%
2009	102.917%
2010	101.458%
2011 and thereafter	100.000%

9% Second Priority Senior Secured Notes due 2015

12-month period commencing May 15 in Year	Percentage
2008	104.500%
2009	103.000%
2010	101.500%
2011 and thereafter	100.000%

Section 3.02. *Notice of Redemption; Partial Redemptions.* Notice of redemption to the Holders of the Notes to be redeemed as a whole or in part shall be given by mailing notice of such redemption by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the Holders of such Notes at their last addresses as they shall appear upon the Note Register. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice. Failure to give notice by mail, or any defect in the notice to the Holder of any Note designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Note.

The notice of redemption to each such Holder shall specify the principal amount of each Note held by such Holder to be redeemed, the CUSIP numbers of the Notes to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of such Notes, that interest accrued to the date fixed for redemption will be paid as specified in such notice and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In case any Note is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Note, a new Note or Notes of such

Series and in such tenor and in principal amount equal to the unredeemed portion thereof will be issued.

The notice of redemption of Notes to be redeemed at the option of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

On or before 10:00 a.m. New York City time on the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more Paying Agents (or, if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 2.06) an amount of money sufficient to redeem on the redemption date all the Notes so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If all of the outstanding Notes of either or both Series are to be redeemed, the Company will deliver to the Trustee at least 10 days prior to the last date on which notice of redemption may be given to Holders pursuant to the first paragraph of this Section 3.02 (or such shorter period as shall be acceptable to the Trustee) an Officers' Certificate stating that all such Notes are to be redeemed. If less than all the outstanding Notes of either or both Series are to be redeemed, the Company will deliver to the Trustee at least 15 days prior to the last date on which notice of redemption may be given to Holders pursuant to the first paragraph of this Section 3.02 (or such shorter period as shall be acceptable to the Trustee) an Officers' Certificate stating the aggregate principal amount of such Notes to be redeemed. In case of a redemption at the election of the Company prior to the expiration of any restriction on such redemption, the Company shall deliver to the Trustee, prior to the giving of any notice of redemption to Holders pursuant to this Section, an Officers' Certificate stating that such redemption is not prohibited by such restriction.

If less than all the Notes of either or both Series are to be redeemed, the Trustee shall select, pro rata, by lot or in such manner as it shall deem appropriate and fair, Notes of the applicable Series to be redeemed in whole or in part. Notes may be redeemed in part in multiples equal to the minimum authorized denomination for Notes or any multiple thereof. The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the principal amount thereof to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

Section 3.03. *Payment of Notes Called for Redemption.* If notice of redemption has been given as above provided, the Notes or portions of Notes specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after such date (unless the Company shall default in the payment of such Notes at the redemption price, together with interest accrued to such date) interest on the Notes or portions of Notes so called for redemption shall cease to accrue, and, except as provided in Section 7.09 and Section 8.02, such Notes shall cease from and after the date fixed for redemption to be entitled to any benefit under this Indenture, and the Holders thereof shall have no right in respect of such Notes except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Notes at a place of payment specified in said notice, said Notes or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; *provided* that payment of interest becoming due on or prior to the date fixed for redemption, shall be payable to the Holders of such Notes registered as such on the relevant record date subject to the terms and provisions of Section 2.01 and Section 2.14 hereof.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the Principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate of interest borne by such Note.

Upon presentation of any Note redeemed in part only, the Company shall execute and the Trustee shall authenticate and deliver to or on the order of the Holder thereof, at the expense of the Company, a new Note or Notes of such Series and of such tenor, of authorized denominations, in principal amount equal to the unredeemed portion of the Note so presented.

Section 3.04. *Exclusion of Certain Notes from Eligibility for Selection for Redemption.* Notes shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number in a written statement signed by an authorized officer of the Company and delivered to the Trustee at least 40 days prior to the last date on which notice of redemption may be given as being owned of record and beneficially by, and not pledged or hypothecated by, either (a) the Company or (b) an entity specifically identified in such written statement as directly or indirectly controlling or controlled by or under direct or indirect common control with the Company.

ARTICLE 4
COVENANTS

Section 4.01. *Payment of Notes.* The Company shall pay the Principal of and interest on the Notes on the dates and in the manner provided in the Notes and this Indenture. The interest on the Notes shall be payable only to the Holders thereof and at the option of the Company may be paid by mailing checks for such interest payable to or upon the written order of such Holders at their last addresses as they appear on the Note Register of the Company.

Notwithstanding any provisions of this Indenture and the Notes to the contrary, if the Company and a Holder of any Note so agree, payments of interest on, and any portion of the Principal of, such Holder's Note (other than interest payable at maturity or on any redemption or repayment date or the final payment of Principal on such Note) shall be made by the Paying Agent, upon receipt from the Company of immediately available funds by 11:00 A.M., New York City time (or such other time as may be agreed to between the Company and the Paying Agent), directly to the Holder of such Note (by Federal funds wire transfer or otherwise) if the Holder has delivered written instructions to the Trustee 15 days prior to such payment date requesting that such payment will be so made and designating the bank account to which such payments shall be so made and in the case of payments of Principal, surrenders the same to the Trustee in exchange for a Note or Notes aggregating the same principal amount as the unredeemed principal amount of the Notes surrendered. The Trustee shall be entitled to rely on the last instruction delivered by the Holder pursuant to this Section 4.01 unless a new instruction is delivered 15 days prior to a payment date. The Company will indemnify and hold each of the Trustee and any Paying Agent harmless against any loss, liability or expense (including attorneys' fees) resulting from any act or omission to act on the part of the Company or any such Holder in connection with any such agreement or from making any payment in accordance with any such agreement.

The Company shall pay interest on overdue Principal, and interest on overdue installments of interest, to the extent lawful, at the rate per annum specified in the Notes.

Section 4.02. *Maintenance of Office or Agency.* The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where Notes may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company hereby initially designates Wells Fargo Corporate Trust, c/o The Depository Trust Company, the corporate trust office of the Trustee's Agent, located at 55 Water Street, 1st Floor, TADS Department, New York, NY 10041, in the Borough of Manhattan, The City of New York, as such office or agency of the Company. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 10.01.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided* that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 4.03. *Noteholders' Lists.* Unless the Trustee is acting as registrar for the Notes, the Company will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the holders of the Notes (a) semi-annually not more than 15 days after each Regular Record Date, as hereinabove specified, as of such record date and (b) at such other times as the Trustee may request in writing, within thirty days after receipt by the Company of any such request as of a date not more than 15 days prior to the time such information is furnished.

Section 4.04. *Certificate to Trustee.* The Company will furnish to the Trustee annually, on or before a date not more than four months after the end of its fiscal year (which, on the date hereof, is a calendar year), a brief certificate (which need not contain the statements required by Section 10.03) from its principal executive, financial or accounting officers to his or her knowledge of the compliance of the Company with all conditions and covenants under this Indenture (such compliance to be determined without regard to any period of grace or requirement of notice provided under this Indenture).

Section 4.05. *Reports by the Company.* The Company covenants to file with the Trustee, within 15 days after the Company has filed the same with the Commission, copies of the annual reports and of the information, documents, and other reports which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act.

Section 4.06. *Limitation on Liens.* (a) If the Company shall incur, issue, assume or Guarantee any indebtedness for borrowed money represented by notes, bonds, debentures or other similar evidences of indebtedness, secured by a mortgage, pledge or other Lien on any Principal Property or any Capital Stock or indebtedness held directly by the Company of any Subsidiary of the Company, the Company shall secure the Notes equally and ratably with (or prior to) such indebtedness, so long as such indebtedness shall be so secured, unless after giving effect thereto the aggregate amount of all such indebtedness so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Properties, would not exceed 15% of the Consolidated Net Assets of the Company. This restriction will not apply to, and there shall be excluded in computing secured indebtedness for the purpose of this restriction, indebtedness secured by (i) property of any Subsidiary of the Company, (ii) Liens on property of, or on any shares of stock or Debt of, any corporation existing at the time such corporation becomes a Subsidiary of the Company, (iii) Liens in favor of the Company or any Subsidiary of the Company, (iv) Liens in favor of U.S. or foreign governmental bodies to secure partial, progress, advance or other payments, (v) Liens on property, shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation), purchase money mortgages and construction cost mortgages existing at or incurred within 180 days of the time of acquisition thereof, (vi) Liens existing on the Original Issue Date, (vii) Liens under one or more credit facilities for indebtedness in an aggregate principal amount not to exceed $900 million at any time outstanding, (viii) Liens incurred in connection with pollution control, industrial revenue or similar financings, and (ix) any extension, renewal or replacement of any Debt secured by any Liens referred to in the foregoing clauses (i) through (viii), inclusive.

(b) Notwithstanding the foregoing, the Company shall not permit any Lien on any Collateral Assets to secure Debt of the Company that would violate Section 4.07.

Section 4.07. *Limitation on the Incurrence of Debt Secured by the Collateral Assets.* (a) The Company shall not incur any Debt secured by a Lien on Collateral Assets unless the Notes are secured by at least a second-priority Lien on such Collateral Assets under the Second Priority Collateral Documents. In addition, the Company shall not incur any First-Priority Secured Debt or Second-Priority Secured Debt, if, on the date of incurrence, after giving effect to such incurrence, the Secured Leverage Ratio would have been greater than 2.75 to 1.0.

(b) Notwithstanding the foregoing, the Company will be permitted to incur any of the following:

(i) First-Priority Secured Debt and Second-Priority Secured Debt if, on the date of incurrence, after giving effect to such incurrence the aggregate principal amount (or accreted value, if applicable) of First-Priority Secured Debt and Second-Priority Secured Debt (excluding First-Priority Secured Debt and Second-Priority Secured Debt described in clauses (ii) through (v) below) does not exceed $3.0 billion reduced by the aggregate principal amount (or accreted value, if applicable) of First-Priority Secured Debt and Second-Priority Secured Debt (other than First-Priority Secured Debt and Second-Priority Secured Debt described in clauses (ii) through (v) below) repaid, repurchased or otherwise retired pursuant to Section 4.09; *provided* that no such reduction will be required with respect to any repayment, repurchase or other retirement of First-Priority Secured Debt or Second-Priority Secured Debt out of the Net

Cash Proceeds of any Announced Asset Sale or with respect to the first $500 million aggregate principal amount (or accreted value, if applicable) of other First-Priority Secured Debt or Second-Priority Secured Debt repaid, repurchased or otherwise retired that but for this proviso would have required a reduction;

(ii) Obligations under interest rate and foreign currency hedging agreements, and cash management services arrangements;

(iii) Obligations relating to the secured equity linked loans outstanding on the date hereof issued by AES New York Funding LLC;

(iv) Obligations relating to the Guarantee by the Company of certain obligations of AES Sul outstanding on the date hereof; and

(v) Obligations the net proceeds of which are used to refinance any of the obligations listed in the foregoing clauses (ii) through (iv).

(c) Notwithstanding the foregoing, to the extent that the Company incurs Debt that is secured by a Lien on any Collateral Assets that is not First-Priority Secured Debt or Second-Priority Secured Debt, the security documents or other agreements creating, or related to, the Lien securing such Debt shall provide that (i) such Lien shall be subordinate to the Lien securing the Notes, (ii) the holders of such Debt will not be entitled to any proceeds from any sale or liquidation of any of the Collateral after the Notes are due and payable until the Notes have been paid in full, (iii) prior to the time that the Notes have been paid in full and are no longer outstanding, the Holders of the Notes, or the Trustee on behalf of the Holders of the Notes, or the lenders under the Senior Secured Credit Facilities, or the holders of a majority of other First-Priority Secured Debt, as the case may be, will have the sole ability to control remedies (including any sale or liquidation after the Notes are due and payable) with respect to the Collateral and, prior to such time, neither the holders of such Debt or any of their representatives will have any authority to, or to direct any collateral agent to, foreclose or otherwise realize upon any of the Collateral pursuant to any of the security documents and (iv) such junior Liens shall automatically be released if the second-priority Lien is released under the Second Priority Collateral Documents or (except with respect to the proceeds thereof) upon any sale or liquidation in connection with any foreclosure on the Collateral by or on behalf of the Holders of the Notes.

Section 4.08. *Limitations on Restricted Payments.* (a) The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, make any Restricted Payment if, after giving effect to such Restricted Payment:

(i) an Event of Default or event that, after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing;

(ii) the Consolidated Fixed Charge Ratio of the Company would be less than 1.75 to 1.0; or

(iii) the aggregate amount expended by the Company and its Subsidiaries for all Restricted Payments (the amount of any single or related series of Restricted Payments so expended or distributed, if in excess of $15 million and other than in cash, to be determined in good faith by the Board of Directors, as evidenced by a Board resolution) after the date hereof shall exceed the sum of:

(A) 50% of the Net Income of the Company and its Consolidated Subsidiaries for the period (taken as one accounting period) beginning on April 1, 2003 and ending on the last day of the fiscal quarter for which financial information is available immediately prior to the date of such calculation; *provided* that if Net Income for such period is less than zero, then minus 100% of such net loss; plus

(B) the aggregate net proceeds (including the fair market value of proceeds other than cash, as determined in good faith by the Board of Directors, as evidenced by a Board resolution if the fair market value of such non-cash proceeds is in excess of $15 million) received by the Company from and after the date hereof from the issuance and sale (other than to a Subsidiary) of its Capital Stock (excluding Redeemable Stock, but including Capital Stock other than Redeemable Stock issued upon conversion of, or in exchange for, Redeemable Stock or securities other than its Capital Stock), and warrants, options and rights to purchase its Capital Stock (other than Redeemable Stock), but excluding the net proceeds from the issuance, sale, exchange, conversion or other disposition of its Capital Stock convertible (unless solely at the option of the Company) into (x) any security other than its Capital Stock or (y) its Redeemable Stock; less

(C) the aggregate amount expended by the Company and its Subsidiaries after the date hereof to optionally repay, repurchase or otherwise retire for value any Debt of the Company other than First-Priority Secured Debt, Second-Priority Secured Debt or any revolving credit facility (it being understood that the repurchase of senior and senior subordinated notes pursuant to the Tender Offer as required by Section 4.15 is not optional);

provided that the foregoing clause (iii) shall not prevent the payment of any dividend within 60 days after the date of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of this covenant.

(b) For purposes of clause (a)(iii)(B) above, the aggregate net proceeds received by the Company (i) from the issuance of its Capital Stock upon the conversion of, or exchange for, securities evidencing Debt of the Company, shall be calculated on the assumption that the gross proceeds from such issuance are equal to the aggregate principal amount (or, if discount Debt, the accreted principal amount) of the Debt evidenced by such securities converted or exchanged and (ii) upon the conversion or exchange of other securities of the Company shall be equal to the aggregate net proceeds of the original sale of the securities so converted or exchanged if such proceeds of such original sale were not previously included in any calculation for the purposes of clause (a)(iii)(B) above plus any additional sums payable to the Company upon conversion or exchange.

Section 4.09. *Limitations on Asset Dispositions.* (a) The Company shall not make, and shall not permit any of its Subsidiaries to make, any Asset Disposition unless:

(i) the Company (or the Subsidiary, as the case may be) receives consideration at the time of each such Asset Disposition at least equal to the fair market value of the shares or assets sold or otherwise disposed of (such amounts in excess of $50 million determined in good faith by the Board of Directors, as evidenced by a Board resolution);

(ii) not less than 75% of the consideration received by the Company (or such Subsidiary, as the case may be) is in the form of cash or property or assets used or useful in a Power Supply Business or Capital Stock of a Person primarily engaged in a Power Supply Business, *provided* that any note or other obligation received by the Company (or such Subsidiary, as the case may be) that is converted into cash within 180 days of such Asset Disposition and any liabilities (as shown on the Company's or such Subsidiary's most recent balance sheet) of the Company or any Subsidiary that are assumed by the transferee of any such assets shall be deemed to be cash for purposes of this clause (ii); *provided further* that any property or assets received from Asset Dispositions of Collateral Assets shall be either (x) pledged as Collateral under the Second-Priority Security Documents or (y) received by a Collateral Subsidiary; and

(iii) (A) first, the Net Cash Proceeds of such Asset Disposition are applied within 90 days from the later of the date of such Asset

Disposition or the receipt of Net Cash Proceeds related thereto, to the payment of the principal of, premium and interest on any First-Priority Secured Debt of the Company (including to cash collateralize letters of credit) and, in connection with any such payment, any related loan commitment, standby facility or the like shall be permanently reduced in an amount equal to the principal amount so repaid; *provided* that no such permanent reduction will be required with respect to any such payment out of the Net Cash Proceeds of any Announced Asset Sale or with respect to the first $500 million aggregate principal amount (or accreted value, if applicable) of other repaid Debt that but for this proviso would be required to be permanently reduced; and second, (B) to the extent such Net Cash Proceeds are not required by the lenders, or the terms, of the First-Priority Secured Debt to be applied in accordance with the foregoing or, if after being so applied there remain Net Cash Proceeds, then at the Company's election, such Net Cash Proceeds are either:

(x) invested in the business or businesses of the Company or any of its Subsidiaries; *provided* that (1) such investment is made within 365 days from the later of the date of such Asset Disposition or the receipt of the Net Cash Proceeds related thereto and (2) the Net Cash Proceeds from Asset Dispositions of Collateral Assets may only be invested pursuant to this clause (x) in (I) assets (including Capital Stock) that are pledged as Collateral under the Second Priority Collateral Documents substantially concurrently with such acquisition or (II) a business or businesses owned by a Collateral Subsidiary; or

(y) applied to the payment, repurchase or other retirement of any First-Priority Secured Debt of the Company, Second-Priority Secured Debt of the Company (provided that payment, repurchase or other retirement of any Second-Priority Secured Debt shall be pro rata with the Notes) or Debt of any Consolidated Subsidiary of the Company (other than Debt owed to the Company or another Subsidiary of the Company), and in connection with any such payment, repurchase or other retirement, any related loan commitment, standby facility or the like shall be permanently reduced in an amount equal to the principal amount so repaid; *provided* that (1) such Net Cash Proceeds are so applied within three months after the expiration of the 365-day period referred to in clause (x) above, (2) the Net Cash Proceeds from Asset Dispositions of Collateral Assets may only be used pursuant to this clause (y) to pay, repurchase or retire First-Priority Secured Debt of the Company, Second-Priority Secured Debt of the Company or Debt of any Collateral Subsidiary (other than Debt owed to the Company or another Subsidiary of the Company) and

(3) no such permanent reduction will be required with respect to any such payment out of the Net Cash Proceeds of any Announced Asset Sale or with respect to the first $500 million aggregate principal amount (or accreted value, if applicable) of other repaid, repurchased or retired Debt that but for this proviso would be required to be permanently reduced; or

(z) applied to make a tender offer (the "**Offer**") to purchase the Notes and other First-Priority Secured Debt or Second-Priority Secured Debt of the Company secured by the Collateral from time to time outstanding with similar provisions requiring the Company to make an offer to purchase or to redeem such Debt with the proceeds from assets sales, pro rata in proportion to the respective principal amounts (or accreted values in the case of Debt issued with an original issue discount) of the Notes and such other Debt then outstanding at a purchase price of 100% of their principal amount (or accreted value in the case of Debt issued with an original issue discount), plus accrued interest (subject to proration in the event of oversubscription in the manner set forth below).

(b) Notwithstanding the foregoing, to the extent that any or all of the Net Cash Proceeds of any Foreign Asset Disposition are prohibited or delayed by applicable local law from being repatriated to the U.S., the Company (or such Subsidiary, as the case may be) shall not be required to apply the portion of such Net Cash Proceeds so affected in accordance with clauses (a)(ii) and (a)(iii) above (the Company hereby agrees to cause the applicable Subsidiary to promptly take all actions required by the applicable local law to permit such repatriation); *provided* that (i) in the case of Net Cash Proceeds from Asset Dispositions of Collateral Assets, such Net Cash Proceeds shall be held by a Collateral Subsidiary pending such repatriation or application in accordance with clauses (a)(ii) and (a)(iii) above and (ii) once such repatriation of any such affected Net Cash Proceeds is permitted under the applicable local law, such repatriation will be immediately effected and such repatriated Net Cash Proceeds will be applied in the manner set forth in this Section 4.09. To the extent that dividends or distributions of any or all of the Net Cash Proceeds of any Foreign Asset Disposition would result in a tax liability greater than that which would be incurred if such Net Cash Proceeds were not so dividended or distributed, the Net Cash Proceeds so affected may be retained by the applicable Subsidiary for so long as such adverse tax liability would continue to be incurred.

(c) Notwithstanding anything in this Section 4.09 to the contrary, the Company and any Subsidiary may make the following Asset Dispositions:

(i) a disposition resulting from the bona fide exercise by governmental authority of its claimed or actual power of eminent domain; *provided* that to the extent the Company or any Subsidiary receives any cash consideration in connection with such Asset Disposition, the Net Cash Proceeds from such Asset Disposition shall be applied in accordance with clauses (a)(ii) and (a)(iii) of this Section 4.09;

(ii) a realization upon a security interest; *provided* that to the extent the Company or any Subsidiary receives any cash consideration in connection with such Asset Disposition, the Net Cash Proceeds from such Asset Disposition shall be applied in accordance with clauses (a)(ii) and (a)(iii) of this Section 4.09;

(iii) any Permitted Payment or Restricted Payment that is permitted hereunder;

(iv) any sale, transfer, conveyance, lease or other disposition of the Capital Stock or Property of a Subsidiary pursuant to the terms of any power sales agreement or steam sales agreement or other agreement or contract related to the output or product of, or services rendered by, a Power Supply Business as to which such Subsidiary is the supplying party; *provided* that to the extent the Company or any Subsidiary of the Company receives any cash consideration in connection with such Asset Disposition, the Net Cash Proceeds from such Asset Disposition shall be applied in accordance with clauses (a)(ii) and (a)(iii) of this Section 4.09; or

(v) any Investment made by the Company or any Subsidiary of the Company, other than any Investment made by a Collateral Subsidiary in a Subsidiary of the Company that is not a Collateral Subsidiary (x) in exchange for which such Collateral Subsidiary receives less than fair value or (y) which constitutes all or substantially all of the assets of such Collateral Subsidiary.

(d) If the aggregate purchase price of Notes and other Debt tendered pursuant to an Offer made pursuant to clause (a)(iii)(B)(z) of this Section 4.09 is less than the Net Cash Proceeds allotted to the purchase of the Notes and other Debt, the Company may use the remaining Net Cash Proceeds for general corporate purposes. The Company will not be required to comply with the provisions of clause (a)(iii) of this Section 4.09 if the Net Cash Proceeds from one or more Asset Dispositions occurring on or after the date hereof are less than $40 million in any one fiscal year. Any lesser amounts so carried forward and cumulated need not be segregated or reserved and may be used for general corporate purposes.

(e) The Company shall make an Offer pursuant to clause (a)(iii)(B)(z) by mailing to each Holder of the Notes, within 30 days from the receipt of Net Cash Proceeds, a written notice specifying the purchase date, which shall be not less than 30 days nor more than 60 days after the date of such notice (the "**Purchase Date**") and shall contain certain information concerning the business of the Company which the Company believes in good faith will enable the Holders of the Notes to make an informed decision. Holders electing to have their notes purchased will be required to surrender such Notes at least one Business Day prior to the Purchase Date. If at the expiration of the offer period the aggregate principal amount of Notes surrendered by Holders exceeds the amount available to purchase Notes, the Company will select the Notes to be purchased on a pro rata basis.

(f) In the event the Company is unable to purchase Notes from Holders in an Offer because of provisions of applicable law, the Company need not make an Offer. The Company shall then be obligated to use the Net Cash Proceeds in accordance with clauses (a)(iii)(B)(x) or (a)(iii)(B)(y) of this Section 4.09.

(g) The Company shall comply with all applicable tender offer rules, including without limitation Rule 14e-1 under the Exchange Act, in connection with an Offer under this Section 4.09.

Section 4.10. *Repurchase of Notes Upon a Change of Control.* (a) Upon a Change of Control, each holder of the Notes shall have the right to require that the Company repurchase such holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder of the Notes with a copy to the Trustee stating

(i) that a Change of Control has occurred and that such Holder has the right to require the Company to repurchase such Holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase (the "**Change of Control Offer**"),

(ii) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control),

(iii) the repurchase date (which shall be not earlier than 30 days or later than 60 days from the date such notice is mailed) (the "**Repurchase Date**"),

(iv) that any Note not tendered shall continue to accrue interest,

(v) that any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Repurchase Date,

(vi) that Holders electing to have a Note purchased pursuant to a Change of Control Offer will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, to the paying agent at the address specified in the notice prior to the close of business on the Repurchase Date,

(vii) that Holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the third Business Day (or such shorter periods as may be required by applicable law) preceding the Repurchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes the Holder delivered for purchase, and a statement that such Holder is withdrawing his election to have such Notes purchased, and

(viii) that Holders which elect to have their Notes purchased only in part will be issued new Notes of the same Series in a principal amount equal to the unpurchased portion of the Notes surrendered.

(c) On the Repurchase Date, the Company shall (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer; (ii) deposit with the Trustee money sufficient to pay the purchase price of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee Notes so accepted together with an Officers' Certificate identifying the Notes or portions thereof tendered to the Company.

(d) The Trustee shall promptly mail to the Holders of the Notes so accepted payment in an amount equal to the purchase price, and promptly authenticate and mail to such Holders a new Note of the same Series in a principal amount equal to any unpurchased portion of the Note surrendered. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Repurchase Date.

(e) The Company shall comply with all applicable tender offer rules, including without limitation Rule 14e-1 under the Exchange Act, in connection with a Change of Control Offer.

Section 4.11. *Limitations on Transactions with Affiliates.* (a) The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly enter into any transaction or series of related transactions (including, without limitation, the sale, purchase or lease of any assets or properties or the rendering of any services) involving aggregate consideration in excess of $5 million with any Affiliate (other than a Person that constitutes an Affiliate solely because of the Company's or its Subsidiary 's control of such Person) or holder of 5% or more of any class of Capital Stock of the Company except for transactions (including any loans or advances by or to, or Guarantee on behalf of, any Affiliate or any such holder) made in good faith the terms of which are fair and reasonable to the Company or such Subsidiary, as the case may be, and are at least as favorable as the terms which could be obtained by the Company or such Subsidiary, as the case may be, in a comparable transaction made on an arm's-length basis with Persons who are not such a holder or Affiliate; *provided* that

(i) any such transaction shall be conclusively deemed to be on terms which are fair and reasonable to the Company or any of its Subsidiaries and on terms which are at least as favorable as the terms which could be obtained on an arm's-length basis with Persons who are not such a holder or Affiliate if such transaction is approved by a majority of the Company's Board of Directors (including a majority of the Company's independent directors); and

(ii) with respect to the purchase or disposition of assets of the Company or any of its Subsidiaries having a net book value in excess of $15 million, in addition to approval of its Board of Directors, the Company shall obtain a written opinion of an Independent Financial Advisor stating that the terms of such transaction are fair to the Company or its Subsidiary, as the case may be, from a financial point of view;

provided that the fairness, reasonableness and arm's-length nature of the terms of any transaction which is part of a series of related transactions may be determined on the basis of the terms of the series of related transactions taken as a whole.

(b) Clause (a) of this Section 4.11 shall not apply to

(i) transactions between the Company or any of its Subsidiaries and any employee of the Company or any of its Subsidiaries that are approved by the Board of Directors or any committee of the Board of Directors consisting of the Company's independent directors; *provided* that the terms of such transaction are at least as favorable as the terms which could be obtained by the Company or its Subsidiaries, as the case may be, in a comparable transaction or consistent with past practice;

(ii) the payment of reasonable and customary regular fees to directors of the Company or a Subsidiary of the Company;

(iii) any transaction between the Company and any of its Consolidated Subsidiaries or between any of its Consolidated Subsidiaries;

(iv) any Permitted Payment and any Restricted Payment not otherwise prohibited by Section 4.08; or

(v) the provision of general corporate administrative, operating and management services, including, without limitation, procurement, construction engineering, construction administration, legal, accounting, financial, money management, risk management, personnel, administration and business planning services, in each case, in the ordinary course and provided that the terms of such provision of services are at least as favorable as the terms which could be obtained by the Company or its Subsidiaries, as the case may be, in a comparable transaction made on an arm's-length basis.

Section 4.12. *Second-Priority Liens*. To the extent the Company or any Subsidiary of the Company grants a Lien upon any of its property or assets to secure the First-Priority Secured Debt, the Company or such Subsidiary, as the case may be, shall, contemporaneously with the granting of such Lien, secure the Company's Obligations under the Indenture and the Notes with a second-priority Lien upon such property or assets pursuant to the Second Priority Collateral Documents. Notwithstanding the foregoing, the Company shall not permit any Lien on any Collateral Assets to secure Debt of AES that would violate Section 4.07.

Section 4.13. *Limitation on Sale Leaseback Transactions.* The Company shall not enter into any sale and leaseback transaction involving any Principal Property, the acquisition or completion of construction and commencement of full operation of which has occurred more than 180 days prior thereto, unless (a) the Company could incur a Lien on such property under the restrictions described in Section 4.06 hereof in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Notes or (b) the Company, within 180 days after the sale or transfer by the Company, applies to the retirement of its Funded Debt an amount equal to the greater of (i) the net proceeds of the sale of the Principal Property sold and leased pursuant to such arrangement or (ii) the fair market value of the Principal Property so sold and leased as determined by the Board of Directors; *provided* that the amount to be applied to the retirement of Funded Debt of the Company shall be reduced by (A) the principal amount of any Notes delivered within 180 days after such sale or transfer to the Trustee for retirement and cancellation, and (B) the principal amount of Funded Debt, other than Notes, voluntarily retired by the Company within 180 days after such sale or transfer; provided further that no retirement referred to in this clause (b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

Section 4.14. *Restrictions on Securing or Guaranteeing Outstanding AES Notes.* The Company shall not pledge any asset to secure (other than in connection with the defeasance thereof) or permit any of its Subsidiaries to Guarantee or pledge any asset to secure any Outstanding AES Notes unless such asset is pledged to secure the Notes or such Subsidiary Guarantees the Notes, as the case may be, on an equal and ratable basis.

Section 4.15. *Use of Proceeds from the Notes.* Of the net proceeds received by the Company on the date hereof from the offering of the Original Notes, the Company shall use (a) $475 million to repay Debt outstanding under the Senior Secured Credit Facilities, (b) an amount necessary to purchase its senior subordinated notes in accordance with the terms of the tender offer it launched on April 4, 2003 as amended as of May 2, 2003 (the "**Tender Offer**") and (c) an amount necessary to purchase its senior notes in accordance with the terms of the Tender Offer. The Company may use the remaining proceeds for general corporate purposes. If for any reason, the Company terminates the Tender Offer and does not apply the proceeds to purchase outstanding notes as described in clauses (b) and (c) above in accordance with the terms of the Tender Offer, within 180 days of the date of such termination, the Company shall use such proceeds to repay additional debt under its Senior Secured Credit Facilities and/or to repurchase its outstanding debt securities.

Section 4.16. *Investment Grade Fallaway.* (a) Notwithstanding anything to the contrary contained in this Article 4, the Company's obligation to comply with the provisions of Section 4.08, Section 4.09 (but only with respect to assets that do not constitute Collateral Assets) and Section 4.10 (collectively the "**Extinguished Covenants**") will terminate and cease to have any further effect from and after the first date when the Notes are rated Investment Grade; *provided* that if the Notes subsequently cease to be rated Investment Grade, then from and after the time the Notes cease to be rated Investment Grade, the Company's obligation to comply with the Extinguished Covenants shall be reinstated.

(b) Notwithstanding the foregoing, in the event of any such reinstatement described above, no action taken or omitted to be taken by the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the Extinguished Covenants upon reinstatement; *provided* that with respect to Restricted Payments made after any such reinstatement, the amount of Restricted Payments made after the date hereof will be calculated as though Section 4.08 had been in effect during the entire period after the date hereof.

ARTICLE 5
SUCCESSOR CORPORATION

Section 5.01. *When Company May Merge, Etc.* The Company shall not consolidate with, merge with or into, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (as an entirety or substantially as an entirety in one transaction or a series of related transactions) to, any Person or permit any Person to merge with or into the Company unless either (x) the Company shall be the continuing Person or (y) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or to which properties and assets of the Company are transferred shall be a solvent corporation organized and validly existing under the laws of the United States of America or any state thereof or the District of Columbia and shall expressly assume, by a supplemental indenture and any other agreement reasonably satisfactory to the Trustee, executed and delivered to the Trustee, all of the Obligations of the Company under the Notes, this Indenture and the Second Priority Collateral Documents and the Company shall have delivered to the Trustee (a) an Opinion of Counsel stating that such consolidation, merger or transfer and such supplemental indenture and/or other agreement complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with and that each of such supplemental indenture and/or other agreement constitutes the legal, valid and binding obligation of the Company or such successor enforceable against such entity in accordance with its terms, subject to customary exceptions and (b) an Officers' Certificate to the effect that immediately after giving effect to such transaction, no Event of Default or Default shall have occurred and be continuing.

Section 5.02. *Successor Substituted.* Upon any consolidation or merger, or any sale, conveyance, transfer, lease or other disposition of all or substantially all of the property and assets of the Company in accordance with Section 5.01 of this Indenture, the successor Person formed by such consolidation or into which the Company is merged or to which such sale, conveyance, transfer, lease or other disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein.

ARTICLE 6
DEFAULT AND REMEDIES

Section 6.01. *Events of Default*. An "**Event of Default**" shall occur with respect to any Series of Notes if:

(a) the Company defaults in the payment of the Principal or premium, if any, on any Notes of such Series when the same becomes due and payable at maturity, upon acceleration, redemption or mandatory repurchase, or otherwise;

(b) the Company defaults in the payment of interest on any Note of such Series when the same becomes due and payable, and such default continues for a period of 30 days;

(c) the Company defaults in the performance of or breaches any other covenant or agreement of the Company in this Indenture or in the Notes and such default or breach continues for a period of 60 consecutive days after written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of 25% or more in aggregate principal amount of the Notes affected by such breach;

(d) an event of default, as defined in any indenture or instrument evidencing or under which the Company has at the date of the Indenture or shall thereafter have outstanding any indebtedness, shall happen and be continuing and, either (i) such default results from the failure to pay the principal of such indebtedness in excess of $50 million at final maturity of such indebtedness or (ii) as a result of such default the maturity of such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not be rescinded or annulled within 60 days and, the principal amount of such indebtedness, together with the principal amount of any other indebtedness of the Company the maturity of which has been accelerated, aggregates $50 million or more; *provided* that the Trustee shall not be charged with knowledge of any such default unless written notice thereof shall have been given to the Trustee by the Company, by the holder or an agent of the holder of any such indebtedness, by the trustee then acting under any indenture or other instrument under which such default shall have occurred, or by the Holders of not less than 25% in the aggregate principal amount of the Notes at the time outstanding; and *provided* further that if such default shall be remedied or cured by the Company or waived by the holder of such indebtedness, then the Event of Default under the Indenture by reason thereof shall be deemed likewise to have been remedied, cured or waived without further action on the part of the Trustee, any Holder or any other person;

(e) any of the Second Priority Collateral Documents ceases to be in full force and effect, or any of the Second Priority Collateral Documents ceases to give the Holders any of the Liens purported to be created thereby, or any of the Second Priority Collateral Documents is declared null and void or the Company denies in writing that it has any further liability under any Second Priority Collateral Document or gives written notice to such effect (in each case other than in accordance with the terms of the Indenture or the terms of the Second Priority

Collateral Documents); *provided* that if a failure of the sort described in this clause (e) is susceptible of cure, no Event of Default shall arise under this clause (e) with respect thereto until 30 days after notice of such failure shall have been given to the Company by the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes;

(f) a court having jurisdiction in the premises shall enter a decree or order for (i) relief in respect of the Company or any of its Material Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official of the Company or any of its Material Subsidiaries or for all or substantially all of the property and assets of the Company or any of its Material Subsidiaries or (iii) the winding up or liquidation of the affairs of the Company or any of its Material Subsidiaries, and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(g) the Company or any of its Material Subsidiaries (i) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any of its Material Subsidiaries or for all or substantially all of the property and assets of the Company or any of its Material Subsidiaries or (iii) effects any general assignment for the benefit of creditors.

Section 6.02. *Acceleration.* (a) If an Event of Default (other than as described in clauses (f) or (g) of Section 6.01 with respect to the Company) with respect to the Notes then outstanding occurs and is continuing, then, and in each and every such case, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding (or in the case of an Event of Default specified in clauses (a) or (b), the Holders of not less than 25% of the aggregate principal amount of the Series so affected) by notice in writing to the Company (and to the Trustee if given by Noteholders), may, and the Trustee at the request of such Holders (or in the case of an Event of Default specified in clauses (a) or (b), the Holders of not less than 25% of the aggregate principal amount of the Series so affected) shall, declare the entire Principal of all Notes (or the applicable Series of Notes so affected, as the case may be) and the interest accrued thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable.

(b) If an Event of Default described in clause (f) or (g) of Section 6.01 occurs and is continuing with respect to the Company, then the Principal of all the Notes then outstanding and interest accrued thereon, if any, shall ipso facto be and become immediately due and payable, without any declaration or other action by any Holder or the Trustee.

The foregoing provisions, however, are subject to the condition that if, at any time after the Principal of the Notes (or the applicable Series of Notes so affected, as the case may be) shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all the Notes (or the applicable Series of Notes so affected, as the case may be) and the Principal of any and all Notes (or the applicable Series of Notes so affected, as the case may be) which shall have become due otherwise than by acceleration (with interest upon such Principal and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Notes to the date of such payment or deposit) and such amount as shall be sufficient to cover all amounts owing the Trustee under Section 7.06, and if any and all Events of Default under the Indenture, other than the non-payment of the Principal of Notes (or the applicable Series of Notes so affected, as the case may be) which shall have become due by acceleration, shall have been cured, waived or otherwise remedied as provided herein, then and in every such case the Holders of a majority in aggregate Principal amount of all the then outstanding Notes (or the applicable Series of Notes so affected, as the case may be) that have been accelerated, by written notice to the Company and to the Trustee, may waive all defaults with respect to the Notes (or the applicable Series of Notes so affected, as the case may be) and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

Section 6.03. *Other Remedies.* If a payment Default or an Event of Default with respect to the Notes occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of Principal of and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

Section 6.04. *Waiver of Past Defaults.* Subject to Section 6.02, Section 6.07 and Section 9.02, the Holders of at least a majority in Principal amount of the outstanding Notes affected, by notice to the Trustee, may waive an existing Default or Event of Default with respect to the Notes and its consequences, except a Default in the payment of Principal of or interest on any Note as specified in clauses (a) or (b) of Section 6.01 or in respect of a covenant or provision of this

Indenture which cannot be modified or amended without the consent of the Holder of each outstanding Note affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default with respect to the Notes arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereto.

Section 6.05. *Control by Majority.* Subject to Section 7.01 and Section 7.02(e), the Holders of at least a majority in aggregate Principal amount of the outstanding Notes (or in the case of an Event of Default specified in clauses (a) or (b) of Section 6.01 , the Holders of at least a majority in aggregate Principal amount of the applicable Series of Notes so affected) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes by this Indenture; *provided*, that the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that may involve the Trustee in personal liability or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction; and *provided further*, that the Trustee may take any other action it deems proper that is not inconsistent with any directions received from Holders of Notes pursuant to this Section 6.05.

Section 6.06. *Limitation on Suits.* Subject to Section 6.07, no Holder of any Note may institute any proceeding, judicial or otherwise, with respect to this Indenture or the Notes of the same Series, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(i) such Holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes of such Series;

(ii) the Holders of at least 25% in aggregate Principal amount of outstanding Notes (or the applicable Series of Notes so affected, as the case may be) shall have made written request to the Trustee to pursue the remedy;

(iii) such Holder or Holders have offered and, if requested, provided to the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liabilities or expenses to be incurred in compliance with such request;

(iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(v) during such 60-day period, the Holders of a majority in aggregate Principal amount of the outstanding Notes (or the applicable Series of Notes so affected, as the case may be) have not given the Trustee a direction that is inconsistent with such written request.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over such other Holder.

Section 6.07. *Rights of Holders to Receive Payment.* The provisions of Section 6.06 shall not apply to the right of any Holder of a Note to receive payment of Principal of or interest, if any, on such Holder's Note on or after the respective due dates expressed on such Note, or to bring suit for the enforcement of any such payment on or after such respective dates, and notwithstanding any other provision of this Indenture, such right shall not be impaired or affected without the consent of such Holder.

Section 6.08. *Collection Suit by Trustee.* If an Event of Default with respect to the Notes in payment of Principal or interest specified in clause (a) or (b) of Section 6.01 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of Principal of, and accrued interest remaining unpaid on, together with interest on overdue Principal of, and, to the extent that payment of such interest is lawful, interest on overdue installments of interest on, the Notes, in each case at the rate specified in such Notes, and such further amount as shall be sufficient to cover all amounts owing the Trustee under Section 7.06.

Section 6.09. *Trustee May File Proofs of Claim.* The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for amounts due the Trustee under Section 7.06) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor on the Notes), its creditors or its property and shall be entitled and empowered to collect and receive any moneys, securities or other property payable or deliverable upon conversion or exchange of the Notes or upon any such claims and to distribute the same, and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it under Section 7.06. Nothing herein contained shall be deemed to empower the Trustee to authorize or consent to, or accept or adopt on behalf of any Holder, any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding

Section 6.10. *Application of Proceeds.* Any moneys or properties collected by the Trustee pursuant to this Article in respect of the Notes shall be applied in the following order at the date or dates fixed by the Trustee:

FIRST: To the payment of all amounts due the Trustee under Section 7.06;

SECOND: to Holders for amounts then due and unpaid for Principal of and interest on the Notes, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for Principal and interest; and

THIRD: To the payment of the remainder, if any, to the Company or any other person lawfully entitled thereto.

Section 6.11. *Restoration of Rights and Remedies.* If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then, and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored to their former positions hereunder and thereafter all rights and remedies of the Company, Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 6.12. *Undertaking for Costs.* In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, in either case in respect to the Notes, a court may require any party litigant in such suit (other than the Trustee) to file an undertaking to pay the costs of the suit, and the court may assess reasonable costs, including reasonable attorneys' fees, against any party litigant (other than the Trustee) in the suit having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.12 does not apply to a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in Principal amount of the outstanding Notes.

Section 6.13. *Rights and Remedies Cumulative.* Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or wrongfully taken Notes in Section 2.09, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 6.14. *Delay or Omission Not Waiver.* No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

ARTICLE 7
TRUSTEE

Section 7.01. *General.* The duties and responsibilities of the Trustee shall be as set forth herein. The Trustee undertakes to perform only the duties expressly set forth herein and no implied covenant or obligation shall be read into this Indenture against the Trustee. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article 7.

Section 7.02. *Certain Rights of Trustee.* (a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, Officers' Certificate, Opinion of Counsel (or both), statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper person or persons. The Trustee need not investigate any fact or matter stated in the document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(b) before the Trustee acts or refrains from acting, it may require an Officers' Certificate and/or an Opinion of Counsel, which shall conform to Section 10.03. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such certificate or opinion. Subject to Section 7.01 and Section 7.02, whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof;

(c) the Trustee may act through its attorneys and agents not regularly in its employ and shall not be responsible for the misconduct or negligence of any agent or attorney appointed with due care;

(d) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers or for any action it takes or omits to take in accordance with the direction of the Holders in accordance with Section 6.05 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(g) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon; and

(h) prior to the occurrence of an Event of Default hereunder and after the curing or waiving of all Events of Default, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, Officers' Certificate, Opinion of Counsel, Board Resolution, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, security, or other paper or document unless requested in writing so to do by the Holders of not less than a majority in aggregate Principal amount of the Notes then outstanding; *provided* that, if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to proceeding.

Section 7.03. *Individual Rights of Trustee.* The Trustee, in its individual or any other capacity, may become the owner or pledgee of the Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not the Trustee. Any Agent may do the same with like rights.

Section 7.04. *Trustee's Disclaimer.* The recitals contained herein and in the Notes (except the Trustee's certificate of authentication) and the Second Priority Collateral Documents shall be taken as statements of the Company and not of the Trustee and the Trustee assumes no responsibility for the correctness of the same. Neither the Trustee nor any of its agents (i) makes any representation as to the validity or adequacy of this Indenture or the Notes and (ii) shall be accountable for the Company's use or application of the proceeds from the Notes, if any.

Section 7.05. *Notice of Default.* If any Default with respect to the Notes occurs and is continuing and if such Default is known to the actual knowledge of a Responsible Officer of the Trustee, the Trustee shall give to each Holder of Notes notice of such Default within 90 days after it occurs (or after such Responsible Officer of the Trustee acquires knowledge thereof) to all Holders, unless such Default shall have been cured or waived before the mailing or publication of such notice; *provided, however*, that, except in the case of a Default in the payment of the Principal of or interest on any Note, the Trustee shall be protected in withholding such notice if the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 7.06. *Compensation and Indemnity.* The Company shall pay to the Trustee such compensation as shall be agreed upon in writing from time to time for its services. The compensation of the Trustee shall not be limited by any law on compensation of a Trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of pocket expenses, disbursements and advances incurred or made by the Trustee. Such expenses shall include the reasonable compensation and expenses of the Trustee's agents, counsel and other persons not regularly in its employ. The Trustee shall not be required to make any advances hereunder.

The Company shall indemnify the Trustee for, and hold it harmless against, any loss or liability or expense incurred by it without gross negligence or bad faith on its part arising out of or in connection with the acceptance or administration of this Indenture and the Notes or the issuance of the Notes or the trusts hereunder and the performance of duties under this Indenture and the Notes, including the costs and expenses of defending itself against or investigating any claim or liability and of complying with any process served upon it or any of its officers in connection with the exercise or performance of any of its powers or duties under this Indenture and the Notes.

To secure the Company's payment obligations in this Section 7.06, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, in its capacity as Trustee, except money or property held in trust to pay Principal of, and interest on particular Notes.

The obligations of the Company under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture or the rejection or termination of this Indenture under bankruptcy law. Such additional indebtedness shall be a senior claim to that of the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the Holders of particular Notes, and the Notes are hereby subordinated to such senior claim. If the Trustee renders services and incurs expenses following an Event of Default under Section 6.01(f) or Section 6.01(g) hereof, the parties hereto and the Holders by their acceptance of the Notes hereby agree that such expenses are intended to constitute expenses of administration under any bankruptcy law.

Section 7.07. *Replacement of Trustee.* A resignation or removal of the Trustee as Trustee and appointment of a successor Trustee as Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section 7.07.

The Trustee may resign as Trustee with respect to the Notes at any time by so notifying the Company in writing. The Holders of a majority in Principal amount of the outstanding Notes may remove the Trustee as Trustee with respect to the Notes by so notifying the Trustee in writing and may appoint a successor Trustee with respect thereto with the consent of the Company. The Company may remove the Trustee as Trustee with respect to the Notes if: (i) the Trustee is adjudged a bankrupt or insolvent; (ii) a receiver or other public officer takes charge of the Trustee or its property; or (iii) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed as Trustee with respect to the Notes, or if a vacancy exists in the office of Trustee with respect to the Notes for any reason, the Company shall promptly appoint a successor Trustee with respect thereto. Within one year after the successor Trustee takes office, the Holders of a majority in Principal amount of the outstanding Notes may appoint a successor Trustee in respect of such Notes to replace the successor Trustee appointed by the Company. If the successor Trustee with respect to the Notes does not deliver its written acceptance required by the next succeeding paragraph of this Section 7.07 within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in Principal amount of the outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect thereto.

A successor Trustee with respect to the Notes shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after the delivery of such written acceptance, subject to the Lien provided for in Section 7.06, (i) the retiring Trustee shall transfer all property held by it as Trustee in respect of the Notes to the successor Trustee, (ii) the resignation or removal of the retiring Trustee in respect of the Notes shall become effective and (iii) the successor Trustee shall have all the rights, powers and duties of the Trustee in respect of the Notes under this Indenture. A successor Trustee shall mail notice of its succession to each Holder of Notes.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the preceding paragraph.

The Company shall give notice of any resignation and any removal of the Trustee with respect to the Notes and each appointment of a successor Trustee in respect of the Notes to all Holders of Notes. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

Notwithstanding replacement of the Trustee with respect to the Notes pursuant to this Section 7.07, the Company's obligations under Section 7.06 shall continue for the benefit of the retiring Trustee.

Section 7.08. *Successor Trustee by Merger, Etc.* If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or national, banking association, the resulting, surviving or transferee corporation or national banking association without any further act shall be the successor Trustee with the same effect as if the successor Trustee had been named as the Trustee herein.

Section 7.09. *Money Held in Trust.* The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law and except for money held in trust under Article 8 of this Indenture.

ARTICLE 8
SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 8.01. *Satisfaction and Discharge of Indenture.* If at any time (a) the Company shall have paid or caused to be paid the Principal of, and interest on all the Notes of a Series outstanding hereunder (other than Notes of such Series which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.09) as and when the same shall have become due and payable, or (b) the Company shall have delivered to the Trustee for cancellation all Notes of such Series theretofore authenticated (other than any Notes of such Series which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.09) or (c)(i) all the Notes of such Series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and (ii) the Company shall have irrevocably deposited or caused to be deposited with the Trustee as trust funds the entire amount in cash (other than moneys repaid by the Trustee or any paying agent to the Company in accordance with Section 8.04) or U.S. Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of cash sufficient to pay at maturity or upon redemption all Notes of such Series (other than any Notes of such Series which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.09) not theretofore delivered to the Trustee for cancellation, including Principal, and interest due or to become due on or prior to such date of maturity as the case may be, and if, in any such case, the Company shall also pay or cause to be paid all other sums payable hereunder by the Company with respect to Notes of such Series, then this Indenture shall cease to be of further effect with respect to the Notes of such Series (except as to (i) rights of registration of transfer and exchange of Notes of such Series, and the Company's right of optional, redemption, if any, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Notes, (iii) rights of Holders to receive payments of Principal and interest thereon, upon the original stated due dates therefor (but not upon acceleration), (iv) the rights, obligations and immunities of the Trustee hereunder and (v) the rights of the Holders of the Notes of such Series as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them), and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel, and at the cost and expense of the Company, shall execute proper instruments acknowledging such satisfaction of and discharging this Indenture; *provided*, that the rights of Holders of the Notes of such Series to receive amounts in respect of Principal of and interest on the Notes of such Series held by them shall not be delayed longer than required by then-applicable mandatory rules or policies of any securities exchange upon which the Notes of such Series are listed. The

Company agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Notes.

Section 8.02. *Application by Trustee of Funds Deposited for Payment of Notes.* Subject to Section 8.04, all moneys deposited with the Trustee pursuant to Section 8.01 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Company acting as its own paying agent), to the Holders of the particular Notes for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for Principal and interest; but such money need not be segregated from other funds except to the extent required by law.

Section 8.03. *Repayment of Moneys Held by Paying Agent.* In connection with the satisfaction and discharge of this Indenture with respect to the Notes of any Series, all moneys then held by any paying agent under the provisions of this Indenture, with respect to the Notes of such Series, shall, upon demand of the Company, be repaid to it or paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys.

Section 8.04. *Return of Moneys Held by Trustee and Paying Agent Unclaimed for Two Years.* Any moneys deposited with or paid to the Trustee or any paying agent for the payment of the Principal of or interest on any Note and not applied but remaining unclaimed for two years after the date upon which such Principal or interest shall have become due and payable, shall, upon the written request of the Company and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Company by the Trustee or such paying agent, and the Holder of the Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Company for any payment which such Holder may be entitled to collect, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease.

Section 8.05. *Defeasance and Discharge of Indenture.* The Company shall be deemed to have paid and shall be discharged from any and all obligations in respect of the Notes of any Series, on the 123rd day after the deposit referred to in clause (i) of this Section 8.05 has been made, and the provisions of this Indenture shall no longer be in effect with respect to the Notes of such Series (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except as to: (a) rights of registration of transfer and exchange, and the Company’s right of optional redemption, (b) substitution of apparently mutilated, defaced, destroyed, lost or stolen Notes of such Series, (c) rights of Holders to receive payments of Principal thereof and interest thereon, upon the original stated due dates therefore (but not upon acceleration), (d) the rights, obligations and immunities of the Trustee hereunder and (e) the rights of the Noteholders as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them; provided that the following conditions shall have been satisfied:

(i) with reference to this provision the Company has deposited or caused to be irrevocably deposited with the Trustee (or another trustee satisfying the requirements of Section 7.07) as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Notes of such Series, (A) money in an amount, or (B) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide not later than one day before the due date of any payment referred to in clause (C) of this clause (i) money in an amount, or (C) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge without consideration of the reinvestment of such interest and after payment of all federal, state and local taxes or other charges and assessments in respect thereof payable by the Trustee the Principal of, premium, if any, and each installment of interest on the outstanding Notes of such Series on the due dates thereof or earlier redemption (irrevocably provided for under agreements satisfactory to the Trustee), as the case may be, in accordance with the terms of the Notes of such Series and the Indenture;

(ii) the Company has delivered to the Trustee (A) either (x) an Opinion of Counsel to the effect that Holders of Notes of such Series will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of its option under this Section 8.05 and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, which Opinion of Counsel must be based upon a ruling of the Internal Revenue Service to the same effect or a change in applicable U.S. federal income tax law or related treasury regulations after the date of this Indenture or (y) a ruling directed to the Trustee received from the Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (B) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit, the trust fund will, not be subject to the effect of Section 547 of the U.S. Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(iii) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 123rd day after the date of such deposit, and such deposit shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which the Company is bound; and

(iv) if at such time the Notes of such Series are listed on a national securities exchange, the Company has delivered to the Trustee an Opinion of Counsel to the effect that the Notes will not be delisted as a result of such deposit, defeasance and discharge.

Section 8.06. *Defeasance of Certain Obligations.* The Company may omit to comply with any term, provision or condition set forth in, and this Indenture will no longer be in effect with respect to, any covenant in Article 4 (other than Section 4.01), Section 5.01, or Article 11 or in any indenture supplemental hereto and clause (c) (with respect to any covenants in Article 4 or Section 5.01 or in any indenture supplemental) and clause (e) of Section 6.01 shall be deemed not to be an Event of Default with respect to the Notes of a Series on the 123rd day after the deposit referred to in clause (a) of this Section 8.06 has been made and *provided* that the following conditions have been satisfied:

(a) with reference to this Section 8.06, the Company has deposited or caused to be irrevocably deposited with the Trustee (or another trustee satisfying the requirements of Section 7.07) as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Notes of such Series and the Indenture with respect to the Notes of such Series, (i) money in an amount or (ii) U.S. Government Obligations which through the payment of principal and interest in respect thereof in accordance with their terms will provide not later than one day before the due dates thereof or earlier redemption (irrevocably provided for under agreements satisfactory to the Trustee), as the case may be, of any payment referred to in clause (iii) of this clause (a) money in an amount, or (iii) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge without consideration of the reinvestment of such interest and after payment of all federal, state and local taxes or other charges and assessments in respect thereof payable by the Trustee, the Principal of, premium, if any, and each installment of interest on the outstanding Notes of such Series on the due date thereof or earlier redemption (irrevocably provided for under arrangements satisfactory to the Trustee), as the case may be;

(b) the Company has delivered to the Trustee (i) an Opinion of Counsel to the effect that Holders of Notes of such Series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this Section 8.06 and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred and (ii) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the U.S. Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(c) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 123rd day after the date of such deposit, and such deposit shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which the Company is bound; and

(d) if at such time the Notes of such Series are listed on a national securities exchange, the Company has delivered to the Trustee an Opinion of Counsel to the effect that the Notes of such Series will not be delisted as a result of such deposit, defeasance and discharge.

Section 8.07. *Reinstatement.* If the Trustee or paying agent is unable to apply any monies or U.S. Government Obligations in accordance with Article 8 with respect to a Series of Notes, by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and such Series of Notes shall be revived and reinstated as though no deposit had occurred pursuant to this Article until such time as the Trustee or paying agent is permitted to apply all such monies or U.S. Government Obligations in accordance with Article 8; *provided*, *however*, that if the Company has made any payment of Principal of, premium, if any, or interest on any Notes because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the monies or U.S. Government Obligations held by the Trustee or paying agent.

ARTICLE 9
AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 9.01. *Without Consent of Holders.* The Company and the Trustee may amend or supplement this Indenture or the Notes or the Second Priority Collateral Documents without notice to or the consent of any Holder:

(i) to cure any ambiguity, defect or inconsistency in this Indenture or the Second Priority Collateral Documents; *provided* that such amendments or supplements shall not adversely affect the interests of the Holders in any material respect;

(ii) to comply with Article 5;

(iii) to comply with any requirements of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act of 1939;

(iv) to evidence and provide for the acceptance of appointment hereunder with respect to the Notes by a successor Trustee;

(v) establish the form or forms or terms of Notes;

(vi) to provide for certificated or unregistered securities and to make all appropriate changes for such purpose;

(vii) to directly or indirectly release the Liens created by the Second Priority Collateral Documents on less than all or substantially all the Collateral in accordance with the terms of the Second Priority Collateral Documents; or

(viii) to make any change that does not materially and adversely affect the rights of any Holder.

The Collateral Documents may be amended or supplemented as provided therein and compliance with any of the provisions of the Collateral Documents may be waived as provided therein.

Section 9.02. *With Consent of Holders.* Subject to Section 6.04 and Section 6.07, without prior notice to any Holders, the Company and the Trustee may amend this Indenture and the Notes and the Second Priority Collateral Documents with the written consent of the Holders of not less than a majority in aggregate Principal amount of the outstanding Notes affected by such amendment (voting as a single class) and the Holders of a majority in principal amount of the outstanding Notes affected thereby (voting as a single class) by written notice to the Trustee may waive future compliance by the Company with any provision of this Indenture or the Notes.

Notwithstanding the provisions of this Section 9.02, without the consent of each Holder affected thereby, an amendment or waiver, including a waiver pursuant to Section 6.04, may not:

(a) change the Stated Maturity of the Principal of or any installment of interest on, such Holder's Note;

(b) modify the provisions of Section 4.10;

(c) reduce the Principal amount thereof or the rate of interest thereon;

(d) reduce the above stated percentage of outstanding Notes the consent of whose holders is necessary to modify or amend the Indenture; or

(e) reduce the percentage or aggregate Principal amount of outstanding Notes the consent of whose Holders is required for any supplemental indenture, for any waiver of compliance with certain provisions of this Indenture or certain Defaults and their consequences provided for in this Indenture.

It shall not be necessary for the consent of any Holder under this Section 9.02 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 9.02 becomes effective, the Company shall give to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. The Company will mail supplemental indentures to Holders upon request. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture or waiver.

Section 9.03. *Revocation and Effect of Consent.* Until an amendment or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Note or portion of a Note that evidences the same Debt as the Note of the consenting Holder, even if notation of the consent is not made on any Note. However, any such Holder or subsequent Holder may revoke the consent as to its Note or portion of its Note. Such revocation shall be effective only if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective. An amendment, supplement or waiver shall become effective with respect to any Notes affected thereby on receipt by the Trustee of written consents from the requisite Holders of outstanding Notes affected thereby.

The Company may, but shall not be obligated to, fix a record date (which may be not more than 60 days prior to the solicitation of consents) for the purpose of determining the Holders of the Notes entitled to consent to any amendment, supplement or waiver. If a record date is fixed, then, notwithstanding the immediately preceding paragraph, those Persons who were such Holders at such record date (or their duly designated proxies) and only those Persons shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such Persons continue to be such Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

After an amendment, supplement or waiver becomes effective with respect to the Notes, it shall bind every Holder unless it is of the type described in any of clauses (a) through (e) of Section 9.02. In case of an amendment or waiver of the type described in clauses (a) through (e) of Section 9.02, the amendment or waiver shall bind each such Holder who has consented to it and every subsequent Holder of a Note that evidences the same indebtedness as the Note of the consenting Holder.

Section 9.04. *Notation on or Exchange of Notes.* If an amendment, supplement or waiver changes the terms of any Note, the Trustee may require the Holder thereof to deliver it to the Trustee. The Trustee may place an appropriate notation (provided in writing by the Company) on the Note about the changed terms and return it to the Holder and the Trustee may place an appropriate notation on any Note thereafter authenticated. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Note shall issue and the Trustee shall authenticate a new Note of such Series of the same tenor that reflects the changed terms.

Section 9.05. *Trustee to Sign Amendments, Etc.* The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article 9 is authorized or permitted by this Indenture, stating that all requisite consents have been obtained or that no consents are required and stating that such supplemental indenture constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to customary exceptions. Subject to the preceding sentence, the Trustee shall sign such amendment, supplement or waiver if the same does not adversely affect the rights of the Trustee. The Trustee may, but shall not be obligated to, execute any such amendment, supplement or waiver that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

ARTICLE 10
MISCELLANEOUS

Section 10.01. *Notices.* Any notice or communication shall be sufficiently given if written and (a) if delivered in person when received, or (b) if mailed by first class mail 5 days after mailing, or (c) as between the Company and the Trustee if sent by facsimile transmission, where transmission is confirmed, in each case addressed as follows:

if to the Company:

The AES Corporation
1001 North 19th Street
Arlington, VA 22209
Telecopy: (703) 528-4510
Attention: General Counsel

if to the Trustee:

Wells Fargo Bank Minnesota,
National Association
Corporate Trust Services
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479
Telecopy: (612) 669-9825
Attention: AES Corporation Administrator

The Company or the Trustee by written notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication shall be sufficiently given to Holders by mailing to such Holders at their addresses as they shall appear on the Note Register. Notice mailed shall be sufficiently given if so mailed within the time prescribed. Copies of any such communication or notice to a Holder shall also be mailed to the Trustee and each Agent at the same time.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. Except as otherwise provided in this Indenture, if a notice or communication is mailed in the manner provided in this Section 10.01, it is duly given, whether or not the addressee receives it.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give notice as herein contemplated, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 10.02. *Certificate and Opinion as to Conditions Precedent.* Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 10.03. *Statements Required in Certificate or Opinion.* Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that each person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in such certificate or opinion is based;

(c) a statement that, in the opinion of each such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of each such person, such condition or covenant has been complied with; *provided, however*, that, with respect to matters of fact, an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

Section 10.04. *Evidence of Ownership.*

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name any Note shall be registered upon the Note Register as the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the Principal of and, subject to the provisions of this Indenture, interest on such Note and for all other purposes; and neither the Company nor the Trustee nor any agent of the Company or the Trustee shall be affected by any notice to the contrary.

Section 10.05. *Rules by Trustee, Paying Agent or Registrar.* The Trustee may make reasonable rules for action by or at a meeting of Holders. The Paying Agent or Registrar may make reasonable rules for its functions.

Section 10.06. *Payment Date Other Than a Business Day.* If any date for payment of Principal or interest on any Note shall not be a Business Day at any place of payment, then payment of Principal of or interest on such Note, as the case nay be, need not be made on such date, but may be made on the next succeeding Business Day at any place of payment with the same force and effect as if made on such date and no interest shall accrue in respect of such payment for the period from and after such date.

Section 10.07. *Governing Law.* The laws of the State of New York shall govern this Indenture and the Notes.

Section 10.08. *No Adverse Interpretation of Other Agreements.* This Indenture may not be used to interpret another indenture or loan or debt agreement of the Company or any Subsidiary of the Company. No indenture or agreement may be used to interpret this Indenture except as provided in Section 1.01 with respect to the Senior Secured Credit Facilities.

Section 10.09. *Successors.* All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

Section 10.10. *Duplicate Originals.* The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 10.11. *Separability.* In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.12. *Table of Contents, Headings, Etc.* The Table of Contents and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms and provisions hereof.

Section 10.13. *Incorporators, Stockholders, Officers and Directors of Company Exempt from Individual Liability.* No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in any Note, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such or against any past, present or future stockholder, officer, director or employee, as such, of the Company or of any successor, either directly or through the Company or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Notes by the Holders thereof and as part of the consideration for the issue of the Notes.

Section 10.14. *Judgment Currency.* The Company agrees, to the fullest extent that it may effectively do so under applicable law, that (a) if for the purpose of obtaining judgment in any court it is necessary to convert the sum due in respect of the Principal of or interest on the Notes (the "**Required Currency**") into a currency in which a judgment will be rendered (the "**Judgment Currency**"), the rate of exchange used shall be the rate at which in accordance with normal banking procedures the Trustee could purchase in The City of New York the Required Currency with the Judgment Currency on the day on which final unappealable judgment is entered, unless such day is not a Business Day, then, to the extent permitted by applicable law, the rate of exchange used shall be the rate at which in accordance with normal banking procedures the Trustee could purchase in The City of New York the Required Currency with the Judgment Currency on the Business Day preceding the day on which final unappealable judgment is entered and (b) its obligations under this Indenture to make payments in the Required Currency (i) shall not be discharged or satisfied by any tender, or any recovery pursuant to any judgment (whether or not entered in accordance with subsection (a)), in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the actual receipt, by the payee, of the full amount of the Required Currency expressed to be payable in respect of such payments, (ii) shall be enforceable as an alternative or additional cause of action for the purpose of recovering in the Required Currency the amount, if any, by which such actual receipt shall fall short of the full amount of the Required Currency so expressed to be payable and (iii) shall not be affected by judgment being obtained for any other sum due under this Indenture.

ARTICLE 11
SECURITY ARRANGEMENTS

Section 11.01. *Security.* (a) In order to secure the Company's Obligations under the Indenture and the Notes with a second-priority Lien on the Collateral, the Company will, and will cause each of its Subsidiaries named in any of the Second Priority Collateral Documents as a party thereto, to execute and deliver to the Collateral Trustees prior to the Original Issue Date each Second Priority Collateral Document to which it is a party. The Company and its Subsidiaries shall comply with all covenants and agreements contained in the Second Priority Collateral Documents the failure to comply with which would have a material and adverse effect on the Liens purported to be created thereby.

(b) The Trustee and each holder of each Note by its acceptance of that Note acknowledges and agrees that:

(i) this Indenture, as originally executed and delivered by the parties hereto, does not create any Lien on any property or securities which secures the Company's Obligations under this Indenture or this Indenture;

(ii) the Second Priority Collateral Documents provide, and any security document that becomes effective after the Original Issue Date, may provide, that the Liens created thereby or thereunder automatically will be released and extinguished with respect to any property or security that is transferred or otherwise disposed of in accordance with the terms of the First-Priority Collateral Documents; *provided* that any amendment, modification, supplement or termination of the First-Priority Collateral Documents which would release, in one transaction or in a series of related transactions, the Liens created by the Second Priority Collateral Documents on all or substantially all of the Collateral will require the consent of the Holders of a majority in aggregate principal amount of the Notes outstanding;

(iii) without the necessity of any consent of or notice to the Trustee or any Holder of the Notes, the Company and the Collateral Trustees may amend, modify, supplement or terminate any Second Priority Collateral Document as long as the Company remains in compliance with Sections 4.06, 4.07 and 4.12; *provided* that any such amendment, modification, supplement or termination which would release, in one transaction or in a series of related transactions, the Liens created by the Second Priority Collateral Documents on all or substantially all of the Collateral will require the consent of the Holders of a majority in aggregate principal amount of the Notes outstanding;

(iv) as among the Trustee, the Holders of the Notes, the lenders under the Senior Secured Credit Facilities and the other holders of First-Priority Secured Debt and the Collateral Trustees, prior to the termination of the Senior Secured Credit Facilities and other First-Priority Secured Debt in existence on the date hereof (or thereafter at any time when at least $100 million aggregate principal amount of other First-Priority Secured Debt incurred after the date hereof is outstanding), the lenders under the Senior Secured Credit Facilities (or if there is no outstanding Senior Secured Credit Facility Obligations, the holders of a majority of the other First-Priority Secured Debt) will have the sole ability to control and obtain remedies with respect to all Collateral (including on sale or liquidation of any Collateral after acceleration of the Senior Secured Credit Facility Obligations) without the necessity of any consent of or notice to the Trustee, the Collateral Trustee or any Holder of the Notes;

(v) as more fully set forth in the Second Priority Collateral Documents, at any time after the termination of the Senior Secured Credit Facilities and the other First-Priority Secured Debt in existence on the date hereof, when there is less than $100 million aggregate principal amount of other First-Priority Secured Debt, incurred after the date hereof, outstanding, neither the Trustee nor the Holders of the Notes will have any authority to, or to direct the Collateral Trustees to, foreclose or otherwise realize upon any of the Collateral, unless and until the holders of such First-Priority Secured Debt fail to commence the exercise of remedies with respect to or in connection with the Collateral within 120 days following notice to the First-Priority Secured Debt of the occurrence of an Event of Default under the Indenture;

(vi) any or all Liens granted under the Second Priority Collateral Documents for the benefit of the Holders of the Notes will be automatically released, without the necessity of any consent of the Trustee or any Holders of the Notes, upon a release of such Lien or Liens pursuant to the terms of the First-Priority Collateral Documents and the Senior Secured Credit Facilities or if such release is approved by the requisite lenders under the Senior Secured Credit Facilities; *provided* that any release, in one transaction or a series of related transactions, of the Liens created by the Second Priority Collateral Documents on all or substantially all of the Collateral will require the consent of the Holders of a majority in aggregate principal amount of the Notes outstanding;

(vii) the relative rights of the Holders of the Notes and the holders of indebtedness or other obligations secured by Liens on the Collateral are governed by, and are subject to the terms and conditions of, the Second Priority Collateral Documents and not this Indenture; and

(viii) without the necessity of any consent of or notice to the Trustee or any Holder of the Notes, the Company may, on behalf of itself or any of its Subsidiaries, request and instruct the Collateral Trustees to, on behalf of each secured party under the Second Priority Collateral Documents, (A) execute and deliver to the Company, for the benefit of any Person, such release documents as the Company may reasonably request, of all liens and security interests held by the Collateral Trustees in such assets, and such Person shall be entitled to rely conclusively on such release document, and (B) deliver any such assets in the possession of the Collateral Trustees to the Company; *provided* that any such release complies with the terms of the Second Priority Collateral Documents and this Indenture.

Section 11.02. *Notice of Payment, Discharge or Defeasance.* The Trustee and each Holder, by its acceptance of a Note, agree that upon the payment in full or discharge pursuant to Article 8 of the Company's Obligations under the Indenture (including the Notes), the Trustee shall without notice to or consent of any Holder, upon the written request of the Company, certify to the Collateral Trustees, in writing, that the Company's Obligations under the Indenture have been paid in full, or that this Indenture has been discharged in accordance with Article 8.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the date first written above.

THE AES CORPORATION
as the Company

Attest:

By: /s/ Barry J. Sharp
Name: Barry J. Sharp
Title: Executive VP & CFO:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION,
as the Trustee

Attest:

By: /s/ Jeffery T. Rose
Name: Jeffery T. Rose
Title: Corporate Trust Officer

Exhibit 4.(n)

THE AES CORPORATION

as the Company

and

WELLS FARGO BANK, NATIONAL ASSOCIATION

as Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of May 28, 2008

To

SENIOR INDENTURE

Dated as of May 8, 2003

---

8 ¾% Second Priority Senior Secured Notes due 2013

FIRST SUPPLEMENTAL INDENTURE, dated as of May 28, 2008 between The AES Corporation, a Delaware corporation (the "Company"), as the issuer, and Wells Fargo Bank, National Association (as successor by consolidation to Wells Fargo Bank Minnesota, National Association), a national banking association, as trustee (the "Trustee").

WHEREAS, the Company executed and delivered an Indenture, dated as of May 8, 2003, (the "Original Indenture"), as may be amended or supplemented from time to time (as so supplemented, the "Indenture"), between the Company and the Trustee, providing for the issuance of the Company's 8.75% Second Priority Senior Secured Notes due 2013 (the "Notes");

WHEREAS, Section 9.02 of the Original Indenture provides that the Indenture may be amended by the Company and the Trustee with the consent of the holders of the Notes representing at least a majority of the Notes then outstanding;

WHEREAS, pursuant to the terms and conditions of the Offer to Purchase and Consent Solicitation Statement, and the related Letter of Transmittal and Second Priority Senior Secured Notes Consent, each dated May 14, 2008, as the same may be amended, prepared by the Company in connection with its offer to purchase (the "Tender Offer") for cash up to $377,030,000 aggregate principal amount of the outstanding Notes and certain other series of its senior unsecured notes and its related solicitation (the "Consent Solicitation") of consents (the "Consents") from holders of at least a majority of the aggregate principal amount of Notes outstanding to enter into the amendments to the Original Indenture (the "Amendments") as set forth in this First Supplemental Indenture;

WHEREAS, the Tender Offer is conditioned upon, among other things, the Amendments as set forth in this First Supplemental Indenture having been approved by holders of at least a majority of the aggregate principal amount of the Notes outstanding, and provided that pursuant to Section 2.2 hereof, this First Supplemental Indenture will not become operative until the Company has paid the applicable consideration with respect to the Notes that have been validly tendered and accepted for payment in accordance with the Tender Offer and the Company has paid the consent fee (which shall be an amount in cash equal to $3.75 per $1,000 principal amount of Notes to which the Consent relates) (the "Consent Fee") with respect to all Consents that have been validly delivered in accordance with the Consent Solicitation;

WHEREAS, holders of a majority of the principal amount of the Notes outstanding on May 28, 2008 have given and not revoked their consent to the Amendments set forth in this First Supplemental Indenture; and

WHEREAS, all conditions and requirements necessary to make this First Supplemental Indenture a valid and binding instrument in accordance with its terms and the terms of the Indenture have been satisfied.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the Company and the Trustee hereby covenant and agree as follows:

ARTICLE 1

AMENDMENT OF ARTICLE 4 OF THE ORIGINAL INDENTURE

Article 4 of the Indenture is hereby amended and restated in its entirety as follows:

Section 4.01. *Payment of Notes.* The Company shall pay the Principal of and interest on the Notes on the dates and in the manner provided in the Notes and this Indenture. The interest on the Notes shall be payable only to the Holders thereof and at the option of the Company may be paid by mailing checks for such interest payable to or upon the written order of such Holders at their last addresses as they appear on the Note Register of the Company.

Notwithstanding any provisions of this Indenture and the Notes to the contrary, if the Company and a Holder of any Note so agree, payments of interest on, and any portion of the Principal of, such Holder's Note (other than interest payable at maturity or on any redemption or repayment date or the final payment of Principal on such Note) shall be made by the Paying Agent, upon receipt from the Company of immediately available funds by 11:00 A.M., New York City time (or such other time as may be agreed to between the Company and the Paying Agent), directly to the Holder of such Note (by Federal funds wire transfer or otherwise) if the Holder has delivered written instructions to the Trustee 15 days prior to such payment date requesting that such payment will be so made and designating the bank account to which such payments shall be so made and in the case of payments of Principal, surrenders the same to the Trustee in exchange for a Note or Notes aggregating the same principal amount as the unredeemed principal amount of the Notes surrendered. The Trustee shall be entitled to rely on the last instruction delivered by the Holder pursuant to this Section 4.01 unless a new instruction is delivered 15 days prior to a payment date. The Company will indemnify and hold each of the Trustee and any Paying Agent harmless against any loss, liability or expense (including attorneys' fees) resulting from any act or omission to act on the part of the Company or any such Holder in connection with any such agreement or from making any payment in accordance with any such agreement.

The Company shall pay interest on overdue Principal, and interest on overdue installments of interest, to the extent lawful, at the rate per annum specified in the Notes.

Section 4.02. *Maintenance of Office or Agency.* The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where Notes may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company hereby initially designates Wells Fargo Corporate Trust Services CMES Corporate Product Group, the corporate trust office of the Trustee's Agent, located at 45 Broadway, 14th Floor, MAC N2666-140, New York, NY 10006-3004, in the Borough of Manhattan, The City of New York, as such office or agency of the Company. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 10.01.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 4.03. *Noteholders' Lists.* Unless the Trustee is acting as registrar for the Notes, the Company will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require of the names and addresses of the holders of the Notes (a) semi-annually not more than 15 days after each Regular Record Date, as hereinabove specified, as of such record date and (b) at such other times as the Trustee may request in writing, within thirty days after receipt by the Company of any such request as of a date not more than 15 days prior to the time such information is furnished.

Section 4.04. *Certificate to Trustee.* The Company will furnish to the Trustee annually, on or before a date not more than four months after the end of its fiscal year (which, on the date hereof, is a calendar year), a brief certificate (which need not contain the statements required by Section 10.03) from its principal executive, financial or accounting officers to his or her knowledge of the compliance of the Company with all conditions and covenants under this Indenture (such compliance to be determined without regard to any period of grace or requirement of notice provided under this Indenture).

Section 4.05. *Reports by the Company.* The Company covenants to file with the Trustee, within 15 days after the Company has filed the same with the Commission, copies of the annual reports and of the information, documents, and other reports which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act.

Section 4.06. *Limitation on Liens.* If the Company shall incur, issue, assume or Guarantee any indebtedness for borrowed money represented by notes, bonds, debentures or other similar evidences of indebtedness, secured by a mortgage, pledge or other Lien on any Principal Property or any Capital Stock or indebtedness held directly by the Company of any Subsidiary of the Company, the Company shall secure the Notes equally and ratably with (or prior to) such indebtedness, so long as such indebtedness shall be so secured, unless after giving effect thereto the aggregate amount of all such indebtedness so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Properties, would not exceed 15% of the Consolidated Net Assets of the Company. This restriction will not apply to, and there shall be excluded in computing secured indebtedness for the purpose of this restriction, indebtedness secured by (i) property of any Subsidiary of the Company, (ii) Liens on property of, or on any shares of stock or Debt of, any corporation existing at the time such corporation becomes a Subsidiary of the Company, (iii) Liens in favor of the Company or any Subsidiary of the Company, (iv) Liens in favor of U.S. or foreign governmental bodies to secure partial, progress, advance or other payments, (v) Liens on property, shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation), purchase money mortgages and construction cost mortgages existing at or incurred within 180 days of the time of acquisition thereof, (vi) Liens existing on the Original Issue Date, (vii) Liens under one or more credit facilities for indebtedness in an aggregate principal amount not to exceed $900 million at any time outstanding, (viii) Liens incurred in connection with pollution control, industrial revenue or similar financings, and (ix) any extension, renewal or replacement of any Debt secured by any Liens referred to in the foregoing clauses (i) through (viii), inclusive.

Section 4.07. *Reserved.*

Section 4.08. *Reserved.*

Section 4.09. *Reserved.*

Section 4.10. *Repurchase of Notes Upon a Change of Control.* (a) Upon a Change of Control, each holder of the Notes shall have the right to require that the Company repurchase such holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

(b) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder of the Notes with a copy to the Trustee stating

(i) that a Change of Control has occurred and that such Holder has the right to require the Company to repurchase such Holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase (the "Change of Control Offer"),

(ii) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control),

(iii) the repurchase date (which shall be not earlier than 30 days or later than 60 days from the date such notice is mailed) (the "Repurchase Date"),

(iv) that any Note not tendered shall continue to accrue interest,

(v) that any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Repurchase Date,

(vi) that Holders electing to have a Note purchased pursuant to a Change of Control Offer will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, to the paying agent at the address specified in the notice prior to the close of business on the Repurchase Date,

(vii) that Holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the third Business Day (or such shorter periods as may be required by applicable law) preceding the Repurchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes the Holder delivered for purchase, and a statement that such Holder is withdrawing his election to have such Notes purchased, and

(viii) that Holders which elect to have their Notes purchased only in part will be issued new Notes of the same Series in a principal amount equal to the unpurchased portion of the Notes surrendered.

(c) On the Repurchase Date, the Company shall (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer, (ii) deposit with the Trustee money sufficient to pay the purchase price of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee Notes so accepted together with an Officers' Certificate identifying the Notes or portions thereof tendered to the Company.

(d) The Trustee shall promptly mail to the Holders of the Notes so accepted payment in an amount equal to the purchase price, and promptly authenticate and mail to such Holders a new Note of the same Series in a principal amount equal to any unpurchased portion of the Note surrendered. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Repurchase Date.

(e) The Company shall comply with all applicable tender offer rules, including without limitation Rule 14e-1 under the Exchange Act, in connection with a Change of Control Offer.

Section 4.11. *Reserved.*

Section 4.12. *Reserved.*

Section 4.13. *Limitation on Sale Leaseback Transactions.*The Company shall not enter into any sale and leaseback transaction involving any Principal Property, the acquisition or completion of construction and commencement of full operation of which has occurred more than 180 days prior thereto, unless (a) the Company could incur a Lien on such property under the restrictions described in Section 4.06 hereof in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Notes or (b) the Company, within 180 days after the sale or transfer by the Company, applies to the retirement of its Funded Debt an amount equal to the greater of (i) the net proceeds of the sale of the Principal Property sold and leased pursuant to such arrangement or (ii) the fair market value of the Principal Property so sold and leased as determined by the Board of Directors; provided that the amount to be applied to the retirement of Funded Debt of the Company shall be reduced by (A) the principal amount of any Notes delivered within 180 days after such sale or transfer to the Trustee for retirement and cancellation, and (B) the principal amount of Funded Debt, other than Notes, voluntarily retired by the Company within 180 days after such sale or transfer; provided further that no retirement referred to in this clause (b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

Section 4.14. *Reserved.*

Section 4.15. *Reserved.*

Section 4.16. *Investment Grade Fallaway* (a) Notwithstanding anything to the contrary contained in this Article 4, the Company's obligation to comply with the provisions of Section 4.10 (collectively the "Extinguished Covenants") will terminate and cease to have any further effect from and after the first date when the Notes are rated Investment Grade; provided that if the Notes subsequently cease to be rated Investment Grade, then from and after the time the Notes cease to be rated Investment Grade, the Company's obligation to comply with the Extinguished Covenants shall be reinstated.

(b) Notwithstanding the foregoing, in the event of any such reinstatement described above, no action taken or omitted to be taken by the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the Extinguished Covenants upon reinstatement.

ARTICLE 2

MISCELLANEOUS

Section 2.01. *Defined Terms*. For all purposes of this First Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires, all capitalized terms defined herein and in the Indenture shall have the meanings assigned to them herein. All capitalized terms not defined herein shall have the meanings assigned to them in the Indenture.

Unless otherwise expressly specified, all references to a "**Section**" herein refer to a section of this First Supplemental Indenture.

Section 2.02. *Effectiveness of First Supplemental Indenture*. This First Supplemental Indenture shall be effective upon its signing by the parties hereto and the Amendments shall not be operative until the Company has paid the applicable consideration with respect to the Notes that have been validly tendered and accepted for payment in accordance with the Tender Offer and the Company has paid the Consent Fee with respect to all Consents that have been validly delivered in accordance with the Consent Solicitation. The Company shall promptly notify the Trustee in writing (which writing may be in electronic form) that this First Supplemental Indenture has become operative.

Section 2.03 *Ratification of Original Indenture; First Supplemental Indenture Controls*. The Original Indenture, as supplemented by this First Supplemental Indenture, is in all respects ratified and confirmed, and this First Supplemental Indenture shall be deemed part of the Original Indenture in the manner and to the extent herein and therein provided. The provisions of this First Supplemental Indenture shall supersede the provisions of the Original Indenture to the extent the Original Indenture is inconsistent herewith.

Section 2.04. *Trustee Not Responsible for Recitals*. The recitals herein contained are made by the Company and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this First Supplemental Indenture.

Section 2.05. *Governing Law*. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.06 *Severability*. If any provision in the Original Indenture, this First Supplemental Indenture or the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.07. *Counterparts*. The parties may sign any number of copies of this First Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. Any signed copy shall be sufficient proof of this First Supplemental Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the date first above written.

THE AES CORPORATION, as the Company

By: /s/ Willard C. Hoagland III
Name: Willard C. Hoagland III
Title: Vice President and Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By:
Name:
Title:

Exhibit 10.15

The AES Corporation
Restoration Supplemental Retirement Plan

As Amended and Restated on December 29, 2008

The AES Corporation
Restoration Supplemental Retirement Plan
As Amended and Restated on December 29, 2008

Article I. – General Provisions

1.1 Establishment and Purpose

The AES Corporation hereby establishes The AES Restoration Supplemental Retirement Plan (the "Plan") on the terms and conditions hereinafter set forth. The Plan is designed primarily for the purpose of providing benefits for a select group of management and highly compensated employees of the Company and its Subsidiaries and is intended to qualify as a "top hat" plan under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is amended and restated as set forth herein to comply with Section 409A.

1.2 Definitions

"Bonus Compensation" means the regular annual bonus paid by the Company or Subsidiary, as applicable, and shall exclude all other bonus compensation paid to a Participant, including special and non-recurring bonuses unless timely determined by the Committee, in its sole discretion, prior to the applicable Plan Year (in each instance, as identified and reported on the books and records of Company). Bonus Compensation shall be determined without regard to any pre-tax salary reduction amounts, including but not limited to, amounts voluntarily deferred under the terms of this Plan.

"Beneficiary" means the person or persons designated by a Participant as his beneficiary hereunder in accordance with the provisions of Article V.

"Board" means the Board of Directors of the Company.

"Change in Control" means the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company to any person or group (as that term is used in Section 13(d)(3) of the Exchange Act) of Persons; (ii) a Person or group (as so defined) of Persons (other than management of the Company on the date of the adoption of this Plan or their affiliates) shall have become the beneficial owner of more than 35% of the outstanding voting stock of the Company; or (iii) during any one-year period, individuals who at the beginning of such period constitute the Board (together with any new director whose election or nomination was approved by a majority of the directors then in office who were either directors at the beginning of such period or who were previously so approved, but excluding under all circumstances any such new director whose initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of any individual, corporation, partnership or other entity or group) cease to constitute a majority of the Board of Directors. Notwithstanding the foregoing or any provision of this Plan to the contrary, the foregoing definition of Change in Control shall be interpreted, administered and construed in manner necessary to ensure that the occurrence of any such event shall result in a Change of Control only if such event qualifies as a change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation, as applicable, within the meaning of Treas. Reg. § 1.409A-3(i)(5).

"Code" means the Internal Revenue Code of 1986, as amended, and any successor code or law.

"Committee" means the Compensation Committee of the Board, or such other committee designated by the Board to discharge the duties of the Committee hereunder.

"Company" means The AES Corporation, a Delaware Corporation, or any successor thereto.

"Company Match" means the employer matching contributions contributed to the Participant's account under the Qualified Plan for the Plan Year.

"Compensation" shall mean total annual regular earnings, retroactive regular earnings that relate to the period for which a Deferral Agreement has been timely made, holiday pay, sick pay and vacation pay and/or such other compensation, in each case as timely determined by the Committee, in its sole discretion, prior the applicable Plan Year (as identified and reported on the books and records of Company). Compensation shall be determined without regard to any pre-tax salary reduction amounts, including but not limited to amounts voluntarily deferred under the terms of this Plan. Incentive and supplemental compensation, including but not limited to, bonus compensation, assignment related allowances and compensation payable under The AES Corporation 2003 Long Term Compensation Plan, or any successor thereto, are not eligible for benefit purposes under this Plan and shall not be included in the definition of Compensation.

"Deferral Account" means the bookkeeping account(s) established on behalf of a Participant to track the Participant's deferred compensation benefits under the Plan.

"Deferral Election" means an election by a Participant to defer Compensation or Bonus Compensation in accordance with the provisions of Section 2.2 of the Plan.

"Deferrals" shall have the meaning ascribed thereto in Section 2.2(b) hereof.

"Disability" means a Participant who: (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to last for a continuous period of not less than 12 months; or (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan of the Company or its Subsidiaries or (3) is determined to be totally disabled by the Social Security Administration.

"Disability Date" means the date on which a Participant Separates from Service due to Disability.

"Distribution Date" means the date on which distributions to a Participant are to commence. Distribution Dates are determined according to each Participant's Deferral Account elections or as otherwise provided under the terms of the Plan.

“Distribution Option” means the form in which payments to a Plan Participant are to be paid. Distribution Options are determined according to each Participant’s Deferral Account elections or as otherwise provided under the terms of the Plan.

“Earnings” shall have the meaning ascribed thereto in Section 2.4(b) of the Plan.

“Insolvency” means, with respect to the Company: (1) an adjudication of bankruptcy; (2) the assignment for the benefit of creditors of or by the Company; (3) a material part of all of the property of the Company becomes subject to the control and direction of a receiver, which receivership is not dismissed within sixty (60) days of such receiver’s appointment; or (4) the filing by the Company of a petition for relief under any federal or other bankruptcy or other insolvency law or for an arrangement with creditors.

“Key Employee” means a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of the Company as determined in accordance with Section 409A and the procedures established by the Company.

“Participant” means any employee who has satisfied the eligibility requirements set forth in Section 1.4 of the Plan.

“**Person**” means any individual, corporation, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Plan Year” means the twelve-month period beginning each January 1.

“Profit Sharing Contribution” means the annual discretionary employer profit sharing contribution allocated to the accounts of participants under the Qualified Plan for a Plan year.

“Qualified Plan” means The AES Corporation Retirement Savings Plan, as amended, or such other plan as designated by the Committee.

“Retirement” means a Participant’s Separation From Service on or after the date such Participant attains age fifty-nine and a half (59½).

“Section 409A” shall mean Section 409A of the Code, the regulations and other binding guidance promulgated thereunder.

“Separation From Service” and “Separate from Service” shall mean a Participant’s death, retirement or other termination of employment with the Company and all of its controlled group members within the meaning of Section 409A of the Code. For purposes hereof, the determination of controlled group members shall be made pursuant to the provisions of Section 414(b) and 414(c) of the Code; provided that the language “at least 50 percent” shall be used instead of “at least 80 percent” in each place it appears in Section 1563(a)(1),(2) and (3) of the Code and Treas. Reg. § 1.414(c)-2; provided, further, where legitimate business reasons exist (within the meaning of Treas. Reg. § 1.409A-1(h)(3)), the language “at least 20 percent” shall be used instead of “at least 80 percent” in each place it appears. Whether a Participant has a Separation from Service will be determined based on all of the facts and circumstances and in accordance with the guidance issued under Section 409A. For this purpose, a Participant will be presumed to have experienced a Separation from Service when the level of *bona fide* services performed permanently decreases to a level less than twenty percent (20%) of the average level of *bona fide* services performed during the immediately preceding thirty-six (36) month period or such other applicable period as provided by Section 409A.

"Subsidiary" means any entity in which the Company owns or otherwise controls, directly or indirectly, stock or other ownership interests having the voting power to elect a majority of the board of directors, or other governing group having functions similar to a board of directors, as determined by the Committee.

"Unforeseeable Emergency" means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, a beneficiary, or a dependent (as determined under Section 152(a) of the Code, without regard to Section 152(b)(1), (b)(2) and (d)(1)(B)) of the Participant; the need to pay for the funeral expenses of a spouse, beneficiary or dependent (as defined above); loss of the Participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

1.3 Administration.

(a) The Committee shall administer the Plan and have sole and absolute authority and discretion to decide all matters relating to the administration of the Plan, including, without limitation, determining the rights and status of Participants or their beneficiaries under the Plan. The Committee is authorized to interpret the Plan, to decide questions of fact, to adopt administrative rules, regulations, and guidelines for the Plan, and may correct any defect, supply any omission or reconcile any inconsistency or conflict in the Plan. The Committee's determinations under the Plan need not be uniform among all Participants, or classes or categories of Participants, and may be applied to such Participants, or classes or categories of Participants, as the Committee, in its sole and absolute discretion, considers necessary, appropriate or desirable. All determinations by the Committee shall be final, conclusive and binding on the Company, the Participant and any and all interested parties.

(b) The Committee may delegate such of its powers and authority under the Plan to the Company's officers as it deems necessary or appropriate. In the event of such delegation, all references to the Committee in this Plan shall be deemed references to such officers as it relates to those aspects of the Plan that have been delegated.

(c) Any action taken by the Committee with respect to the rights or benefits under the Plan of any Participant shall be revocable by the Committee as to payments not yet made to such person, and acceptance of any deferred compensation benefits under the Plan constitutes acceptance of and agreement to the Committee's or the Company's making any appropriate adjustments in future payments to such person (or to recover from such person) any excess payment or underpayment previously made to him.

(d) Notwithstanding any provision of the Plan to the contrary, this Plan is intended to comply with the provisions of Section 409A and shall be administered, interpreted and construed accordingly (or disregarded to the extent such provision cannot be so administered, interpreted or construed). With respect to payments subject to Section 409A: (i) it is intended that distribution events authorized under the Plan qualify as permissible distribution events for purposes of Section 409A; and (ii) the Company reserve the right to accelerate and/or defer any payment to the extent permitted and consistent with Section 409A. Notwithstanding any provision of this Plan to the contrary, to the extent the timing of any benefit payment due under this Plan was modified pursuant to the transition guidance provided by the Internal Revenue Service concerning the time and form of payment, any such modification shall only apply to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be paid in 2008. To the extent any such payment cannot be made in 2008 under the transition guidance, such payment will be made in January 2009. Notwithstanding any provision of the Plan to the contrary, in no event shall the Committee, the Company or a Subsidiary (or their employees, officers, directors, members or affiliates) have any liability to any Participant (or any other person) due to the failure of the Plan to satisfy the requirements of Section 409A.

1.4 Eligibility and Participation.

(a) Participation in the Plan is limited to officers and key management employees of the Company and its Subsidiaries who are designated by the Committee as eligible to participate in the Plan and who are within the category of a select group of management and highly compensated employees as referred to in Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). An employee's participation in the Plan shall be effective upon notification to the employee by the Committee of eligibility to participate in the Plan.

(b) A Participant shall cease to be a Participant upon receiving payment for the full amount of benefits to which the Participant is entitled under the Plan. If the Committee determines a Participant is no longer eligible to actively participate in the Plan, he shall not be entitled to make Deferral Elections or accrue additional supplemental matching contributions or supplemental profit sharing awards under Article II of the Plan.

Article II. – Supplemental Retirement Benefits

2.1 Supplemental Profit Sharing Contribution.

(a) In the event that the Profit Sharing Contribution for a Participant under the Qualified Plan is limited by the application of Section 401(a)(17) or Section 415 for any Plan Year, the Participant shall receive a supplemental profit sharing award under this Plan for such Plan year equal to the difference between: (i) the Profit Sharing Contribution actually made to the Participant; and (ii) the Profit Sharing Contribution that would have been made to the Qualified Plan on behalf of such Participant for such Plan Year if the Section 401(a)(17) limitations and the Section 415 limitations were not contained therein. Supplemental profit sharing awards shall be credited to the Participant's Retirement Account established and maintained under the Plan.

(b) The award for any Plan year shall be deemed to be made as of the day the Profit Sharing Contribution is made under the Qualified Plan, and shall be deemed invested in Company stock. Supplemental profit sharing awards are not required to remain invested in Company stock and a Participant may subsequently change his investment designations as permitted under Section 2.4(b).

2.2 Supplemental Deferral Elections.

(a) Each Participant shall be eligible to elect to defer Compensation and/or Bonus Compensation under the Plan with respect to a Plan Year in accordance with the terms of the Plan and the rules and procedures established by the Committee. Deferral Elections under the Plan are entirely voluntary and are ***irrevocable once made***.

(b) A Participant may make a Deferral Election by filing a written or electronic election with the Committee directing the Company to reduce the Participant's Compensation and/or Bonus Compensation and to credit the amount of any such reduction (the "Deferrals") to the Deferral Accounts established and maintained for such Participant pursuant to Section 2.4 of the Plan. Deferral Elections hereunder shall be made in accordance with the terms of the Plan and the rules established by the Committee, and must be filed not later than December 31 of the calendar year preceding the Plan Year to which the election relates (or at such other earlier times as may be established by the Committee). Notwithstanding the provisions of the preceding sentence, if permitted by the Committee, a Deferral Election with respect to a Participant's Bonus Compensation shall be given effect if made by June 30 of the Plan Year for which the Bonus Compensation is to be paid, provided that the Committee determines that the Bonus Compensation satisfies the requirements for "performance-based compensation" within the meaning of Section 409A(a)(4)(B)(iii) of the Code. Additionally, for the Plan Year in which a Participant first becomes eligible to participate in the Plan, a Participant's initial Deferral Election may be made within thirty (30) days after the date the Participant becomes eligible to participate in the Plan and shall apply only to Compensation and Bonus Compensation paid for services performed after the date of such election. Accordingly, if a

Deferral Election is made in the first-year of eligibility but after the beginning of the specified performance period (e.g., annual bonus compensation), the Deferral Election shall only apply to the total amount of such Compensation multiplied by the ratio of (i) the number of days remaining in the performance period after the election to (ii) the total number of days in the performance period. Unless otherwise determined by the Committee, a separate Deferral Election must be filed each Plan Year.

(c) Deferrals shall be credited to each Participant's Deferral Accounts as of such time or times determined by the Committee; provided, however, that Deferrals shall be credited to each Participant's Deferral Accounts not later than thirty (30) days after the date on which such Compensation or Bonus Compensation would have otherwise been paid. Deferrals shall be deemed to be invested in accordance with a Participant's investment designations as permitted under Section 2.4(b).

(d) Unless otherwise determined by the Committee, a Participant may elect to defer up to 50% of Compensation and up to 80% of Bonus Compensation paid to the Participant.

(e) Notwithstanding the foregoing, a Deferral Election shall automatically terminate if a Participant suffers a disability, receives a distribution on account of Unforeseeable Emergency or dies. For purposes of this Section, a disability refers to any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.

2.3 Supplemental Company Matching Awards.

(a) With respect to each Plan Year and to the extent provided under this Section 2.3, the Company shall annually credit a supplemental matching contribution ("Supplemental Match") to each eligible Participant's Deferral Accounts. To be eligible for a Supplemental Match, a Participant must have made a Deferral Election for the Plan Year and be employed on December 31st of the Plan Year (or have terminated during the Plan Year due to Retirement, death or Disability).

(b) The amount of the Supplemental Match shall be equal to: (i) the Company Match that would have been awarded under the Qualified Plan, taking into account the Participant's Deferral Election and the maximum percentage of Compensation for matching awards permitted under the Qualified Plan, if the Participant's Compensation and elective contributions to the Qualified Plan were not subject to the Section 401(a)(17) and 402(g) limitations under the Qualified Plan; less (ii) the maximum Company Match available for award to the Participant under the Qualified Plan. For purposes of this Section 2.3, Compensation shall have the meaning assigned thereto in the Qualified Plan (determined without regard to any pre-tax salary reduction amounts, including but not limited to amounts voluntarily deferred under the terms of this Plan to the extent necessary to carry out the terms and intent of this Plan).

(c) The Supplemental Match will be allocated to the Participant's Deferral Accounts in the same proportion as the Participant's Deferrals are allocated among the Participant's Deferral Accounts and shall be deemed invested in Company stock. Supplemental Matching contributions are not required to remain invested in Company stock and a Participant may subsequently change his investment designations as permitted under Section 2.4(b).

2.4 Deferral Accounts/Earnings

(a) Unless otherwise determined by the Committee, the Company shall maintain on behalf of each Participant as many as four (4) separate Deferral Accounts which accounts shall be designated Special Purpose Account #1, Special Purpose Account #2, Special Purpose Account #3 and Retirement Account. A Participant may elect to allocate his Deferrals among such Deferral Accounts and may have a different Distribution Date and Distribution Option for such Deferral Accounts as provided under Article III. If a Participant fails to properly and timely allocate Deferrals, such participant shall be deemed to have selected the Retirement Account.

(b) The Participant's Deferral Account shall be adjusted by an amount equal to the amount that would have been earned (or lost) if the amounts deferred under this Plan had been invested in hypothetical investments designated by the Participant from time to time, based on a list of hypothetical investments provided by the Committee from time to time (such hypothetical earnings or losses shall be referred to as "Earnings"). The Participant shall designate the investments used to measure Earnings from the list of authorized investments provided by the Committee by completing the appropriate form (or electronically via the Plan's website) or in such other manner as the Committee may designate from time to time. The Participant may change such designations at such times as are permitted by the Committee, provided that the Participant shall be entitled to change such designations at least quarterly. Earnings shall be credited to the Participant's Deferral Accounts at least annually (or more frequently at the discretion of the Company). Earnings shall be credited to Deferral Accounts until all payments with respect to such account have been made under this Plan. Neither the Company nor the Committee shall act as a guarantor, or be liable or otherwise responsible for the investment performance of the designated investments (including any losses sustained by a Participant) with respect to a Participant's Deferral Accounts.

(c) Each Participant shall at all times be 100% vested in his Deferral Accounts and the Earnings thereon.

Article III. – Distributions

3.1 Distribution Dates.

(a) Distribution Dates shall be established and determined in accordance with the Participant's Deferral Account elections. Distributions from Special Purpose Accounts shall be paid annually commencing on February 1 of the year designated by the Participant as his Distribution Date. Distributions from Retirement Accounts are payable on February 1 of the year following a Participant's Retirement. Notwithstanding, a Distribution Date for a Special Purpose Account must be on or before February 1 of the year following the calendar year in which the Participant obtains age 70.

(b) Notwithstanding the foregoing or any Plan provision to the contrary, distributions to Key Employees upon Separation from Service for any reason (other than death) may not be made before the date that is 6 months after the date of Separation from Service. Any payment otherwise due prior to the 6-month anniversary of the Participant's date of Separation from Service will be accumulated and paid on the first business day of the seventh month following the date of Separation from Service (or, if earlier, the date of death of the Participant), and subsequent distributions, if any, shall be made on each succeeding February 1.

3.2 Distribution Option/Manner of Payment.

The Distribution Option for Deferral Accounts shall be determined in accordance with such election procedures as are established by the Committee and distributions shall, at the Participant's option, be paid in the form of a lump sum or in annual installments over a period of 2-to-15 years; provided, however, that the Distribution Option must be established at the time of initial deferral. In the event that no valid and timely Distribution Option has been made, benefits will be paid in a lump sum. All payments under the Plan shall be made in cash. For purposes of Section 409A and the Plan: (i) the right to installment payments shall be treated as the right to a single payment; and (ii) a payment shall be treated as made on the scheduled payment date if such payment is made at such date or a later date in the same calendar year or, if later, by the 15th day of the third calendar month following the scheduled payment date. Except as specified in Section 3.1(a) and 3.3(a), a Participant shall have no right to designate the date of any payment under the Plan.

3.3 Modification of Distribution Elections.

(a) A Participant has the right to change any Distribution Date or Distribution Option associated with a Special Purpose Account previously designated by the Participant pursuant to this Article III; *provided, however,* that: (1) the change will not take effect until twelve (12) months after the election is made; (2) with respect to a payment on a specified distribution date, the change must be made at least twelve (12) months prior to the previously scheduled payment date (or initial scheduled payment date in the case of installment payments); and (3) the payment with respect to which the change is made must be deferred for at least five (5) years from the date the payment would otherwise have been made (or initial scheduled payment date in the case of installment payments); provided, that, the Committee may, in its discretion, authorize a Participant to change a distribution election under any applicable transition rule authorized under Section 409A to the extent consistent therewith.

(b) A Participant cannot change the Distribution Option associated with his Retirement Account originally designated pursuant to Section 3.2. The Distribution Date for Retirement Accounts must remain payable on February 1 of the year following a Participant's Retirement, except as otherwise provided under Section 3.1(b).

(c) A Participant cannot postpone the commencement of distributions beyond February 1 of the year following the calendar year in which the Participant obtains age 70.

3.4 Separation From Service.

Notwithstanding the foregoing provisions, in the event a Participant Separates From Service for any reason (other than death) prior to the Participant reaching Retirement eligibility, the Participant will receive a lump sum payment of all amounts credited to the Participant's Deferral Accounts. Such payments will be made on the date of Separation from Service, subject to the provisions of Section 3.1(b) of this Plan.

3.5 Unforeseeable Emergency.

The Committee may, upon request of the Participant, cause to be paid to such Participant an amount equal to all or any part of the amounts credited to such Participant's Deferral Accounts if the Committee determines, in its absolute discretion based on such reasonable evidence that it shall require, that such a payment or payments is necessary for the purpose of alleviating the consequences of an Unforeseeable Emergency occurring with respect to the Participant. The amounts distributed with respect to an Unforeseeable Emergency may not exceed the amount necessary to satisfy the emergency plus amounts necessary to pay taxes on the distribution, after taking into account the extent to which the hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent liquidation would not itself cause severe financial hardship).

3.6 Change in Control.

Notwithstanding the foregoing provisions, upon a Change in Control the Participant will receive a lump sum payment of all of the amounts credited to the Participant's Deferral Accounts. Such payment will be paid in a lump sum within thirty (30) days of the Change in Control.

3.7 Death.

The Beneficiary or Beneficiaries of a Participant shall be entitled to receive the unpaid balance of the Participant's Deferral Accounts to which the Participant was entitled at his death, payable according to the Participant's elections, if the Participant dies on or after age 59½. In the event of a Participant's death prior to reaching age 59½, the value of the Participant's Deferral Accounts will be paid to the Participant's beneficiary in a lump sum on the date of death of the Participant.. The Participant shall designate his Beneficiary in accordance with the provisions of Article V.

Article IV. – Funding By Company

4.1 Unsecured Obligation of Company.

(a) Any benefit payable pursuant to this Plan shall be paid from the general assets of the Company. Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create a trust of any kind or a fiduciary relationship between any Participant (or any other interested person) and the Company or the Committee, or require the Company to maintain or set aside any specific funds for the purpose of paying any benefit hereunder. To the extent that a Participant or any other person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

(b) If the Company maintains a separate fund or makes specific investments, including the purchase of insurance insuring the life of the a Participant, to assure its ability to pay any benefits due under this Plan, neither the Participant nor the Participant's beneficiary shall have any legal or equitable ownership interest in, or lien on, such fund, policy, investment or any other asset of the Company. The Company, in its sole discretion, may determine the exact nature and method of informal funding (if any) of the obligations under this Plan. If the Company elects to maintain a separate fund or makes specific investments to fund its obligations under this Plan, the Company reserves the right, in its sole discretion, to terminate such method of funding at any time, in whole or in part.

4.2 Cooperation of Participant.

If the Company, in its sole discretion, elects to invest in a life insurance, disability or annuity policy on the life of Participant to assist it with the informal funding of its obligations under this Plan, Participant shall assist the Company, from time to time, promptly upon the request of the Company, in obtaining such insurance policy by supplying any information necessary to obtain such policy as well as submitting to any physical examinations required therefore. The Company shall be responsible for the payment of all premiums with respect to any whole life, variable, or universal life insurance policy purchased in connection with this Plan unless otherwise expressly agreed.

Article V. – Beneficiaries

5.1 Beneficiary Designations.

A designation of a Beneficiary hereunder may be made only by an instrument (in form acceptable to the Committee) signed by the Participant and filed with the Committee prior to the Participant's death. In the absence of such a designation and at any other time when there is no existing Beneficiary designated hereunder, the unpaid value of the Participant's Deferral Accounts to which the Participant was entitled at his death shall be distributed to the Participant's estate. A Beneficiary who dies or which ceases to exist shall not be entitled to any part of any payment thereafter to be made to the Participant's Beneficiary unless the Participant's designation specifically provides to the contrary. If two or more persons designated as a Participant's Beneficiary are in existence with respect to a single deferred compensation benefit, the amount of any payment to the Beneficiary under this Plan shall be divided equally among such persons, unless the Participant's designation specifically provides to the contrary. The Beneficiary Designations must be the same for all Deferral Accounts under the Plan.

5.2 Change in Beneficiary.

A Participant may, at any time and from time to time, change a Beneficiary designation hereunder without the consent of any existing Beneficiary or any other person. Any change in Beneficiary shall be made only by an instrument (in form acceptable to the Committee) signed by the Participant, and any change shall be effective only if received by the Committee prior to the death of the Participant.

Article VI. – Claims Procedures

6.1 Claims for Benefits.

The Committee shall determine the rights of any Participant to any deferred compensation benefits hereunder. Any Participant who believes that he has not received the deferred compensation benefits to which he is entitled under the Plan may file a claim in writing with the Committee. The Committee shall, no later than 90 days after the receipt of a claim (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the claimant within the first 90-day period), either allow or deny the claim in writing. If a claimant does not receive written notice of the Committee's decision on his claim within the above-mentioned period, the claim shall be deemed to have been denied in full.

A denial of a claim by the Committee, wholly or partially, shall be written in a manner calculated to be understood by the claimant and shall include:

(a) the specific reasons for the denial;

(b) specific reference to pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

6.2 Appeal Provisions.

A claimant whose claim is denied (or his duly authorized representative) may within 60 days after receipt of denial of a claim file with the Committee a written request for a review of such claim. If the claimant does not file a request for review of his claim within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Committee on his claim, the decision shall become final and the claimant will not be entitled to bring a civil action under Section 502(a) of ERISA. If such an appeal is so filed within such 60-day period, the Company (or its delegate) shall conduct a full and fair review of such claim. During such review, the claimant (or the claimant's authorized representative) shall be given the opportunity to review all documents that are pertinent to his claim and to submit issues and comments in writing.

The Company shall mail or deliver to the claimant a written decision on the matter based on the facts and the pertinent provisions of the Plan within 60 days after the receipt of the request for review (unless special circumstances require an extension of up to 60 additional days, in which case written notice of such extension shall be given to the claimant prior to the commencement of such extension). Such decision shall be written in a manner calculated to be understood by the claimant, shall state the specific reasons for the decision and the specific Plan provisions on which the decision was based and shall, to the extent permitted by law, be final and binding on all interested persons. If the decision on review is not furnished to the claimant within the above-mentioned time period, the claim shall be deemed to have been denied on review. If a claimant's claim for benefits is denied in whole or in part, the claimant may file suit in a state or federal court. ***Notwithstanding the aforementioned, before the claimant may file suit in a state or federal court, the claimantmust exhaust the Plan's administrative claims procedure set forth in this Article VI. If any such state or federal judicial or administrative proceeding is undertaken, the evidence presented will be strictly limited to the evidence timely presented to the Company. In addition, any such state or federal judicial or administrative proceeding must be filed within six (6) months after the Company's final decision. In addition, any such state or federal judicial or administrative proceeding relating to this Plan shall only be brought in the Circuit Court for Arlington County, Virginia or in the United States District Court for the Eastern District of Virginia, Alexandria Division. If any such action or proceeding is brought in any other location, then the filing party expressly consents to the transfer of such action to the Circuit Court for Arlington County, Virginia or the United States District Court for the Eastern District of Virginia, Alexandria Division. Nothing in this clause shall be deemed to prevent any party from removing an action or proceeding to enforce or interpret this Plan from the Circuit Court for Arlington County, Virginia to the United States District Court for the Eastern District of Virginia, Alexandria Division.***

Article VII. – Miscellaneous

7.1 Withholding.

The Company shall have the right to withhold from any deferred compensation benefits payable under the Plan or other wages payable to a Participant an amount sufficient to satisfy all federal, state and local tax withholding requirements, if any, arising from or in connection with the Participant's receipt or vesting of deferred compensation benefits under the Plan.

7.2 No Guarantee of Employment.

Nothing in this Plan shall be construed as guaranteeing future employment to any Participant. Without limiting the generality of the preceding sentence, except as otherwise set forth in a written agreement, a Participant continues to be an employee of the Company solely at the will of the Company subject to discharge at any time, with or without cause. The benefits provided for herein for a Participant shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of a Participant in any manner whatsoever. Nothing contained in this Plan shall affect the right of a Participant to participate in or be covered by or under any qualified or nonqualified pension, profit sharing, group, bonus or other supplemental compensation, retirement or fringe benefit Plan constituting any part of the Company's compensation structure whether now or hereinafter existing.

7.3 Payment to Guardian.

If a benefit payable hereunder is payable to a minor, to a person declared incompetent or to a person incapable of handling the disposition of his property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or person. The Committee may require such proof of incompetency, minority, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

7.4 Assignment.

No right or interest under this Plan of any Participant or Beneficiary shall be assignable or transferable in any manner or be subject to alienation, anticipation, sale, pledge, encumbrance or other legal process or in any manner be liable for or subject to the debts or liabilities of the Participant or Beneficiary.

7.5 Severability.

If any provision of this Plan or the application thereof to any circumstance(s) or person(s) is held to be invalid by a court of competent jurisdiction, the remainder of the Plan and the application of such provision to other circumstances or persons shall not be affected thereby.

7.6 Amendment and Termination.

The Company may at any time (without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan; provided, however, that no modification, amendment or termination of this Plan shall adversely affect the rights of a Participant under the Plan without the consent of such Participant. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Company may at any time (in its sole discretion and without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan or take any other action to the extent necessary to conform the provisions of the Plan with Section 409A regardless of whether such modification, amendment or termination of this Plan or other action shall adversely affect the rights of a Participant under the Plan. Termination of this Plan shall not be a distribution event under the Plan unless otherwise permitted under Section 409A.

7.7 Exculpation and Indemnification

The Company shall indemnify and hold harmless the members of the Committee from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act, or omission to act, in connection with the performance of such person's duties, responsibilities and obligations under the Plan, other than such liabilities, costs and expenses as may result from the gross negligence, willful misconduct, and/or criminal acts of such persons.

7.8 Confidentiality.

In further consideration of the benefits available to each Participant under this Plan, each Participant shall agree that, except as such may be disclosed in financial statements and tax returns, or in connection with estate planning, all terms and provisions of this Plan, and any agreement between the Company and the Participant entered into pursuant this Plan, are and shall forever remain confidential until the death of Participant; and the Participant shall not reveal the terms and conditions contained in this Plan or any such agreement at any time to any person or entity, other than his respective financial and professional advisors unless required to do so by a court of competent jurisdiction or as otherwise may be required by law.

7.9 Leave of Absence.

The Company may, in its sole discretion, permit a Participant to take a leave of absence for a period not to exceed six months, or if longer, so long as the Participant retains a right to reemployment under any applicable statute or by contract. Any such leave of absence must be approved by the Company. During this time, the Participant will still be considered to be in the employ of the Company for purposes of this Plan.

7.10 Gender and Number.

For purposes of interpreting the provisions of this Plan, the masculine gender shall be deemed to include the feminine, the feminine gender shall be deemed to include the masculine, and the singular shall include the plural unless otherwise clearly required by the context.

7.11 Governing Law.

Except as otherwise preempted by the laws of the United States, this Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of law provisions.

7.12 Effective Date.

The effective date of the Plan is generally January 1, 2005; provided, however, that the effective date of the Plan for purposes of determining contributions under Section 2.1 of the Plan shall be January 1, 2004.

This amendment and restatement of The AES Corporation Restoration Supplemental Retirement Plan has been duly executed by the undersigned and is effective this 29 day of December 2008.

The AES Corporation

By: /s/ Jay L. Kloosterboer
Jay L. Kloosterboer, Executive Vice President, Business Excellence

Exhibit 10.16

AES CORPORATION

INTERNATIONAL RETIREMENT PLAN

AS AMENDED AND RESTATED ON DECEMBER 29, 2008

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AES CORPORATION
INTERNATIONAL RETIREMENT PLAN

As Amended and Restated on December 29, 2008

The AES Corporation (the "Sponsor") established the AES Corporation International Retirement Plan (the "Plan"), effective January 1, 2007. The purpose of this Plan is to provide certain employees of the Sponsor and Affiliates with retirement benefits. The Plan is amended and restated as set forth herein to comply with Section 409A.

This Plan is an unfunded plan intended to be a nonqualified deferred compensation plan. This plan will be subject to section 409A of the Internal Revenue Code of 1986, as amended (the "Code") for United States taxpayers. The amounts that may be payable under this Plan shall constitute general, unsecured obligations of the Sponsor, payable solely out of the general assets of the Sponsor, and no Participant shall have any rights to any specific assets of the Sponsor. Balances under this Plan represent mere promises to pay amounts in the future. In the event the Sponsor becomes subject to an insolvency or bankruptcy proceeding, a Participant in the Plan shall only have the rights of a general, unsecured creditor of the Sponsor for any Balances due under the Plan.

ARTICLE 1 - DEFINITIONS

1.1 "Account Earnings Rate" means the Moody's Aa corporate bond yield rate as of the last business day of the immediately preceding calendar month plus one (1) percent.

1.2 "Affiliate" means (i) any subsidiary of the Sponsor, (ii) any entity or person or group of persons that, directly or through one or more intermediaries, is controlled by the Sponsor and (iii) any entity or person or group of persons in which the Sponsor has a significant equity interest, as determined by the Committee.

1.3 "Annual Bonus" means the bonus compensation payable to a Participant under an Employer's annual bonus plan (determined without regard to any pre-tax salary reduction amounts, including but not limited to amounts voluntarily deferred under the terms of this Plan).

1.4 "Balance" of a Deferral Account means the total amount which has been credited to such Deferral Account after the adjustments are made for all intervening debits and credits. The initial Balance of a Deferral Account is zero.

1.5 "Base Salary" shall mean the Employee's total annual regular earnings, retroactive regular earnings that relate to the period for which a Deferral Agreement has been timely made, and/or such other earnings, in each case as timely determined by the Committee, in its sole discretion, prior the applicable Plan Year (as identified and reported on the records of Employer). Base Salary shall be determined without regard to any pre-tax salary reduction amounts, including but not limited to amounts voluntarily deferred under the terms of this Plan. Incentive and supplemental compensation, including but not limited to, bonus compensation, assignment related allowances and compensation payable under The AES Corporation 2003 Long Term Compensation Plan, or any successor thereto, are not eligible for benefit purposes under this Plan and shall not be included in the definition of Base Salary.

1.6 "Beneficiary" means the person or persons designated by the Participant on the Participant's Beneficiary Designation Form to receive distributions of a Participant's Deferral Account Balance under this Plan at the Participant's death in accordance with Article 5.

1.7 "Beneficiary Designation Form" means a form available to Participants on which a Participant may designate the Participant's Beneficiary in accordance with Section 5.1.

1.8 "Board" means the Board of Directors of the Sponsor.

1.9 "Claimant" means a Participant or Beneficiary who makes a claim for a benefit under the Plan.

1.10 "Code" means the Internal Revenue Code of 1986, as amended. A reference to a section of the Code shall include a reference to any regulations or other guidance issued under such section.

1.11 "Committee" means the Compensation Committee of the Board, or such other committee designated by the Board to discharge the duties of the Committee hereunder.

1.12 "Compensation" means the sum of the Participant's Base Salary and Annual Bonus for the Plan Year.

1.13 "Company Matching Contribution" means the annual notional matching contribution which is credited to the Participant's Deferral Account for the Plan Year.

1.14 "Deferral Account" means a bookkeeping account created for each Participant that may be credited with Deferral Amounts under Section 3.1, Company Matching Contributions under Section 3.2, Profit-Sharing Contributions under Section 3.3, and earnings credits under Section 3.4, and debited for any distributions under Article 4. The Committee may maintain separate sub-accounts with respect to each Participant with regard to the Participant's Deferral Amounts, Company Matching Contributions, and Profit-Sharing Contributions in order to properly track such amounts. If this is the case, references to a Participant's "Deferral Account" shall be deemed to refer to the total of all such sub-accounts as necessary to properly implement the Plan.

1.15 "Deferral Agreement" means the agreement between an Employer or the Committee and a Participant, including any amendments thereto, which specifies the Deferral Amount to be withheld on behalf of a Participant, subject to any procedures established by the Committee. Each Deferral Agreement or amendment thereto shall be made or confirmed in writing under procedures established by the Committee.

1.16 "Deferral Amount" means the whole percentage, up to 50%, by which a Participant's Base Salary plus the whole percentage, up to 80%, by which the Annual Bonus is reduced on account of a Participant's Deferral Agreement.

1.17 “Disability” means (a) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) the Participant, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of an Employer, or (c) is determined to be totally disabled by the Social Security Administration.

1.18 “Effective Date” means January 1, 2007.

1.19 “Eligible Employee” means an Employee who is designated for participation in the Plan by the Committee and listed in Appendix A hereto (which Appendix A shall be updated from time to time by the Committee). An Employee shall be eligible if the employee is eligible for the career expatriate benefit policy. The Committee may, at its sole discretion, add or delete an Eligible Employee from Appendix A at any time. Such amendment of Appendix A shall not affect an Eligible Employee’s Deferral Agreement for the current Plan Year.

1.20 “Employee” means an individual who is employed by the Sponsor or an Affiliate.

1.21 “Employer” means the Sponsor and any Affiliate.

1.22 “Former Participant” means any Eligible Employee or former Eligible Employee who has ceased to be a Participant and on whose behalf a Deferral Account continues to be maintained by the Plan.

1.23 “Key Employee” means a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of the Sponsor as determined in accordance with Section 409A and the procedures established by the Sponsor.

1.24 “Participant” means an Eligible Employee who becomes a Participant in accordance with Section 2.1.

1.25 “Plan” means the AES Corporation International Retirement Plan.

1.26 “Plan Year” means the 12-month period ending on the last day of the fiscal year of the Sponsor, which shall be December 31 of each calendar year. The first Plan Year begins on January 1, 2007.

1.27 “Profit-Sharing Contribution” means the annual discretionary notional Profit-Sharing Contribution which may be added to the Participant’s Deferral Account for a Plan Year.

1.28 “Section 409A” shall mean Section 409A of the Code, the regulations and other binding guidance promulgated thereunder.

1.29 “Sponsor” means The AES Corporation, a Delaware Corporation, or any successor thereto.

1.30 “Termination of Employment” means a separation from service (as defined in section 409A(a)(2)(A)(i) of the Code) from the Sponsor and all of its controlled group members within the meaning of Section 409A. For purposes hereof, the determination of controlled group members shall be made pursuant to the provisions of Section 414(b) and 414(c) of the Code; provided that the language “at least 50 percent” shall be used instead of “at least 80 percent” in each place it appears in Section 1563(a)(1),(2) and (3) of the Code and Treas. Reg. § 1.414(c)-2; provided, further, where legitimate business reasons exist (within the meaning of Treas. Reg. § 1.409A-1(h)(3)), the language “at least 20 percent” shall be used instead of “at least 80 percent” in each place it appears. Whether a Participant has a separation from service will be determined based on all of the facts and circumstances and in accordance with the guidance issued under Section 409A. For this purpose, a Participant will be presumed to have experienced a separation from service when the level of *bona fide* services performed permanently decreases to a level less than twenty percent (20%) of the average level of *bona fide* services performed during the immediately preceding thirty-six (36) month period or such other applicable period as provided by Section 409A..

1.31 “Unforeseeable Emergency” means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, a beneficiary, or a dependent (as determined under Section 152(a) of the Code, without regard to Section 152(b)(1), (b)(2) and (d)(1)(B)) of the Participant; the need to pay for the funeral expenses of a spouse, beneficiary or dependent (as defined above); loss of the Participant’s property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant..

ARTICLE 2 - ELIGIBILITY AND PARTICIPATION

2.1 Commencement of Participation

An Eligible Employee shall become a Participant as of the date he is designated as an Eligible Employee by the Committee. An Eligible Employee’s participation in the Plan shall be effective upon notification to the Eligible Employee by the Committee of eligibility to participate in the Plan. A Participant may contribute a Deferral Amount by completing a Deferral Agreement in accordance with the procedures set forth by the Committee. The Deferral Agreement shall set forth the whole percentage of a Participant’s Base Salary or Annual Bonus that shall be deferred for the applicable Plan Year or portion thereof, subject to such limits as the Committee may establish. A Participant’s Deferral Agreement for a Plan Year shall continue in effect from Plan Year to Plan Year unless the Participant completes a new Deferral Agreement (or cancels his Deferral Agreement) in a timely manner in accordance with the procedures set forth by the Committee.

2.2 Time Limitation for Deferral Agreement

A Deferral Agreement shall be effective to defer a Participant's Base Salary and Annual Bonus only if it is received by the Committee by December 31 of the calendar year before the calendar year in which the Participant's services relating to the Base Salary and Annual Bonus are to be performed (or at such other earlier times as may be established by the Committee) or continues in effect from the prior Plan Year as described in Section 2.1. Notwithstanding the provisions of the preceding sentence, if permitted by the Committee, a Deferral Agreement with respect to a Participant's Annual Bonus shall be given effect if made by June 30 of the Plan Year for which the Annual Bonus is to be paid, provided that the Committee determines that the Annual Bonus satisfies the requirements for "performance-based compensation" within the meaning of section 409A(a)(4)(B)(iii) of the Code. In addition, if a Participant is newly eligible to participate in the Plan in accordance with section 409A(a)(4)(B)(ii) of the Code, the Participant may enter into a Deferral Agreement within 30 days of eligibility, provided that such Deferral Agreement may apply only to Base Salary and Annual Bonus paid for services performed by the Participant after the date of such Deferral Agreement. Accordingly, if a Deferral Agreement is made in the first-year of eligibility but after the beginning of the specified performance period (e.g., annual bonus compensation), the Deferral Agreement shall only apply to the total amount of such Compensation multiplied by the ratio of (i) the number of days remaining in the performance period after the election to (ii) the total number of days in the performance period.

2.3 Termination of Participation

Once an Eligible Employee becomes a Participant as set forth in Section 2.1, he shall remain a Participant until the earliest of: (i) the date of his Termination of Employment or the date he ceases to be an Eligible Employee, or (ii) the date the Committee determines that he shall no longer participate in the Plan. A Former Participant shall nevertheless be entitled to receive the Balance of his Deferral Account, if any, in accordance with the Plan.

ARTICLE 3 - ACCOUNTS

3.1 Effect of Deferral Agreement

Commencing with the effective date of a Participant's Deferral Agreement, the Participant's Base Salary shall be reduced by the Deferral Amount specified in the Deferral Agreement on a ratable basis over the Plan Year or remainder thereof, and a corresponding amount shall be credited to the Participant's Deferral Account as soon as practicable after the date of each such reduction. Similarly, the Participant's Annual Bonus shall be reduced by the applicable Deferral Amount specified in the Deferral Agreement for the Plan Year, and a corresponding amount shall be credited to the Participant's Deferral Account as soon as practicable after the date of such reduction. Notwithstanding the foregoing, a Deferral Agreement shall automatically terminate if a Participant suffers a disability, receives a distribution on account of Unforeseeable Emergency or dies. For purposes of this Section, a disability refers to any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.

3.2 Company Matching Contributions

An Employer shall make a Company Matching Contribution for each Participant who has a Deferral Amount for each Plan Year. The amount of the Company Matching Contribution shall be equal to 100% of the Participant's Deferral Amount for the Plan Year up to a maximum of 5.0% of such Participant's Compensation for the Plan Year. The Company Matching Contribution shall be credited to the Participant's Deferral Account not later than the last day of the applicable Plan Year.

3.3 Profit-Sharing Contributions

An Employer may make a Profit-Sharing Contribution for each Participant for each Plan Year beginning on or after the Effective Date during which such Employee was a Participant. The Participating Employer shall determine the amount of the Profit-Sharing Contribution in its discretion, and the Profit-Sharing Contribution shall be credited to the Participant's Deferral Account not later than the last day of the applicable Plan Year. The Profit-Sharing Contribution shall be a specified percentage of the Base Salary of the Participant. The Participant's Annual Bonus shall not be considered in the calculation of the Profit-Sharing Contribution.

3.4 Earnings Credits

For Plan Years prior to January 1, 2009, a Participant's Deferral Account shall be credited at the end of each business day following its establishment and prior to full distribution with the product of: (i) the applicable Account Earnings Rate, and (ii) the Balance of the Deferral Account as of the immediately preceding business day (adjusted for any contributions or distributions, if applicable). For Plan Years beginning on or after January 1, 2009, a Participant's Deferral Account shall be adjusted by an amount equal to the amount that would have been earned (or lost) if the amounts deferred under this Plan had been invested in hypothetical investments designated by the Participant from time to time, based on a list of hypothetical investments provided by the Committee from time to time (such hypothetical earnings or losses shall be referred to as "Earnings"). The Participant shall designate the investments used to measure Earnings from the list of authorized investments provided by the Committee by completing the appropriate form (or electronically via the Plan's website) or in such other manner as the Committee may designate from time to time. The Participant may change such designations at such times as are permitted by the Committee, provided that the Participant shall be entitled to change such designations at least quarterly. Earnings shall be credited to the Participant's Deferral Account at least annually (or more frequently at the discretion of the Committee). Earnings shall be credited to Deferral Account until all payments with respect to such account have been made under this Plan. None of the Sponsor, its Affiliates nor the Committee shall act as a guarantor, or be liable or otherwise responsible for the investment performance of the designated investments (including any losses sustained by a Participant) with respect to a Participant's Deferral Account.

ARTICLE 4 - DISTRIBUTION

4.1 Available Forms of Distribution

The only form of distribution available is a single lump sum payment.

4.2 Distribution of Deferral Account Balance

Subject to Section 4.3 and Section 4.4, a Participant's Deferral Account Balance shall be distributed upon the date of the Participant's Termination of Employment. Notwithstanding the foregoing or any Plan provision to the contrary, distributions to Key Employees upon Termination of Employment for any reason (other than death) may not be made before the date that is 6-months after the date of Termination of Employment. Any payment otherwise due prior to the 6-month anniversary of the Participant's date of Termination of Employment will be accumulated and paid on the first business day of the seventh month following the date of Termination of Employment (or, if earlier, the date of death of the Participant).

4.3 Unforeseeable Emergency Distribution

Notwithstanding Section 4.2, in the event a Participant incurs an Unforeseeable Emergency, the Plan shall distribute the portion of the Participant's Deferral Account Balance necessary to satisfy the Unforeseeable Emergency, including any taxes that are required to be paid as a result of the distribution, after taking into account the extent to which any emergency may be relieved by insurance or otherwise, as determined in accordance with section 409A(a)(2)(B)(ii) of the Code.

4.4 Death or Disability

Notwithstanding Section 4.2, in the event of a Participant's Disability or death, the Participant's entire Deferral Account Balance shall be distributed to the Participant or the Participant's Beneficiary in the form of a lump sum upon the date of such event.

4.5 Payment Date

For purposes of Section 409A and the Plan a payment shall be treated as made on the scheduled payment date if such payment is made at such date or a later date in the same calendar year or, if later, by the 15th day of the third calendar month following the scheduled payment date. A Participant shall have no right to designate the date of any payment under the Plan.

ARTICLE 5 - BENEFICIARY DESIGNATION

5.1 Designation of Beneficiary and Change of Designation

A Participant shall have the right, at any time, to designate any person or persons as the Participant's Beneficiary or Beneficiaries (both primary as well as secondary) to whom any vested but unpaid benefits under this Plan shall be paid in the event of the Participant's death. Each Beneficiary designation shall be made on the Beneficiary Designation Form approved by the Committee, and will be effective only when filed with the Committee during the Participant's lifetime. Any Beneficiary designation may be changed by the Participant without the consent of any designated Beneficiary by the filing of a new Beneficiary Designation Form with the Committee. The filing of a new Beneficiary Designation Form will cancel all Beneficiary designations previously filed.

5.2 Absence of Designation

In the absence of an effective Beneficiary Designation, or if all designated Beneficiaries predecease a Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be the Participant's estate.

5.3 Payment to Beneficiary

The payment to a Beneficiary or a deemed Beneficiary shall completely discharge the Sponsor's obligations under this Plan.

ARTICLE 6 - ADMINISTRATION

6.1 Duties and Powers of the Committee

The Plan shall be administered by the Committee. The Committee shall establish such rules and procedures as it deems appropriate for the administration of the Plan. The Committee shall have the full power, discretion and authority to interpret, construe and administer the terms of the Plan, and determine benefits payable hereunder and all decisions made by the Committee shall be final and binding, including decisions resolving questions of fact. The Committee may employ legal counsel, consultants, actuaries, and others as it deems desirable in the administration of the Plan. Actions of the Committee shall be authorized by majority vote of the participating members and shall only be valid if recorded in writing in the minutes or resolutions of Committee meetings (which need not be held in person).

6.2 Claims for Benefits

A Claimant may bring a claim for benefits under this Plan by filing a written application for benefits with the Committee. The Committee shall review such claim and shall decide such claim within a reasonable time. The Committee shall, no later than 90 days after the receipt of a claim (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the claimant within the first 90-day period), either allow or deny the claim in writing. If a claimant does not receive written notice of the Committee's decision on his claim within the above-mentioned period, the claim shall be deemed to have been denied in full.

A denial of a claim by the Committee, wholly or partially, shall be written in a manner calculated to be understood by the claimant and shall include: the specific reasons for the denial; specific reference to pertinent Plan provisions on which the denial is based; a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and an explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

A claimant whose claim is denied (or his duly authorized representative) may within 60 days after receipt of denial of a claim file with the Committee a written request for a review of such claim. If the claimant does not file a request for review of his claim within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Committee on his claim, the decision shall become final and the claimant will not be entitled to bring a civil action under Section 502(a) of ERISA. If such an appeal is so filed within such 60-day period, the Sponsor (or its delegate) shall conduct a full and fair review of such claim. During such review, the claimant (or the claimant's authorized representative) shall be given the opportunity to review all documents that are pertinent to his claim and to submit issues and comments in writing.

The Sponsor shall mail or deliver to the claimant a written decision on the matter based on the facts and the pertinent provisions of the Plan within 60 days after the receipt of the request for review (unless special circumstances require an extension of up to 60 additional days, in which case written notice of such extension shall be given to the claimant prior to the commencement of such extension). Such decision shall be written in a manner calculated to be understood by the claimant, shall state the specific reasons for the decision and the specific Plan provisions on which the decision was based and shall, to the extent permitted by law, be final and binding on all interested persons. If the decision on review is not furnished to the claimant within the above-mentioned time period, the claim shall be deemed to have been denied on review. If a claimant's claim for benefits is denied in whole or in part, the claimant may file suit in a state or federal court. ***Notwithstanding the aforementioned, before the claimant may file suit in a state or federal court, the claimant<u>must</u> exhaust the Plan's administrative claims procedure set forth in this Article VI. If any such state or federal judicial or administrative proceeding is undertaken, the evidence presented will be strictly limited to the evidence timely presented to the Sponsor. In addition, any such state or federal judicial or administrative proceeding must be filed within six (6) months after the Sponsor's final decision. In addition, any such state or federal judicial or administrative proceeding relating to this Plan shall only be brought in the Circuit Court for Arlington County, Virginia or in the United States District Court for the Eastern District of Virginia, Alexandria Division. If any such action or proceeding is brought in any other location, then the filing party expressly consents to the transfer of such action to the Circuit Court for Arlington County, Virginia or the United States District Court for the Eastern District of Virginia, Alexandria Division. Nothing in this clause shall be deemed to prevent any party from removing an action or proceeding to enforce or interpret this Plan from the Circuit Court for Arlington County, Virginia to the United States District Court for the Eastern District of Virginia, Alexandria Division.***

ARTICLE 7 - MISCELLANEOUS

7.1 No Contract of Employment

This Plan is not intended to constitute a contract of employment, and the Sponsor and any Affiliate retain the right to discharge or discipline any Employee for any reason.

7.2 Funding

The amounts that may be payable under this Plan shall constitute general, unsecured obligations of the Sponsor, payable solely out of the general assets of the Sponsor, and no Participant shall have any rights to any specific assets of the Sponsor. Balances under this Plan represent mere promises to pay amounts in the future. In the event the Sponsor becomes subject to an insolvency or bankruptcy proceeding, a Participant in the Plan shall only have the rights of a general, unsecured creditor of the Sponsor for any Balances due under the Plan.

7.3 Liability of Sponsor

Subject to its obligation to pay Balances of Participants' Accounts pursuant to the terms of this Plan, neither the Sponsor nor anyone acting on behalf of the Sponsor shall be liable for any act performed or the failure to perform any act with regard to this Plan, except as otherwise required by law.

7.4 Notices

Each Participant or Beneficiary shall be responsible for furnishing the Committee with the current and proper address for the mailing of notices. Any notice required or permitted to be given shall be deemed given if directed to the person to whom addressed.

7.5 Binding Effect

The terms of this Plan shall be binding on the Participants, their Beneficiaries, and their legal representatives, and on the Sponsor and any Affiliate, and their successors, assigns, and legal representatives.

7.6 Non-alienation

None of the payments, benefits or rights of any Participant or Beneficiary shall be subject to the claims of any creditor, and, in particular, to the fullest extent permissible by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process or any other legal or equitable process available to any creditor of such Participant or Beneficiary.

7.7 Incapacity

If the Committee determines that a Participant or Beneficiary is incompetent by reason of legal minority or physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to another for the benefit of the minor or incompetent, without responsibility of the Sponsor or the Committee to see to the application of such payment. Payments made in accordance with the application of such power shall operate as a complete discharge of all obligations of the Sponsor and the Committee to the extent of such payment.

7.8 Amendment or Termination

This Plan may be amended or terminated, in whole or in part, at any time by action of the Sponsor in writing. No amendment or termination of the Plan shall deprive any Participant of any portion of his Deferral Account Balance as of the date of such amendment or termination. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Sponsor may at any time (in its sole discretion and without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan or take any other action to the extent necessary to conform the provisions of the Plan with Section 409A regardless of whether such modification, amendment or termination of this Plan or other action shall adversely affect the rights of a Participant under the Plan. Termination of this Plan shall not be a distribution event under the Plan unless otherwise permitted under Section 409A.

7.9 Other Plans

Nothing contained in this Plan shall preclude a Participant, to the extent he is otherwise eligible, from participation in any group insurance, pension, savings, or other employee benefit plans or programs which the Sponsor or an Affiliate in its discretion may make available to its employees, but the Sponsor or the Affiliate shall not be required to establish, maintain or continue any such plan or program by reason of this Plan. Any amounts payable under this Plan shall not be deemed to be salary, bonus or other compensation paid to a Participant for purposes of computing contributions to or benefits under any other employee benefit plan or program, unless specifically required pursuant to such other plan or program.

7.10 Integrated Agreement

This Plan document represents the entire agreement between the Employer and the Participants concerning the subject matter hereof.

7.11 Severability

If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and this Plan shall be construed and enforced as if such provision had not been included.

7.12 Construction

The masculine gender includes the feminine, and the singular the plural, and vice versa, unless the context clearly requires otherwise. The headings and captions contained herein are provided for convenience only, shall not be considered part of the Plan, and shall not be employed in construction of the Plan.

7.13 Code Section 409A Compliance

This Plan is intended to comply with the provisions of Section 409A and shall be administered, interpreted and construed accordingly (or disregarded to the extent such provision cannot be so administered, interpreted or construed). With respect to payments subject to Section 409A: (i) it is intended that distribution events authorized under the Plan qualify as permissible distribution events for purposes of Section 409A; and (ii) the Sponsor reserve the right to accelerate and/or defer any payment to the extent permitted and consistent with Section 409A. Notwithstanding any provision of this Plan to the contrary, to the extent the timing of any benefit payment due under this Plan was modified pursuant to the transition guidance provided by the Internal Revenue Service concerning the time and form of payment, any such modification shall only apply to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be paid in 2008. To the extent any such payment cannot be made in 2008 under the transition guidance, such payment will be made in January 2009. Notwithstanding any provision of the Plan to the contrary, in no event shall the Committee, the Sponsor or an Affiliate (or their employees, officers, directors, members or affiliates) have any liability to any Participant (or any other person) due to the failure of the Plan to satisfy the requirements of Section 409A.

IN WITNESS WHEREOF, and intending to be legally bound hereby, The AES Corporation has caused its authorized officer to execute this amended and restated document this 29 day of December 2008.

The AES CORPORATION

By: /s/ Jay L. Kloosterboer

Jay L. Kloosterboer, Executive Vice President, Business Excellence

Exhibit 10.17

THE AES CORPORATION
SEVERANCE PLAN
(As Amended and Restated December 29, 2008)

ARTICLE I
GENERAL PROVISIONS

1.1 Establishment and Purpose.

The purpose of the AES Corporation Severance Plan, as amended (the "Plan") is to provide eligible employees who are involuntarily terminated from employment in certain limited circumstances with severance and welfare benefits as set forth in this Plan. Benefits payable under this Plan are not, and should not be construed as vested benefits, and are generally intended for employees who are involuntarily terminated without cause. This Plan constitutes a welfare plan under ERISA and will be interpreted in accordance with the terms of ERISA. This Plan supersedes any prior severance plans, policies, guidelines, arrangements, agreements, letters and/or other communication, whether formal or informal, written or oral sponsored by the Employer and/or entered into by any representative of the Employer. The Plan was originally established June 1, 2006,

1.2 Definitions.

Except as may otherwise be specified or as the context may otherwise require, for purposes of the Plan, the following terms shall have the respective meaning ascribed thereto.

"Administrator" means the Health and Welfare Benefits Plan LLC or such other committee or persons designated by it to assume the duties of the Administrator.

"Affiliated Employer" mean any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company; any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

"Annual Compensation" means (i) an Eligible Employee's annualized base salary as in effect as of the Eligible Employee's Termination Date or (ii) in the event that an Eligible Employee is an hourly employee, the person's cumulative base earnings (excluding bonuses) for the previous completed calendar year prior to the Eligible Employee's Terminate Date. Unless otherwise provided on a Benefits Schedule, Annual Compensation shall: (i) include pre-tax employee contributions under any qualified defined contribution retirement plan, salary deferrals under any unfunded nonqualified deferred compensation plan, and amounts deferred (to include employee premiums) under a flexible spending account established pursuant to section 125 of the Code; and (ii) exclude any amounts contributed by the Employer to any plan established pursuant to section 125 of the Code, overtime pay, bonuses, shift differential, annual incentive payments, long-term incentive awards (including but not limited to stock options, restricted stock and performance unit awards), and any other form of supplemental compensation.

"Benefit Schedule" means any schedule attached to the Plan which sets forth the benefits of specified groups of Eligible Employees, as approved by the Company and updated by the Administrator from time to time.

"Board" means the Board of Directors of the Company.

"Bonus" means an Eligible Employee's annual target bonus compensation as established by the Employer and in effect on the Eligible Employee's Termination Date.

"Cause" means Separation from Service by action of the Employer, or resignation in lieu of such Separation from Service, on account of the Eligible Employee's dishonesty; insubordination; continued and repeated failure to perform the Eligible Employee's assigned duties or willful misconduct in the performance of such duties; intentionally engaging in unsatisfactory job performance; failing to make a good faith effort to bring unsatisfactory job performance to an acceptable level; violation of the Employer's policies, procedures, work rules or recognized standards of behavior; misconduct related to the Eligible Employee's employment; or a charge, indictment or conviction of, or a plea of guilty or *nolo contendere* to, a felony, whether or not in connection with the performance by the Eligible Employee of his or her duties or obligations to the Employer.

"Change in Control" means the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company to any Person or group (as that term is used in Section 13(d) (3) of the Securities Exchange Act of 1934) of Persons, (ii) a Person or group (as so defined) of Persons (other than management of the Company on the date of the adoption of this Plan or their Affiliates) shall have become the beneficial owner of more than 35% of the outstanding voting stock of the Company, or (iii) during any one-year period, individuals who at the beginning of such period constitute the Board of Directors (together with any new director whose election or nomination was approved by a majority of the directors then in office who were either directors at the beginning of such period or who were previously so approved, but excluding under all circumstances any such new director whose initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of any individual, corporation, partnership or other entity or group) cease to constitute a majority of the Board of Directors. For purposes of this definition, "Affiliate" means: (i) any Subsidiary of the Company; (ii) any entity or Person or group of Persons that, directly or through one or more intermediaries, is controlled by the Company; and (iii) any entity or Person or group of Persons in which the Company has a significant equity interest, as determined by the Company.

"COBRA Coverage" means medical, dental and vision coverage which is required to be offered to terminated employees under section 4980B of the Code and section 606 of ERISA; provided, however, that no provision of this Plan shall be construed to require the Employer to contribute on behalf of an Eligible Employee towards continuation coverage for a health spending account.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" (or "AES") means The AES Corporation, a Delaware corporation.

"Disability Termination" means a Separation from Service: (a) on account of the Eligible Employee's failure to return to full-time employment following exhaustion of short-term disability benefits provided by the Employer; (b) following the date the Eligible Employee is determined to be eligible for: (i) long-term disability benefits under any long-term disability insurance policy or plan maintained by the Employer; or (ii) disability pension or retirement benefits under any qualified retirement plan maintained by the Employer; or (c) due to a physical or mental condition that substantially restricts the Eligible Employee's ability to perform his or her usual duties, as determined by the Employer.

"Eligible Employee" means any Employee of the Employer who: (i) is not an Ineligible Employee (within the meaning of Section 2.2); and (ii) who has completed one Year-of-Service as a full-time Employee.

"Employee" means any person who is listed as an employee on the payroll records of the Employer as a full-time employee. Any person hired by the Employer as a consultant or independent contractor and any other individual whom the Employer does not treat as its employee for federal income tax purposes shall not be an Employee for purposes of this Plan, even if it is subsequently determined by a Court or administrative agency that such individual should be, or should have been, properly classified as a common law employee of the Employer.

"Employer" means the Company and any Affiliated Employer that participates in the Plan with the consent of the Company. The Administrator shall maintain a list of participating Employers.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Ineligible Termination" means an Eligible Employee's Separation from Service on account of:

- The Eligible Employee's voluntary resignation, including but not limited to the Eligible Employee's unilateral Separation from Service at any time prior to the Termination Date established by the Employer;

- Any Separation from Service that the Employer determines (either before or after the Separation from Service and whether or not any notice is given to the employee) the payment of benefits under the Plan in connection with such Separation from Service would be inconsistent with the intent and purpose of the Plan;

- A Separation from Service in connection with an Eligible Employee's failure to return to work immediately following the conclusion of an approved leave-of-absence.

- A Separation from Service for, or on account of, Cause;

- A Disability Termination;
- The Eligible Employee's death;
- The Eligible Employee declines to accept a New Job Position offered by the Employer that is located within 50 miles of the Eligible Employee's then assigned work site of the Employer;
- The Sale of Business Rule set forth in Section 2.4 herein; or
- The voluntary transfer of employment from Eligible Employee's Employer to another AES related entity, irrespective whether the Eligible Employee is required to relocate or whether the AES related entity qualifies as an Affiliated Employer.

"Involuntary Termination" means an Eligible Employee's involuntary Separation from Service that is (i) not an Ineligible Termination and (ii) by action of the Employer on account of:

- Permanent Layoff;
- Reduction-in-force;
- Permanent job elimination;
- The restructuring or reorganization of a business unit, division, department or other segment;
- Termination by Mutual Consent; or
- Eligible Employee declines to accept a New Job Position offered by the Employer that requires the Eligible Employee to relocate to a work site location that is locatedgreater than 50 miles from the Employee's then assigned work site of the Employer; provided, however, that except as provided in Section 2.4 or in connection with a Separation from Service following a Change in Control, an Eligible Employee who functions at or above a Group Manager position (or its equivalent) shall not incur an Involuntary Termination if such Eligible Employee declines a New Job Position (regardless of its location) at a time when the Eligible Employee's existing job position is being eliminated.

"Layoff" means a special program of workforce reduction approved in advance in writing by the Employer and that is designated as a "Layoff" for purposes of this Plan. Notwithstanding the foregoing, a Layoff must result in a permanent elimination of a job resulting from an internal reorganization of the Employer.

"New Job Position" means: (i) with respect to an Eligible Employee who has demonstrated inadequate or unsatisfactory performance, as determined by the Employer, any job position offered by the Employer; or (ii) with respect to all other Eligible Employees, a full-time job position offered by the Employer that does not result in a reduction of the Employee's Annual Compensation.

"Participant" has the meaning set forth in Section 2.1.

"Person" means any individual, corporation, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Section 409A" shall mean Section 409A of the Code, the regulations and other binding guidance promulgated thereunder.

"Separation From Service" shall mean an Eligible Employee's termination of employment with the Company and all of its controlled group members within the meaning of Section 409A of the Code. For purposes hereof, the determination of controlled group members shall be made pursuant to the provisions of Section 414(b) and 414(c) of the Code; provided that the language "at least 50 percent" shall be used instead of "at least 80 percent" in each place it appears in Section 1563(a)(1),(2) and (3) of the Code and Treas. Reg. § 1.414(c)-2; provided, further, where legitimate business reasons exist (within the meaning of Treas. Reg. § 1.409A-1(h)(3)), the language "at least 20 percent" shall be used instead of "at least 80 percent" in each place it appears. Whether an Employee has a Separation from Service will be determined based on all of the facts and circumstances and in accordance with the guidance issued under Section 409A.

"Specified Employee" means a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of the Company as determined in accordance with the regulations issued under Code Section 409A and the procedures established by the Company.

"Subsidiary" means any entity in which the Company owns or otherwise controls, directly or indirectly, stock or other ownership interests having the voting power to elect a majority of the board of directors, or other governing group having functions similar to a board of directors, as determined by the Company.

"Termination by Mutual Consent" means an involuntary Separation from Service pursuant to which the Company agrees, in its sole discretion, that benefits are payable under this Plan.

"Termination Date" means the date of the Eligible Employee's Separation of Service (or scheduled date of Separation from Service, as applicable).

"Week's Compensation" means one fifty-second (1/52) of an Eligible Employee's Annual Compensation.

"Year-of-Service" means each twelve-month period measured from the Eligible Employee's first day of employment with an Employer, as reduced to reflect breaks in service and/or services performed during such period the Eligible Employee was otherwise ineligible to participate in the Plan, as determined under the rules promulgated by the Administrator. Service with a predecessor employer (that was not an Affiliated Employer) shall be recognized to the extent such service is recognized under The AES Corporation Retirement Savings Plan. Service shall also include services performed prior to the effective date of the Plan. In the event an Eligible Employee's Separation from Service and the Eligible Employee is subsequently reemployed by the Employer, the Eligible Employee's service for calculation of any severance benefits under Article IV of the Plan shall be based on only upon the Eligible Employee's service credited since the most recent date of employment with the Employer.

ARTICLE II
PARTICIPATION

2.1 Eligibility.

Except as otherwise provided in this Article II or a Benefit Schedule, an Eligible Employee shall, upon execution of the Release in the form specified in Article III of this Plan in the time and manner prescribed by the Administrator, be eligible for the severance benefits provided under Article IV of this Plan if the Eligible Employee's Separation from Service is by reason of an Involuntary Termination. An Eligible Employee who fails to execute the Release in the time and manner prescribed by the Administrator or who subsequently revokes execution of the Release in accordance with its terms shall not be entitled to receive benefits under this Plan. An Eligible Employee who satisfies all of the terms and conditions specified in this Plan and who becomes entitled to receive benefits hereunder shall be referred to herein as a "Participant."

2.2 Ineligible Employees. Notwithstanding any provision of this Plan to the contrary, the following Employees ("Ineligible Employees") are not eligible to participate in the Plan:

- Any Employee who has been hired to work on a part-time, seasonal or temporary basis or who is classified as a part-time, seasonal or temporary Employee, or a student intern on the Employer's records;
- Any Employee who has been hired by the Employer to work in a job share position (provided that such Employee is not otherwise employed on a full-time basis);
- An Employee who is member of a collective bargaining unit to which this Plan has not been specifically extended by a collective bargaining agreement;
- An Employee entitled to a severance type payment pursuant to any other plan, policy, arrangement, agreement, letter or other communication sponsored by, or entered into with, or maintained by the Employer, including but not limited to an employment agreement;
- Leased employees, including those within the meaning of section 414(n) of the Code;

- Nonresident aliens (other than those nonresident aliens to whom the Employer has extended participation in the Plan with the written consent of the Company);
- Any individual who has agreed in writing that he or she waives his or her eligibility to receive benefits under the Plan; and
- Any Employee who has an enforceable right to resume employment or to be recalled to employment with the Employer.

2.3 Transfer of Employment.

If an Eligible Employee transfers to a location of AES to which this Plan has not been extended, such Employee shall cease to be eligible to participate in this Plan unless the Eligible Employee's prior Employer has agreed in writing to continue to extend participation in the Plan to the Employee with the consent of the Company.

2.4 Sale of Business Rule.

An Eligible Employee shall not be eligible to benefits under the Plan if the Eligible Employee's Separation from Service is in connection with the sale of the stock or other ownership interests of the Employer or other related entity, or the sale, lease, or other transfer of the assets, products, services or operations of the Employer or other related entity to another organization if either of the following occurs:

- The Eligible Employee is employed by the new organization immediately following the sale, transfer or lease or is so employed within a time period specified in an agreement between the Employer and the new organizations; or
- The Employer terminates the employment of an Eligible Employee who did not accept an offer of employment from the new organization when the new organization offered a compensation and benefits package that was, in the aggregate, generally comparable to the compensation and benefits provided by the Employer; provided that such Eligible Employee was not required to relocate to a work site location that is located greater than 50 miles from the Employee's then assigned work site of the Employer.

Notwithstanding the foregoing, this section 2.4 shall not apply if an Eligible Employee's Separation from Service occurs in connection with a Change of Control and, as such, any such Separation from Service will not be an Ineligible Termination solely on the basis of the Sale of Business Rule.

ARTICLE III
RELEASES

3.1 Release.

Notwithstanding anything in this Plan to the contrary, no benefits of any sort or nature (other than as provided in section 3.3) shall be due or paid under this Plan to any Eligible Employee unless the Eligible Employee executes a written release and covenant not to sue, in form and substance satisfactory to the Employer, in its sole discretion, within the time stated in the release; provided, however, that in all cases such release must become final, binding and irrevocable within sixty (60) days following the Eligible Employee's Termination Date. The written release shall waive any and all claims against the Employer and all related parties including, but not limited to, claims arising out of the Eligible Employee's employment by the Employer, the Eligible Employee's Separation from Service and claims relating to the benefits paid under this Plan. At the sole discretion of the Employer, the release shall also include such noncompetition, nonsolicitation and nondisclosure provisions as the Employer considers necessary or appropriate.

3.2 Revocation.

The release described in Section 3.1 must be executed and binding on the Eligible Employee within the timeframe specified by the Company before benefits are due or paid. An Eligible Employee who revokes execution of the release in accordance with the terms of the release shall not be entitled to receive benefits under the Plan.

3.3 Outplacement Services.

Notwithstanding the foregoing provisions of this Article III, the Outplacement Services set forth under Section 4.3 herein may or may not be provided, at the discretion of the Employer, to an Eligible Employee prior to the execution of a release under this Plan.

ARTICLE IV
SEVERANCE BENEFITS

4.1 Separation Payment.

4.1.1 A Participant shall be entitled to receive a separation payment as set forth on the applicable Benefit Schedule. The separation payment will be paid at least monthly in substantially equal installments as salary continuation in accordance with the Employer's established payroll policies and practices over the same time period upon which the separation payment is based.

4.1.2 The separation payments will commence on the Employer's next normal pay date occurring after the date the Eligible Employee's release becomes final, binding and irrevocable.

4.1.3 For purposes of Section 409A: (i) the right to salary continuation installment payments shall be treated as the right to a series of separate payments; and (ii) a payment shall be treated as made on the scheduled payment date if such payment is made at such date or a later date in the same calendar year or, if later, by the 15th day of the third calendar month following the scheduled payment date. A Participant shall have no right to designate the date of any payment under the Plan. For purposes of the Plan, each salary continuation installment payment is intended to be excepted from Section 409A to the maximum extent provided under Section 409A as follows: (i) each salary continuation installment payment that is scheduled to be made on or before March 15th of the calendar year following the calendar year containing the Termination Date is intended to be excepted under the short-term deferral exception as specified in Treas. Reg. § 1.409A-1(b)(4); and (ii) each salary continuation installment payment that is not otherwise excepted under the short-term deferral exception is intended to be excepted under the involuntary pay exception as specified in Treas. Reg. § 1.409A-1(b)(9)(iii).

4.2 Continuation of Certain Welfare Benefits.

4.2.1 Medical/Dental/Vision. For the period set forth below in Section 4.2.3 and beginning in the calendar month following the calendar month in which the Termination Date occurs, the Participant shall be eligible to participate in the Employer's medical, dental and vision employee welfare benefit plans applicable to the Participant on his Termination Date. To receive such benefits, the Participant must properly enroll in COBRA coverage, and must also pay such premiums and other costs for such coverage as generally applicable to the Employer's active employees. The Employer will continue to pay its share of the applicable premiums under the medical, dental and vision plans for the same level and type of coverage in which the Participant is enrolled as of the Termination Date.

If a Participant has elected the "no benefit coverage" option under the medical, dental or vision plans as of his actual Termination Date, the Participant shall not be entitled to continuation coverage or cash in lieu thereof. Following expiration of coverage under this Section 4.2.1, a Participant may, to the extent eligible, continue to participate in such plans for the remainder of the COBRA continuation period, if any.

4.2.2 Concurrent COBRA Period. The continuation period for medical, dental and vision coverage under this Plan shall be deemed to run concurrent with the continuation period federally mandated by COBRA (generally 18 months), or any other legally mandated and applicable federal, state, or local coverage period for benefits provided to terminated employees under the health care plan. The continuation period will be deemed to commence on the first day of the calendar month following the month in which the Termination Date falls. Notwithstanding the foregoing, COBRA Coverage will only be available if the Participant is eligible for and timely elects COBRA Coverage, and timely remits payment of the premiums for COBRA Coverage.

4.2.3 Length of Benefits. Benefits under this Section 4.2 shall be for the same time period upon which the separation payment was based; provided, however that in no event will the time period exceed 18 months. Post-termination medical benefits are intended to be excepted from Section 409A under the medical benefits exceptions as specified in Treas. Reg. § 1.409A-1(b)(9)(v)(B).

4.3 Outplacement Services.

As set forth on the applicable Benefit Schedule, a Participant shall be eligible for such outplacement services typically provided to employees of the same job classification or level. Outplacement services may be provided by an independent agency or by the Employer. Notwithstanding the foregoing, the availability, duration, and appropriateness of outplacement services shall be determined by the Administrator in its sole discretion; provided, however, that outplacement expenses must be reasonable, must be actually incurred by the Participant and may not extend beyond the December 31 of the second calendar year following the calendar year in which the Termination Date occurred (or such shorter period as specified by the Employer). Any such reimbursement shall be as soon as administratively feasible, but in no event later than December 31st of the third calendar year following the calendar year in which the Termination Date occurred. Post-termination outplacement benefits are intended to be excepted from Section 409A under the separation payment benefits exceptions as specified in Treas. Reg. § 1.409A-1(b)(9)(v)(A).

4.4 Bonus Compensation.

As set forth on the applicable Benefits Schedule and subject to any deferral election that the Participant has made with respect to such amounts, a Participant will be eligible for (i) a prorated Bonus; and (ii) any accrued but unpaid bonus compensation for completed performance periods. The prorated Bonus specified in Section 4.4(i) will be prorated based on the amount of time the Participant was actively at work on a full-time basis in the calendar year in which the Participant's Termination Date falls, and will be paid within the applicable 2½ month period specified in Treas. Reg. § 1.409A-1(b)(4). The bonus compensation specified in Section 4.4(ii) shall be paid no later than the time that such amounts are paid to similarly situated employees in accordance with the applicable plan terms. . Notwithstanding the foregoing, with respect to bonuses paid in accordance with the terms of The AES Corporation Performance Incentive Plan (or any successor plan, the "Performance Incentive Plan"), any such bonus compensation shall be paid only to the extent earned in accordance with the terms of the Performance Incentive Plan and on the payment date specified therein.

4.5 Enhanced Benefits.

To the extent provided under the Benefits Schedule, in the event the Participant was Involuntarily Terminated within two years following a Change in Control, or in the event the Participant was Involuntarily Terminated under circumstances that constitute a Layoff, the separation payment under Section 4.1 will be multiplied by 2.0. In addition, the length of time for which benefits under Section 4.2 will be provided will also be multiplied by 2.0; provided, however, that this time period will never exceed 18 months as set forth in section 4.2.3.

4.6 Delay in Payment.

Notwithstanding any provision of this Plan to the contrary, to the extent that a payment hereunder is subject to Section 409A (and not excepted therefrom), such payment shall be delayed for a period of six months after the Termination Date (or, if earlier, the death of the Participant) for any Participant that is a Specified Employee. Any payment that would otherwise have been due or owing during such six-month period will be paid on the first business day of the seventh month following the date of Termination Date.

ARTICLE V
PLAN ADMINISTRATION

5.1 Operation of the Plan.

The Administrator shall be the named fiduciary responsible for carrying out the provisions of the Plan. The Administrator may delegate any and all of its powers and responsibilities hereunder or appoint agents to carry out such responsibilities, and any such delegation or appointment may be rescinded at any time. The Administrator shall establish the terms and conditions under which any such agents serve. The Administrator shall have the full and absolute authority to employ and rely on such legal counsel, actuaries and accountants (which may also be those of the Employer) as it may deem advisable to assist in the administration of the Plan.

5.2 Administration of the Plan.

To the extent that the Administrator in its sole discretion deems necessary or desirable, the Administrator may establish rules for the administration of the Plan, prescribe appropriate forms, and adopt procedures for handling claims and the denial of claims. The Administrator shall have the exclusive authority and discretion to interpret, construe, and administer the provisions of the Plan and to decide all questions concerning the Plan and its administration. Without limiting the foregoing, the Administrator shall have the authority to determine the level of an Employee, to determine eligibility for and the amount of any benefits due in accordance with the attached Benefit Schedule, to make factual determinations, to correct deficiencies, and to supply omissions, including resolving any ambiguity or uncertainty arising under or existing in the terms and provisions of the Plan or any Benefits Schedule. Any and all such determinations of the Administrator shall be final, conclusive, and binding on the Employer, the Employee and any and all interested parties.

5.3 Funding.

The Plan shall be unfunded and all payments hereunder and expenses incurred in connection with this Plan shall be from the general assets of the Employer. Benefits will be paid directly by the Employer employing the Participant, and no other Employer or Affiliated Employer will be responsible for any benefits hereunder.

5.4 Code section 409A.

Notwithstanding any provision of the Plan to the contrary, if any benefit provided under this Plan is subject to the provisions of Section 409A of the Code and the regulations issued thereunder, the provisions of the Plan will be administered, interpreted and construed in a manner necessary to comply with Section 409A or an exception thereto (or disregarded to the extent such provision cannot be so administered, interpreted, or construed). With respect to payments subject to Section 409A of the Code: (i) it is intended that distribution events authorized under the Plan qualify as permissible distribution events for purposes of Section 409A of the Code; and (ii) the Company and each Employer reserve the right to accelerate and/or defer any payment to the extent permitted and consistent with Section 409A. Notwithstanding any provision of the Plan to the contrary, in no event shall the Administrator, the Company, an Affiliated Employer or Subsidiary (or their employees, officers, directors or affiliates) have any liability to any Participant (or any other person) due to the failure of the Plan to satisfy the requirements of Section 409A or any other applicable law.

ARTICLE VI
CLAIMS

6.1 General.

If an Employee believes that he or she is eligible for benefits under the Plan and has not been so notified, an Employee should submit a written request for benefits to the Administrator. Any claim for benefits must be made withinsix months of an Employee's Termination Date, or the Employee will be forever barred from pursuing a claim. For purposes of this Article VI, an Employee making a claim for benefits under the Plan shall be referred to as a "claimant". The claimant shall file the claim with and in the manner prescribed by the Administrator. The Administrator shall make the initial determination concerning rights to and amount of benefits payable under this Plan.

6.2 Claim Evaluation.

A properly filed claim will be evaluated and the claimant will be notified of the approval or the denial of the claim within ninety (90) days after the receipt of the claim, unless special circumstances require an extension of time for processing. Written notice of the extension will be furnished to the claimant prior to the expiration of the initial ninety-day (90-day) period, and will specify the special circumstances requiring an extension and the date by which a decision will be reached (provided the claim evaluation will be completed within one hundred and twenty (180) days after the date the claim was filed).

6.3 Notice of Disposition.

A claimant will be given a written notice in which the claimant will be advised as to whether the claim is granted or denied, in whole or in part. If a claim is denied, in whole or in part the notice will contain: (i) the specific reasons for the denial; (ii) references to pertinent Plan provisions upon which the denial is based; (iii) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary; and (iv) the claimant's rights to seek review of the denial.

6.4 Appeals.

If a claim is denied, in whole or in part, the claimant, or his duly authorized representative, has the right to (i) request that the Administrator review the denial, (ii) review pertinent documents, and (iii) submit issues and comments in writing, provided that the claimant files a written appeal with the Administrator within sixty (60) days after the date the claimant received written notice of the denial. Within sixty (60) days after an appeal is received, the review will be made and the claimant will be advised in writing of the decision, unless special circumstances require an extension of time for reviewing the appeal, in which case the claimant will be given written notice within the initial sixty-day (60-day) period specifying the reasons for the extension and when the review will be completed (provided the review will be completed within one hundred and twenty (120) days after the date the appeal was filed). The decision on appeal will be forwarded to the claimant in writing and will include specific reasons for the decision and references to the Plan provisions upon which the decision is based. A decision on appeal will be final and binding on all persons for all purposes. If a claimant's claim for benefits is denied in whole or in part, the claimant may file suit in a state or federal court. ***Notwithstanding the aforementioned, before the claimant may file suit in a state or federal court, the claimant*** ***<u>must</u>*** ***exhaust the Plan's administrative claims procedure set forth in this Article VI. If any such state or federal judicial or administrative proceeding is undertaken, the evidence presented will be strictly limited to the evidence timely presented to the Administrator. In addition, any such state or federal judicial or administrative proceeding must be filed within six (6) months after the Administrator's final decision. Any such state or federal judicial or administrative proceeding relating to this Plan shall only be brought in the Circuit Court for Arlington County, Virginia or in the United States District Court for the Eastern District of Virginia, Alexandria Division. If any such action or proceeding is brought in any other location, then the filing party expressly consents to the transfer of such action to the Circuit Court for Arlington County, Virginia or the United States District Court for the Eastern District of Virginia, Alexandria Division. Nothing in this clause shall be deemed to prevent any party from removing an action or proceeding to enforce or interpret this Plan from the Circuit Court for Arlington County, Virginia to the United States District Court for the Eastern District of Virginia, Alexandria Division.***

ARTICLE VII
PLAN AMENDMENTS

7.1 Amendment Authority.

The Board may, at any time and in its sole discretion, amend, modify or terminate the Plan, including any Benefit Schedule, as the Board, in its judgment shall deem necessary or advisable. The Board may delegate its amendment authority to the Administrator or such other persons as the Board considers appropriate. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Board (or its designee) may at any time (in its sole discretion and without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan or take any other action, to the extent necessary or advisable to conform the provisions of the Plan with Section 409A of the Code, the regulations issued thereunder or an exception thereto, regardless of whether such modification, amendment or termination of this Plan or other action shall adversely affect the rights of an Eligible Employee or Participant under the Plan. Termination of this Plan shall not be a distribution event under the Plan unless otherwise permitted under Section 409A.

ARTICLE VIII
MISCELLANEOUS

8.1 Summary Plan Description.

To the extent the summary plan description or any other writing communication to an Employee conflicts with this Plan, the Plan document shall control.

8.2 Impact on Other Benefits.

Except as otherwise provided herein, any amounts paid to a Participant under this Plan shall have no effect on the Participant's rights or benefits under any other employee benefit plan sponsored by the Employer; provided, however, that in no event shall any Participant be entitled to any payment or benefit under the Plan which duplicates a payment or benefit received or receivable by the Participant under any severance plan, policy, guideline, arrangement, agreement, letter and/or other communication, whether formal or informal, written or oral sponsored by the Employer or an affiliate thereof and/or entered into by any representative of the Employer and/or any affiliate thereof. Further, any such amounts shall not be used to determine eligibility for or the amount of any benefit under any employee benefit plan, policy, or arrangement sponsored by the Employer or any affiliate thereof.

8.3 Tax Withholding.

The Employer shall have the right to withhold from any benefits payable under the Plan or any other wages payable to a Participant an amount sufficient to satisfy federal, state and local tax withholding requirements, if any, arising from or in connection with the Participant's receipt of benefits under the Plan.

8.4 No Employment or Service Rights.

Nothing contained in the Plan shall confer upon any Employee any right with respect to continued employment with the Employer, nor shall the Plan interfere in any way with the right of the Employer to at any time reassign an Employee to a different job, change the compensation of the Employee or terminate the Employee's employment for any reason.

8.5 Nontransferability.

Notwithstanding any other provision of this Plan to the contrary, the benefits payable under the Plan may not be subject to voluntary or involuntary anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Participant or such other person, other than pursuant to the laws of descent and distribution, without the consent of the Company.

8.6 Successors.

The Company and its affiliates shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company and its affiliates (taken as a whole) expressly to assume and agree to perform under the terms of the Plan in the same manner and to the same extent that the Company and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event the Company and its affiliates (as constituted prior to such succession) shall have no further obligation under or with respect to the Plan.

8.7 Governing Law.

Except as otherwise preempted by the laws of the United States, this Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of law provisions. If any provision of this Plan shall be held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan.

This amendment and restatement of The AES Corporation Severance Plan has been duly executed by the undersigned and is effective this 29 day of December 2008.

The AES Corporation

By: /s/ Jay L. Kloosterboer

Jay L. Kloosterboer, Executive Vice President, Business Excellence

BENEFITS SCHEDULE

Title/Grade Classification	Severance Benefits (Min. 1 Year-of-Service for Eligibility)
Executive Officers (CEO, CFO, COO excluded because of contracts)	One (1) times (Annual Compensation + Bonus) (Section 4.1) Health Benefits (Section 4.2) Outplacement Benefits (Section 4.3) Prorated Bonus (Section 4.4) Special Enhanced Benefits (Section 4.5) Excise Tax Reimbursement (Appendix A)
Grades 24 -27	One (1) times (Annual Compensation) (Section 4.1) Health Benefits (Section 4.2) Outplacement Benefits (Section 4.3) Prorated Bonus (Section 4.4) Special Enhanced Benefits (Section 4.5)
Grades 19 -23	Three (3) months prorated Annual Compensation plus two (2) Weeks' Compensation for each Year-of-Service up to a maximum of thirty-nine (39) Week's Compensation (Section 4.1) Health Benefits (Section 4.2)
Grades 18 and below	Two (2) months prorated Annual Compensation plus two (2) Weeks' Compensation for each Year-of-Service up to a maximum of twenty-six (26) Week's Compensation (Section 4.1) Health Benefits (Section 4.2)

THE AES CORPORATION SEVERANCE PLAN

List of Participating Employers

[The Administrator is required to maintain a list of Participating Employers]*

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*(i) Individuals employed by Indianapolis Power & Light Company and its subsidiaries and (ii) Ineligible Employees shall not be eligible to participate in the Plan.

THE AES CORPORATION
PERFORMANCE INCENTIVE PLAN
(As Amended and Restated December 29, 2008)

1. *Purpose of the Plan*

The purpose of the The AES Corporation Performance Incentive Plan (the "Plan") is to advance the interests of the Company and its shareholders by providing incentives to key employees with significant responsibility for achieving performance goals critical to the success and growth of the Company. The Plan is designed to: (i) promote the attainment of the Company's significant business objectives; (ii) encourage and reward management teamwork across the entire Company; and (iii) assist in the attraction and retention of employees vital to the Company's long-term success. The Plan has been amended and restated solely to comply with Section 409A.

2. *Definitions*

For the purpose of the Plan, the following definitions shall apply:

(a) "**Board**" means the Board of Directors of the Company.

(b) "**Code**" means the Internal Revenue Code of 1986, as amended, including any successor law thereto.

(c) "**Committee**" means the Compensation Committee of the Board, or such other committee as is appointed or designated by the Board to administer the Plan, in each case which shall be comprised solely of two or more "outside directors" (as defined under Section 162(m) of the Code and the regulations promulgated thereunder).

(d) "**Company**" means The AES Corporation and any subsidiary entity or affiliate thereof, including subsidiaries or affiliates which become such after adoption of the Plan.

(e) **"Forfeit," "Forfeiture," "Forfeited"** means the loss by a Participant of any and all rights to an award granted under the Plan, including the loss to any payment of compensation by the Company under the Plan or any award granted thereunder.

(f) **"Participant"** means any person: (1) who satisfies the eligibility requirements set forth in Paragraph 4; (2) to whom an award has been made by the Committee; and (3) whose award remains outstanding under the Plan.

(g) "**Performance Goal**" means, in relation to any Performance Period, the level of performance that must be achieved with respect to a Performance Measure.

(h) "**Performance Measures**" means any one or more of the following performance criteria, either individually, alternatively or in any combination, and subject to such modifications or variations as specified by the Committee, applied to either the Company as a whole or to a business unit or subsidiary entity thereof, either individually, alternatively or in any combination, and measured over a period of time including any portion of a year, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee: cash flow; cash flow from operations; earnings (including, but not limited to, earnings before interest, taxes, depreciation, and amortization or some variation thereof); earnings per share, diluted or basic; earnings per share from continuing operations; net asset turnover; inventory turnover; capital expenditures; debt; debt reduction; working capital; return on investment; return on sales; net or gross sales; market share; economic value added; cost of capital; change in assets; expense reduction levels; productivity; delivery performance; safety record and/or performance; stock price; return on equity; total stockholder return; return on capital; return on assets or net assets; revenue; income or net income; operating income or net operating income; operating income adjusted for management fees and depreciation, and amortization; operating profit or net operating profit; gross margin, operating margin or profit margin; and completion of acquisitions, business expansion, product diversification, new or expanded market penetration and other non-financial operating and management performance objectives.

To the extent consistent with Section 162(m) of the Code and the regulations promulgated thereunder, the Committee may determine that certain adjustments shall apply, in whole or in part, in such manner as specified by the Committee, to exclude the effect of any of the following events that occur during a Performance Period: the impairment of tangible or intangible assets; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; business combinations, reorganizations and/or restructuring programs, including but not limited to reductions in force and early retirement incentives; currency fluctuations; and any extraordinary, unusual, infrequent or non-recurring items, including, but not limited to, such items separately identified in the financial statements and/or notes thereto in accordance with generally accepted accounting principles.

(i) "**Performance Period**" means, in relation to any award, the calendar year or other period of 12 months or less for which a Participant's performance is being calculated, with each such period constituting a separate Performance Period.

(j) **"Section 409A"** shall mean Section 409A of the Code, the regulations and other binding guidance promulgated thereunder.

(k) "**Retirement**" means retirement of an employee as determined and authorized by the Committee.

(l) **Total and Permanent Disability**" means: (1) if the Participant is insured under a long-term disability insurance policy or plan which is paid for by the Company, the Participant is totally disabled under the terms of that policy or plan; or (2) if no such policy or plan exists, the Participant shall be considered to be totally disabled as determined by the Committee.

3. *Administration of the Plan*

(a) The management of the Plan shall be vested in the Committee; provided, however, that all acts and authority of the Committee pursuant to this Plan shall be subject to the provisions of the Committee's Charter, as amended from time to time, and such other authority as may be delegated to the Committee by the Board. The Committee may, with respect to Participants whom the Committee determines are not likely to be subject to Section 162(m) of the Code, delegate such of its powers and authority under the Plan to the Company's officers as it deems necessary or appropriate. In the event of such delegation, all references to the Committee in this Plan shall be deemed references to such officers as it relates to those aspects of the Plan that have been delegated.

(b) Subject to the terms of the Plan, the Committee shall, among other things, have full authority and discretion to determine eligibility for participation in the Plan, make awards under the Plan, establish the terms and conditions of such awards (including the Performance Goal(s) and Performance Measure(s) to be utilized) and determine whether the Performance Goals applicable to any Performance Measures for any awards have been achieved. The Committee's determinations under the Plan need not be uniform among all Participants, or classes or categories of Participants, and may be applied to such Participants, or classes or categories of Participants, as the Committee, in its sole and absolute discretion, considers necessary, appropriate or desirable. The Committee is authorized to interpret the Plan, to adopt administrative rules, regulations, and guidelines for the Plan, and may correct any defect, supply any omission or reconcile any inconsistency or conflict in the Plan or in any award. All determinations by the Committee shall be final, conclusive and binding on the Company, the Participant and any and all interested parties.

(c) Subject to the provisions of the Plan, the Committee will have the authority and discretion to determine the extent to which awards under the Plan will be structured to conform to the requirements applicable to performance-based compensation as described in Section 162(m) of the Code, and to take such action, establish such procedures, and impose such restrictions at the time such awards are granted as the Committee determines to be necessary or appropriate to conform to such requirements. Notwithstanding any provision of the Plan to the contrary, if an award under this Plan is intended to qualify as performance-based compensation under Section 162(m) of the Code and the regulations issued thereunder and a provision of this Plan would prevent such award from so qualifying, such provision shall be administered, interpreted and construed to carry out such intention (or disregarded to the extent such provision cannot be so administered, interpreted or construed).

(d) The benefits provided under the Plan are intended to be excepted from coverage under Section 409A and the regulations promulgated thereunder and shall be construed accordingly. Notwithstanding any provision of the Plan to the contrary, if any benefit provided under this Plan is subject to the provisions of Section 409A and the regulations issued thereunder (and not excepted therefrom), the provisions of the Plan shall be administered, interpreted and construed in a manner necessary to comply with Section 409A and the regulations issued thereunder (or disregarded to the extent such provision cannot be so administered, interpreted, or construed.)

4. *Participation in the Plan*

Officers and key employees of the Company shall be eligible to participate in the Plan. No employee shall have the right to participate in the Plan, and participation in the Plan in any one Performance Period does not entitle an individual to participate in future Performance Periods.

5. *Incentive Compensation Awards*

(a) The Committee may, in its discretion, from time to time make awards to persons eligible for participation in the Plan pursuant to which the Participant will earn cash compensation. The amount of a Participant's award may be based on a percentage of such Participant's salary or such other methods as may be established by the Committee. Each award shall be communicated to the Participant, and shall specify, among other things, the terms and conditions of the award and the Performance Goals to be achieved. The maximum amount of an award that may be earned under the Plan by any Participant for any Performance Period shall not exceed USD $5,000,000.

(b) With respect to awards that are intended to be performance-based compensation under Section 162(m) of the Code, each award shall be conditioned upon the Company's achievement of one or more Performance Goal(s) with respect to the Performance Measure(s) established by the Committee. No later than ninety (90) days after the beginning of the applicable Performance Period, the Committee shall establish in writing the Performance Goals, Performance Measures and the method(s) for computing the amount of compensation which will be payable under the Plan to each Participant if the Performance Goals established by the Committee are attained; provided however, that for a Performance Period of less than one year, the Committee shall take any such actions prior to the lapse of 25% of the Performance Period. In addition to establishing minimum Performance Goals below which no compensation shall be payable pursuant to an award, the Committee, in its discretion, may create a performance schedule under which an amount less than or more than the target award may be paid so long as the Performance Goals have been achieved.

(c) The Committee, in its sole discretion, may also establish such additional restrictions or conditions that must be satisfied as a condition precedent to the payment of all or a portion of any awards. Such additional restrictions or conditions need not be performance-based and may include, among other things, the receipt by a Participant of a specified annual performance rating, the continued employment by the Participant and/or the achievement of specified performance goals by the Company, business unit or Participant. Furthermore and notwithstanding any provision of this Plan to the contrary, the Committee, in its sole discretion, may reduce the amount of any award to a Participant if it concludes that such reduction is necessary or appropriate based upon: (i) an evaluation of such Participant's performance; (ii) comparisons with compensation received by other similarly situated individuals working within the Company's industry; (iii) the Company's financial results and conditions; or (iv) such other factors or conditions that the Committee deems relevant. Notwithstanding any provision of this Plan to the contrary, the Committee shall not use its discretionary authority to increase any award that is intended to be performance-based compensation under Section 162(m) of the Code.

6. *Payment of Individual Incentive Awards*

(a) After the end of the Performance Period, the Committee shall certify in writing the extent to which the applicable Performance Goals and any other material terms have been achieved. Subject to the provisions of the Plan, earned Awards shall be paid in the first calendar year immediately following the end of the Performance Period and within the applicable 2½ month period specified in Treas. Reg. § 1.409A-1(b)(4) ("Payment Date"). For purposes of this provision, and for so long as the Code permits, the approved minutes of the Committee meeting in which the certification is made may be treated as written certification.

(b) Unless otherwise determined by the Committee, Participants who have terminated employment with the Company prior to the actual payment date of any award for any reason other than death, Retirement or Total and Permanent Disability, shall Forfeit any and all rights to payment under any awards then outstanding under the terms of the Plan and shall not be entitled to any cash payment for such period. If a Participant's employment with the Company should terminate during a Performance Period by reason of death, Retirement or Total and Permanent Disability or the Committee determines that an award is not Forfeited, the Participant's award shall be prorated to reflect the period of service prior to his/her termination, death, Retirement or Total and Permanent Disability, and shall be paid either to the Participant or, as appropriate, the Participant's estate, subject to the Committee's certification that the applicable Performance Goals and other material terms have been met.

(c) The Committee shall determine whether, to what extent, and under what additional circumstances amounts payable with respect to an award under the Plan shall be deferred either automatically, at the election of the Participant, or by the Committee. All deferrals under The AES Corporation Restoration Supplemental Retirement Plan shall be made in accordance with terms and procedures of such plan.

7. *Amendment or Termination of the Plan*

While the Company intends that the Plan shall continue in force from year to year, the Company reserves the right to amend, modify or terminate the Plan, at any time; provided, however, that no such modification, amendment or termination shall, without the consent of the Participant, materially adversely affect the rights of such Participant to any payment that has been determined by the Committee to be due and owing to the Participant under the Plan but not yet paid. Any and all actions permitted under this Section 7 may be authorized and performed by the Committee in its sole and absolute discretion.

Notwithstanding the foregoing or any provision of the Plan to the contrary, the Committee may at any time (without the consent of the Participant) modify, amend or terminate any or all of the provisions of this Plan to the extent necessary to conform the provisions of the Plan with Section 409A or Section 162(m) of the Code, the regulations promulgated thereunder or an exception thereto regardless of whether such modification, amendment, or termination of the Plan shall adversely affect the rights of a Participant under the Plan. Notwithstanding, (i) Section 409A may impose upon the Participant certain taxes or other charges for which the Participant is and shall remain solely responsible, and nothing contained in this Plan shall be construed to obligate the Company for any such taxes or other charges, and (ii) in no event shall the Committee or Board (or any member thereof), or the Company (or its employees, officers, directors or affiliates) have any liability to any Participant (or any other person) due to the failure of the Plan to satisfy the requirements of Section 409A or any other applicable law.

8. *Rights Not Transferable*

A Participant's rights under the Plan may not be assigned, pledged, or otherwise transferred except, in the event of a Participant's death, to the Participant's designated beneficiary, or in the absence of such a designation, by will or by the laws of descent and distribution.

9. ***Funding/Payment***

The Plan is not funded and all awards payable hereunder shall be paid from the general assets of the Company. No provision contained in this Plan and no action taken pursuant to the provisions of this Plan shall create a trust of any kind or require the Company to maintain or set aside any specific funds to pay benefits hereunder. To the extent a Participant acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. If any earned Award is not paid by the Payment Date due to administrative impracticability, such earned Award will be paid, without earnings, as soon as administratively practicable thereafter.

10. ***Withholdings***

The Company shall have the right to withhold from any awards payable under the Plan or other wages payable to a Participant such amounts sufficient to satisfy federal, state and local tax withholding obligations arising from or in connection with the Participant's participation in the Plan and such other deductions as may be authorized by the Participant or as required by applicable law.

11. ***No Employment or Service Rights***

Nothing contained in the Plan shall confer upon any Participant any right with respect to continued employment with the Company (or any of its affiliates) nor shall the Plan interfere in any way with the right of the Company (or any of its affiliates) to at any time reassign the Participant to a different job, change the compensation of the Participant or terminate the Participant's employment for any reason.

12. ***Other Compensation Plans***

Nothing contained in this Plan shall prevent the Corporation from adopting other or additional compensation arrangements for employees of the Corporation, including arrangements that are not intended to comply with Section 162(m) of the Code.

13. ***Governing Law***

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of law provisions.

14. ***Effective Date***

The Plan's material terms have been approved by the Company's shareholders. This amendment and restatement of The AES Corporation Performance Incentive Plan has been duly executed by the undersigned and is effective this 29 day of December 2008.

The AES Corporation

By: /s/ Jay L. Kloosterboer
Jay L. Kloosterboer, Executive Vice President, Business Excellence

SEPARATION AGREEMENT AND GENERAL RELEASE

Dear William Luraschi:

This document, upon your signature, will constitute the Agreement between you and The AES Corporation (together with its affiliates and related entities, the "Company") on the terms of your separation from the Company (the "Agreement").

1. Your employment is terminated effective May 31, 2008 (the "Termination Date"). You will be paid your earned compensation through and including the Termination Date. You have received or will receive by separate cover information regarding your rights to continuation of your health insurance which will cease as of the last day of the month in which your Termination Date occurs. To the extent that you have such rights, nothing in this Agreement will impair those rights.

2. You have or will return to the Company by the Termination Date:, (i) all reports, files, memoranda, records, software, laptops, computer equipment, cellular phones, credit cards, cardkey passes, door and file keys, computer access codes or disks and instructional manuals, other than any Excluded Materials (as defined below); and (ii) any other physical or personal property that you received in connection with your employment with the Company that you then have in your possession and you shall not retain any copies, duplicates, reproductions or excerpts thereof. The "Excluded Materials" are (i) 2 laptop computers — an IBM T43 and an IBM X60, and (ii) a Blackberry Pearl phone. Title to the Excluded Materials will pass to you upon satisfaction of the following conditions: (i) satisfaction of the conditions listed in Section 3 (i), (ii) and (iii) below; and (ii) deletion of all confidential information of the Company from the Excluded Materials by the Company.

The Company will reimburse you in accordance with its existing policies for any legitimate expenses you incurred on Company business prior to the Termination Date. You must submit any expense reimbursement requests by June 15, 2008.

3. Subject to the terms of this Agreement and in consideration for (i) your execution of this Agreement; (ii) your satisfactory work performance through the Termination Date as determined by Paul Hanrahan; and (iii) your return of an executed copy of this Agreement to the Company by May 15, 2008, the Company will provide you, pursuant to the terms and provisions of The AES Corporation Severance Plan, as amended ("Severance Plan"), with the following (collectively, "Consideration"):

(a) twelve (12) monthly salary continuation benefits (based on your 2008 annualized base salary + target bonus of USD$514,500) in equal monthly installments, each less applicable taxes and deductions. The first of these monthly payments shall begin with the next regular payroll period occurring after the seventh business day following your Termination Date, and the remaining payment shall be made monthly in accordance with the Company's established payroll practices;

(b) a prorated bonus for your work in 2008 equal to 41.6% of your 2008 annual target bonus, less applicable taxes and deductions; provided that all performance conditions and other terms and conditions applicable to such bonus and the payment thereof must be met prior to payment. Such payment, if any, will be made to you in calendar year 2009 on or prior to March 15, 2009;

(c) outplacement benefits to begin after your Termination Date;

(d) in addition, if you are already participating in the medical/RX, dental and/or vision benefit plans and should you elect to continue these benefits under COBRA, the Company will pay the portion of the premium cost of such coverage presently paid by the Company under the Company's plan for a twelve (12) period which period shall commence at the beginning of the calendar month following the calendar month containing your Termination Date; and

(e) finally, to the extent applicable, you will be entitled to the Excise Tax Reimbursement benefits described in Appendix A of the Severance Plan.

Absent the entry of this Agreement you would not be entitled to such Consideration.

Any stock options, restricted stock units and performance units of The AES Corporation that have been previously granted to you but that have not yet vested on or before your Termination Date, will not vest following your Termination Date and will therefore be forfeited in their entirety. Please also see the relevant plan and notice documents for other important provisions triggered by your termination.

4. The intent of this section is to secure your promise not to sue the Company, or anyone connected with it, for any harm you may claim to have suffered in connection with your employment or the termination of your employment, in return for the benefits described in this Agreement. Accordingly, in exchange for the Consideration, you hereby agree as follows:

(a) Except as otherwise provided in this Section 4(a), you hereby release the Company and all of its past, present and/or future related entities, including but not limited to parents, divisions, affiliates, subsidiaries, officers, directors, stockholders, trustees, employees, agents, representatives, administrators, attorneys, insurers, fiduciaries, predecessors, successors and assigns of the Company, in their individual and/or representative capacities (hereinafter collectively referred to as the "Released Parties"), from any and all causes of action, suits, agreements, promises, damages, disputes, controversies, contentions, differences, judgments, claims and demands of any kind whatsoever ("Claims") which you or your heirs, executors, administrators, successors and assigns ever had, now have or may have against the Released Parties, whether known or unknown to you, and whether asserted or unasserted, (i) by reason of your employment and/or cessation of employment with the Company, or (ii) otherwise involving facts which occurred on or prior to the date that you sign this Agreement.

Such released Claims include, without limitation, any and all Claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1871, the Civil Rights Act of 1991, the Fair Labor Standards Act, the Family and Medical Leave Act of 1993, the Age Discrimination in Employment Act of 1967, as amended by the Older Workers' Benefit Protection Act of 1990, the Americans With Disabilities Act, the Employee Retirement Income Security Act of 1974 (including, without limitation, any claim for severance pay), the Virginia Human Rights Law and any and all other federal, state or local laws, statutes, rules and regulations pertaining to employment (each as amended) including but not limited to the laws of the United States and any other country to the extent applicable; any and all Claims under state contract or tort law; any and all Claims based on the design or administration of any Company employee benefit plan or program or arising under any Company policy, procedure, or employee benefit plan, including, but not limited to, the Severance Plan; any and all Claims for wages, commissions, bonuses, continued employment with the Company in any position, and compensatory, punitive or liquidated damages; and any and all Claims for attorneys' fees and costs. Notwithstanding the foregoing, nothing contained herein shall interfere with or waive your right to enforce this Agreement in a court of competent jurisdiction;

(b) If you commence, continue, join in, or in any other manner attempt to assert any Claim released herein against any Released Party or otherwise breach the promises made in this Agreement, you shall reimburse the Released Parties for all attorneys' fees incurred by the Released Parties in defending against such a Claim and the Company shall have a right to the return of all Consideration paid to you pursuant to this Agreement, together with interest thereon, and to cease furnishing to you any further Consideration described in this Agreement; provided that this right of return of such Consideration and the cessation of payment of further Consideration is without prejudice to the Released Parties' other rights hereunder, including any right to obtain an agreement and release of any and all claims against the Released Parties; and

(c) You agree (i) that you will not bring any lawsuits or claims of any kind against the Company, any of its related entities or any Released Party; (ii) that you will not accept the benefits of any lawsuits or claims of any kind brought on your behalf against the Company, any of its related entities or any Released Party; and (iii) that if you are nevertheless awarded any such benefits you will pay them to the Company.

5. The Company is providing you with the benefits described in this Agreement solely to ease the impact of your separation from employment with the Company. The fact that the Company is offering these benefits to you should not be understood as nor is it intended to be an admission that the Company, any of its related entities or any Released Party has violated your rights (or the rights of anyone else) in any manner whatsoever.

6. You will not, unless (i) required by law, or (ii) the information in question has been disclosed by the Company in a proxy statement filed with the U.S. Securities and Exchange Commission, disclose to anyone other than members of the Arlington Legal Group and the Arlington Human Resources Group any information regarding the following:

(a) Any information regarding the practices, procedures, trade secrets, inventions, technology, customer lists, or product marketing of the Company or any of its related entities or any Released Party.

(b) The terms of this Agreement, the benefits being paid under it or the fact of such payment, except that you may disclose this information to your attorney, accountant or other professional advisor to whom you must make the disclosure in order for them to render professional services to you. You will instruct them, however, to maintain the confidentiality of this information just as you must. In addition, you will not make, or cause to be made, any statements, observations or opinions, or communicate any information (whether oral or written) (collectively "Statements") including Statements to the press, media, Company employees, clients, customer, contractors or any other party, that disparage or are likely in any way to harm the reputation of the Company, any of its related entities or any Released Party. Breach of this provision shall be considered material.

7. In the event that you breach any of your obligations under this Agreement, including but not limited to the provisions of Sections 3, 4, 6, 8, 10, 11, 12, 13 or 14 of this Agreement, or as otherwise imposed by law, the Company will be entitled to recover the benefits paid under this Agreement and to obtain all other relief provided by law or equity.

8. By executing this Agreement, you agree and acknowledge that except for the payments, benefits and promises described in this Agreement, you shall not to be entitled to any further payments, benefits, or promises from the Company. This Agreement shall be governed by Virginia law and you hereby submit to and agree that the exclusive jurisdiction for any suit, action or proceeding involving this Agreement will be any federal or state court located in Virginia. If any provision of this Agreement is deemed to be unenforceable, it shall not affect the enforceability of the remaining provisions of this Agreement. This document contains the entire agreement between you and the Company concerning the subject matter contained herein.

9. The parties acknowledge and agree that any amount paid to you pursuant to this Agreement may at the Company's sole discretion be set off against any amount or sum for which the Company is (or at any time

may be) held liable to pay you with respect to or in connection with the relationship between you and the Company.

10. You covenant and agree that you shall not voluntarily cooperate with, encourage or instigate any third party, person or entity in threatening, preparing, commencing or prosecuting any legal action or proceeding against any Released Party by consulting or meeting with any such third party, person or entity or any attorney or representative thereof, or providing any assistance, information, documents, testimony or representation to or for the benefit of any such third party, person or entity or any attorney or representative thereof. Provided, however, that this paragraph shall not be interpreted to limit your ability to respond to questions or otherwise provide information to or cooperate with the Arlington Legal Group and the Arlington Human Resources Group. Breach of this provision shall be considered material.

11. Nothing contained in this Agreement shall be deemed to preclude you from providing truthful testimony or information pursuant to a valid court order or similar legal process;provided,however, that prior to making any such disclosure, you will promptly notify the Company of such request or requirement so that the Company, if it so chooses, will have sufficient opportunity to seek to avoid or minimize the required disclosure and/or to obtain an appropriate protective order or other appropriate relief. In any such case, you will use your reasonable efforts to cooperate with the Company in its efforts to avoid or minimize the required disclosure and/or to obtain such protective order or other relief.

12. You agree to provide reasonable cooperation at mutually agreeable times and places to the Released Parties in connection with matters with which you were involved, including, but not limited to, the defense of any and all Claims, which are asserted by any person or entity other than you concerning or related to any matter that arises out of events or occurrences during your involvement in the business and affairs of the Company, and you will be reimbursed for reasonable out of pocket expenses incurred in connection therewith. Except as otherwise required pursuant to applicable law or court order, or as permitted under Section 11, and in each such case,provided that you comply with the provisions of Section 11, you further agree to maintain in strict confidence any information or knowledge you have regarding Claims against the Released Parties. You agree to communicate with any party adverse to the Released Parties, or with a representative, agent or legal counsel for any such Claims solely through legal counsel for the Released Parties, although you may at your own expense retain your own counsel in connection with any such matter.

13. You agree that while you are receiving severance payments from the Company pursuant to Section 3(a) above, you will not (i) be employed by or provide services or advice to any competitor of the Company or any Released Party or (ii) otherwise compete with the Company or any Released Party. For avoidance of doubt the parties hereto acknowledge and agree that this non-compete provision includes a prohibition on you: (i) attempting to or actually hiring or contracting for services from, or inducing or encouraging anyone else to hire or contract for services from, any employees or contractors working for or at the Company; or (ii) attempting to or actually inducing or encouraging any employees or contractors working for or at the Company to leave the Company; in each case without the prior approval of the Company.

14. You acknowledge (i) that you have not been forced or pressured in any manner whatsoever to sign this Agreement; (ii) that you have agreed to all of its terms voluntarily; (iii) that you have read this Agreement in its entirety and understand the terms of the Agreement; and (iv) that you have been given at least twenty-one (21) days to consider all of its terms and to consult with counsel of your choice. You may revoke your acceptance of this Agreement by sending written notice of your intent to revoke your acceptance within seven (7) days of your execution of this Agreement, to the Company, with such written notice addressed to the Company at the following address: 4300 Wilson Boulevard, Arlington, Virginia 22203. If you do not revoke your acceptance, your acceptance and this Agreement will become effective on the eighth

day after the date on which it is signed (the “Effective Date”). You further agree that in the event that you revoke your acceptance of this Agreement prior to the eighth (8th) day after execution of this Agreement, this Agreement and the promises contained herein shall automatically be deemed null and void.

To accept this Agreement, please date and sign this document and return it to me. An extra copy for your files is enclosed. We wish you success in your future endeavors.

Very truly yours,

The AES Corporation

By: ________________________

Name: Paul Hanrahan
Title: President and Chief Executive Officer

BY SIGNING THIS AGREEMENT, I ACKNOWLEDGE (i) THAT I HAVE NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS AGREEMENT; (ii) THAT I HAVE HAD AT LEAST 21 DAYS TO CONSIDER ALL OF THE TERMS OF THIS AGREEMENT WITH COUNSEL OF MY CHOICE; (iii) THAT I HAVE READ THIS AGREEMENT IN ITS ENTIRETY AND UNDERSTAND THE TERMS OF THE AGREEMENT; AND (iv) THAT I VOLUNTARILY AGREE TO THEM. I FURTHER UNDERSTAND THAT I MAY REVOKE MY ACCEPTANCE OF THIS AGREEMENT BY SENDING WRITTEN NOTICE OF MY INTENT TO REVOKE MY ACCEPTANCE ADDRESSED TO THE COMPANY AT THE FOLLOWING ADDRESS: 4300 WILSON BOULEVARD, ARLINGTON, VIRGINIA, 22203 WITHIN SEVEN DAYS AFTER THIS AGREEMENT HAS BEEN EXECUTED AND RETURNED BY ME. IF I HAVE NOT REVOKED MY ACCEPTANCE, THIS AGREEMENT WILL BECOME EFFECTIVE ON THE EIGHTH DAY AFTER IT IS EXECUTED AND RETURNED TO THE COMPANY (THE “EFFECTIVE DATE”).

By: ________________________

William Luraschi

Agreed to this 14th day of May 2008

Exhibit 10.29

SEPARATION AGREEMENT AND GENERAL RELEASE

Dear Jay Kloosterboer:

This document, upon your signature, will constitute the Agreement between you and The AES Corporation (together with its affiliates and related entities, the "Company") on the terms of your separation from the Company (the "Agreement").

1. Your employment is terminated effective January 5, 2009 (the "Termination Date"). You will be paid your earned compensation through and including the Termination Date. You have received or will receive by separate cover information regarding your rights to continuation of your health insurance which will cease as of the last day of the month in which your Termination Date occurs. To the extent that you have such rights, nothing in this Agreement will impair those rights.

2. You have or will return to the Company by the Termination Date: (i) all reports, files, memoranda, records, software, laptops, computer equipment, cellular phones, credit cards, cardkey passes, door and file keys, computer access codes or disks and instructional manuals; and (ii) any other physical or personal property that you received in connection with your employment with the Company that you then have in your possession and you shall not retain any copies, duplicates, reproductions or excerpts thereof. The Company will reimburse you in accordance with its existing policies for any legitimate expenses you incurred on Company business prior to the Termination Date. You must submit any expense reimbursement requests by December 31, 2008.

3. Subject to the terms of this Agreement and in consideration for (i) your execution of this Agreement; (ii) your satisfactory work performance through the Termination Date as determined by Andres Gluski; and (iii) your return of an executed copy of this Agreement to the Company by December 15, 2008, the Company will provide you, pursuant to the terms and provisions of The AES Corporation Severance Plan, as amended ("Severance Plan"), with the following (collectively, "Consideration"):

(a) twelve (12) monthly salary continuation benefits (based on your 2008 annualized base salary + target bonus of USD$297,500) in equal monthly installments, each less applicable taxes and deductions. The first of these monthly payments shall begin with the next regular payroll period occurring after the seventh business day following your Termination Date, and the remaining payment shall be made monthly in accordance with the Company's established payroll practices;

(b) a prorated bonus for your work in 2008 equal to $300,000, less applicable taxes and deductions, to be paid to you in the next payroll run following your Termination Date;

(c) outplacement benefits to begin after your Termination Date;

(d) in addition, if you are already participating in the medical/RX, dental and/or vision benefit plans and should you elect to continue these benefits under COBRA, the Company will pay the portion of the premium cost of such coverage presently paid by the Company under the Company's plan for a twelve (12) period which period shall commence at the beginning of the calendar month following the calendar month containing your Termination Date; and

(e) finally, to the extent applicable, you will be entitled to the Excise Tax Reimbursement benefits described in Appendix A of the Severance Plan.

Absent the entry of this Agreement you would not be entitled to such Consideration.

Any stock options, restricted stock units and performance units of The AES Corporation that have been previously granted to you but that have not yet vested on or before your Termination Date, will not vest following your Termination Date and will therefore be forfeited in their entirety. Please also see the relevant plan and notice documents for other important provisions triggered by your termination.

4. The intent of this section is to secure your promise not to sue the Company, or anyone connected with it, for any harm you may claim to have suffered in connection with your employment or the termination of your employment, in return for the benefits described in this Agreement. Accordingly, in exchange for the Consideration, you hereby agree as follows:

(a) Except as otherwise provided in this Section 4(a), you hereby release the Company and all of its past, present and/or future related entities, including but not limited to parents, divisions, affiliates, subsidiaries, officers, directors, stockholders, trustees, employees, agents, representatives, administrators, attorneys, insurers, fiduciaries, predecessors, successors and assigns of the Company, in their individual and/or representative capacities (hereinafter collectively referred to as the "Released Parties"), from any and all causes of action, suits, agreements, promises, damages, disputes, controversies, contentions, differences, judgments, claims and demands of any kind whatsoever ("Claims") which you or your heirs, executors, administrators, successors and assigns ever had, now have or may have against the Released Parties, whether known or unknown to you, and whether asserted or unasserted, (i) by reason of your employment and/or cessation of employment with the Company, or (ii) otherwise involving facts which occurred on or prior to the date that you sign this Agreement.

Such released Claims include, without limitation, any and all Claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1871, the Civil Rights Act of 1991, the Fair Labor Standards Act, the Family and Medical Leave Act of 1993, the Age Discrimination in Employment Act of 1967, as amended by the Older Workers' Benefit Protection Act of 1990, the Americans With Disabilities Act, the Employee Retirement Income Security Act of 1974 (including, without limitation, any claim for severance pay), the Virginia Human Rights Law and any and all other federal, state or local laws, statutes, rules and regulations pertaining to employment (each as amended) including but not limited to the laws of the United States and any other country to the extent applicable; any and all Claims under state contract or tort law; any and all Claims based on the design or administration of any Company employee benefit plan or program or arising under any Company policy, procedure, or employee benefit plan, including, but not limited to, the Severance Plan; any and all Claims for wages, commissions, bonuses, continued employment with the Company in any position, and compensatory, punitive or liquidated damages; and any and all Claims for attorneys' fees and costs. Notwithstanding the foregoing, nothing contained herein shall interfere with or waive your right to enforce this Agreement in a court of competent jurisdiction;

(b) If you commence, continue, join in, or in any other manner attempt to assert any Claim released herein against any Released Party or otherwise breach the promises made in this Agreement, you shall reimburse the Released Parties for all attorneys' fees incurred by the Released Parties in defending against such a Claim and the Company shall have a right to the return of all Consideration paid to you pursuant to this Agreement, together with interest thereon, and to cease furnishing to you any further Consideration described in this Agreement; provided that this right of return of such Consideration and the cessation of payment of further Consideration is without prejudice to the Released Parties' other rights hereunder, including any right to obtain an agreement and release of any and all claims against the Released Parties; and

(c) You agree (i) that you will not bring any lawsuits or claims of any kind against the Company, any of its related entities or any Released Party; (ii) that you will not accept the benefits of any lawsuits or claims of any kind brought on your behalf against the Company, any of its related entities or any Released Party; and (iii) that if you are nevertheless awarded any such benefits you will pay them to the Company.

5. The Company is providing you with the benefits described in this Agreement solely to ease the impact of your separation from employment with the Company. The fact that the Company is offering these benefits to you should not be understood as nor is it intended to be an admission that the Company, any of its related entities or any Released Party has violated your rights (or the rights of anyone else) in any manner whatsoever.

6. You will not, unless (i) required by law, or (ii) the information in question has been filed by the Company with the U.S. Securities and Exchange Commission, disclose to anyone other than members of the Arlington Legal Group and the Arlington Human Resources Group any information regarding the following:

(a) Any information regarding the practices, procedures, trade secrets, inventions, technology, customer lists, or product marketing of the Company or any of its related entities or any Released Party.

(b) The terms of this Agreement, the benefits being paid under it or the fact of such payment, except (i) that you may disclose this information to your immediate family and/or your attorney, accountant or other professional advisor to whom you must make the disclosure in order for them to render professional services to you and (ii) that prior to the filing of this Agreement with the U.S. Securities and Exchange Commission by the Company, you may disclose paragraph 13 of this Agreement to prospective employers. You will instruct them in each case, however, to maintain the confidentiality of this information just as you must. In addition, you will not make, or cause to be made, any statements, observations or opinions, or communicate any information (whether oral or written) (collectively “Statements”) including Statements to the press, media, Company employees, clients, customer, contractors or any other party, that disparage or are likely in any way to harm the reputation of the Company, any of its related entities or any Released Party. Breach of this provision shall be considered material.

7. In the event that you breach any of your obligations under this Agreement, including but not limited to the provisions of Sections 3, 4, 6, 8, 10, 11, 12, 13 or 14 of this Agreement, or as otherwise imposed by law, the Company will be entitled to recover the benefits paid under this Agreement and to obtain all other relief provided by law or equity.

8. By executing this Agreement, you agree and acknowledge that except for the payments, benefits and promises described in this Agreement, you shall not to be entitled to any further payments, benefits, or promises from the Company. This Agreement shall be governed by Virginia law and you hereby submit to and agree that the exclusive jurisdiction for any suit, action or proceeding involving this Agreement will be any federal or state court located in Virginia. If any provision of this Agreement is deemed to be unenforceable, it shall not affect the enforceability of the remaining provisions of this Agreement. This document contains the entire agreement between you and the Company concerning the subject matter contained herein.

9. The parties acknowledge and agree that any amount paid to you pursuant to this Agreement may at the Company’s sole discretion be set off against any amount or sum for which the Company is (or at any time may be) held liable to pay you with respect to or in connection with the relationship between you and the Company.

10. You covenant and agree that you shall not voluntarily cooperate with, encourage or instigate any third party, person or entity in threatening, preparing, commencing or prosecuting any legal action or

proceeding against any Released Party by consulting or meeting with any such third party, person or entity or any attorney or representative thereof, or providing any assistance, information, documents, testimony or representation to or for the benefit of any such third party, person or entity or any attorney or representative thereof. Provided, however, that this paragraph shall not be interpreted to limit your ability to respond to questions or otherwise provide information to or cooperate with the Arlington Legal Group and the Arlington Human Resources Group. Breach of this provision shall be considered material.

11. Nothing contained in this Agreement shall be deemed to preclude you from providing truthful testimony or information pursuant to a valid court order or similar legal process;provided,however, that prior to making any such disclosure, you will promptly notify the Company of such request or requirement so that the Company, if it so chooses, will have sufficient opportunity to seek to avoid or minimize the required disclosure and/or to obtain an appropriate protective order or other appropriate relief. In any such case, you will use your reasonable efforts to cooperate with the Company in its efforts to avoid or minimize the required disclosure and/or to obtain such protective order or other relief.

12. You agree to provide reasonable cooperation at mutually agreeable times and places to the Released Parties in connection with matters with which you were involved, including, but not limited to, the defense of any and all Claims, which are asserted by any person or entity other than you concerning or related to any matter that arises out of events or occurrences during your involvement in the business and affairs of the Company, and you will be reimbursed for reasonable out of pocket expenses incurred in connection therewith. Except as otherwise required pursuant to applicable law or court order, or as permitted under Section 11, and in each such case,provided that you comply with the provisions of Section 11, you further agree to maintain in strict confidence any information or knowledge you have regarding Claims against the Released Parties. You agree to communicate with any party adverse to the Released Parties, or with a representative, agent or legal counsel for any such Claims solely through legal counsel for the Released Parties, although you may at your own expense retain your own counsel in connection with any such matter.

13. You agree that while you are receiving severance payments from the Company pursuant to Section 3(a) above, you will not (i) be employed by or provide services or advice to any competitor of the Company or any Released Party or (ii) otherwise compete with the Company or any Released Party. For avoidance of doubt the parties hereto acknowledge and agree that this non-compete provision includes a prohibition on you: (i) attempting to or actually hiring or contracting for services from, or inducing or encouraging anyone else to hire or contract for services from, any employees or contractors working for or at the Company; or (ii) attempting to or actually inducing or encouraging any employees or contractors working for or at the Company to leave the Company; in each case without the prior approval of the Company.

14. You acknowledge (i) that you have not been forced or pressured in any manner whatsoever to sign this Agreement; (ii) that you have agreed to all of its terms voluntarily; (iii) that you have read this Agreement in its entirety and understand the terms of the Agreement; and (iv) that you have been given at least twenty-one (21) days to consider all of its terms and to consult with counsel of your choice. You may revoke your acceptance of this Agreement by sending written notice of your intent to revoke your acceptance within seven (7) days of your execution of this Agreement, to the Company, with such written notice addressed to the Company at the following address: 4300 Wilson Boulevard, Arlington, Virginia 22203. If you do not revoke your acceptance, your acceptance and this Agreement will become effective on the eighth day after the date on which it is signed (the "Effective Date"). You further agree that in the event that you revoke your acceptance of this Agreement prior to the eighth (8th) day after execution of this Agreement, this Agreement and the promises contained herein shall automatically be deemed null and void.

To accept this Agreement, please date and sign this document and return it to me. An extra copy for your files is enclosed. We wish you success in your future endeavors.

Very truly yours,

The AES Corporation

By: /s/ Andres Gluski
Name: Andres Gluski
Title: Chief Operating Officer

BY SIGNING THIS AGREEMENT, I ACKNOWLEDGE (i) THAT I HAVE NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS AGREEMENT; (ii) THAT I HAVE HAD AT LEAST 21 DAYS TO CONSIDER ALL OF THE TERMS OF THIS AGREEMENT WITH COUNSEL OF MY CHOICE; (iii) THAT I HAVE READ THIS AGREEMENT IN ITS ENTIRETY AND UNDERSTAND THE TERMS OF THE AGREEMENT; AND (iv) THAT I VOLUNTARILY AGREE TO THEM. I FURTHER UNDERSTAND THAT I MAY REVOKE MY ACCEPTANCE OF THIS AGREEMENT BY SENDING WRITTEN NOTICE OF MY INTENT TO REVOKE MY ACCEPTANCE ADDRESSED TO THE COMPANY AT THE FOLLOWING ADDRESS: 4300 WILSON BOULEVARD, ARLINGTON, VIRGINIA, 22203 WITHIN SEVEN DAYS AFTER THIS AGREEMENT HAS BEEN EXECUTED AND RETURNED BY ME. IF I HAVE NOT REVOKED MY ACCEPTANCE, THIS AGREEMENT WILL BECOME EFFECTIVE ON THE EIGHTH DAY AFTER IT IS EXECUTED AND RETURNED TO THE COMPANY (THE "EFFECTIVE DATE").

By: /s/ Jay Kloosterboer
Jay Kloosterboer

Agreed to this 26 day of November 2008

SEPARATION AGREEMENT AND GENERAL RELEASE

Dear David:

This document, upon your signature, will constitute the Agreement between you and The AES Corporation (together with its affiliated and related entities, the "Company") on the terms of your separation from the Company (the "Agreement").

1. Your employment is terminated effective March 9, 2009 (the "Termination Date"). You will be paid your earned compensation through and including the Termination Date. Your earned compensation effective October 1, 2008 will be $5,000 per month, less applicable taxes and deductions, through and including the Termination Date. You have received or will receive by separate cover information regarding your rights to continuation of your health insurance which will cease as of the last day of the month in which your Termination Date occurs. To the extent that you have such rights, nothing in this Agreement will impair those rights.

2. You have or will return to the Company by the Termination Date: all reports, files, memoranda, records, software, laptops, computer equipment, cellular phones, credit cards, cardkey passes, door and file keys, computer access codes or disks and instructional manuals and any other physical or personal property that you received in connection with your employment with the Company that you then have in your possession and you shall not retain any copies, duplicates, reproductions or excerpts thereof. The Company will reimburse you in accordance with its existing policies for any legitimate expenses you incurred on Company business prior to the Termination Date. You must either submit any expense reimbursement requests (i) by November 7, 2008, or (ii) if submitted after November 7, 2008 but before the Termination Date, any such expense reimbursement requests will only be processed if signed by Paul Hanrahan.

3. Subject to the terms of this Agreement and in consideration for (i) your execution of this Agreement; (ii) your satisfactory compliance with the terms of this Agreement through the Termination Date, as determined by Paul Hanrahan; provided that you will not be required to perform any work for the Company or be physically present in the office after September 30, 2008 unless otherwise specifically requested by Paul Hanrahan; and (iii) your return of an executed copy of this Agreement to the Company by February 9, 2009; the Company will provide you, pursuant to the terms and provisions of The AES Corporation Severance Plan, as amended (the "Severance Plan"), with the following (collectively, "Consideration"):

(a) twelve (12) monthly salary continuation payments (based on your annualized based salary as of September 30, 2008 + target bonus of $460,000), in equal monthly installments, each less applicable taxes and deductions. The first of these monthly payments shall begin on or about the next regular payroll period occurring after the seventh business day following your Termination Date, and the remaining payments shall be made monthly in accordance with the Company's established payroll practices;

(b) in addition, if you are already participating in the medical/RX, dental and/or vision benefit plans and should you elect to continue these benefits under COBRA, the Company will pay the portion of the premium cost of such coverage presently paid by the Company under the Company's plan for a twelve (12) month period which period shall commence at the beginning of the calendar month following the calendar month containing your Termination Date;

(c) outplacement benefits to begin after your Termination Date; and

(d) finally, to the extent applicable, you will be entitled to the Excise Tax Reimbursement benefits described in Appendix A of the Severance Plan.

Absent the entry of this Agreement you would not be entitled to such Consideration.

Any stock options, restricted stock units and performance units of The AES Corporation that have been previously granted to you but that have not yet vested on or before your Termination Date, will not vest following your Termination Date and will therefore be forfeited in their entirety. Please also see the relevant plan and notice documents for other important provisions triggered by your termination.

4. The intent of this section is to secure your promise not to sue the Company, or anyone connected with it, for any harm you may claim to have suffered in connection with your employment or the termination of your employment, in return for the benefits described in this Agreement. Accordingly, in exchange for the Consideration, you hereby agree as follows:

(a) Except as otherwise provided in this Section 4(a), you hereby release the Company and all of its past, present and/or future related entities, including but not limited to parents, divisions, affiliates, subsidiaries, officers, directors, stockholders, trustees, employees, agents, representatives, administrators, attorneys, insurers, fiduciaries, predecessors, successors and assigns of the Company, in their individual and/or representative capacities (hereinafter collectively referred to as the "Released Parties"), from any and all causes of action, suits, agreements, promises, damages, disputes, controversies, contentions, differences, judgments, claims and demands of any kind whatsoever ("Claims") which you or your heirs, executors, administrators, successors and assigns ever had, now have or may have against the Released Parties, whether known or unknown to you, and whether asserted or unasserted, (i) by reason of your employment and/or cessation of employment with the Company, or (ii) otherwise involving facts which occurred on or prior to the date that you sign this Agreement.

Such released Claims include, without limitation, any and all Claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1871, the Civil Rights Act of 1991, the Fair Labor Standards Act, the Family and Medical Leave Act of 1993, the Age Discrimination in Employment Act of 1967, as amended by the Older Workers' Benefit Protection Act of 1990, the Americans With Disabilities Act, the Employee Retirement Income Security Act of 1974 (including, without limitation, any claim for severance pay), the Virginia Human Rights Law and any and all other federal, state or local laws, statutes, rules and regulations pertaining to employment (each as amended) including but not limited to the laws of the United States and any other country to the extent applicable; any and all Claims under state contract or tort law; any and all Claims based on the design or administration of any Company employee benefit plan or program or arising under any Company policy, procedure, or employee benefit plan, including but not limited to, the Severance Plan; any and all Claims for wages, commissions, bonuses, continued employment with the Company in any position, and compensatory, punitive or liquidated damages; and any and all Claims for attorneys' fees and costs. Notwithstanding the foregoing, nothing contained herein shall interfere with or waive your right to enforce this Agreement in a court of competent jurisdiction;

(b) If you commence, continue, join in, or in any other manner attempt to assert any Claim released herein against any Released Party or otherwise breach the promises made in this Agreement, you shall reimburse the Released Parties for all attorneys' fees incurred by the Released Parties in defending against such a Claim and the Company shall have a right to the return of all Consideration paid to you pursuant to this Agreement, together with interest thereon, and to cease furnishing to you any further Consideration described in this Agreement; provided that this right of return of such Consideration and the cessation of payment of further Consideration is without prejudice to the Released Parties' other rights hereunder, including any right to obtain an agreement and release of any and all claims against the Released Parties; and

(c) You agree (i) that you will not bring any lawsuits or claims of any kind against the Company, any of its related entities or any Released Party; (ii) that you will not accept the benefits of any lawsuits or claims of any kind brought on your behalf against the Company, any of its related entities or any Released Party; and (iii) that if you are nevertheless awarded any such benefits you will pay them to the Company.

5. The Company is providing you with the benefits described in this Agreement solely to ease the impact of your separation from employment with the Company. The fact that the Company is offering these benefits to you should not be understood as nor is it intended to be an admission that the Company, any of its related entities or any Released Party has violated your rights (or the rights of anyone else) in any manner whatsoever.

6. You will not, unless required by law, disclose to anyone other than members of the Arlington Legal Group and the Arlington Human Resources Group any information regarding the following:

(a) Any information regarding the practices, procedures, trade secrets, inventions, technology, customer lists, or product marketing of the Company or any of its related entities or any Released Party.

(b) The terms of this Agreement, the benefits being paid under it or the fact of such payment, except that you may disclose this information to your attorney, accountant or other professional advisor to whom you must make the disclosure in order for them to render professional services to you. You will instruct them, however, to maintain the confidentiality of this information just as you must. In addition, you will not make, or cause to be made, any statements, observations or opinions, or communicate any information (whether oral or written) (collectively "Statements") including Statements to the press, media, Company employees, clients, customer, contractors or any other party, that disparage or are likely in any way to harm the reputation of the Company, any of its related entities or any Released Party. Breach of this provision shall be considered material.

7. In the event that you breach any of your obligations under this Agreement, including but not limited to the provisions of Sections 3, 4, 6, 8, 10, 11, 12, 13 or 14 of this Agreement, or as otherwise imposed by law, the Company will be entitled to recover the benefits paid under this Agreement and to obtain all other relief provided by law or equity.

8. By executing this Agreement, you agree and acknowledge that except for the payments, benefits and promises described in this Agreement, you shall not to be entitled to any further payments, benefits, or promises from the Company. This Agreement shall be governed by Virginia law and you hereby submit to and agree that the exclusive jurisdiction for any suit, action or proceeding involving this Agreement will be any federal or state court located in Virginia. If any provision of this Agreement is deemed to be unenforceable, it shall not affect the enforceability of the remaining provisions of this Agreement. This document contains the entire agreement between you and the Company concerning the subject matter contained herein.

9. The parties acknowledge and agree that any amount paid to you pursuant to this Agreement may at the Company's sole discretion be set off against any amount or sum for which the Company is (or at any time may be) held liable to pay you with respect to or in connection with the relationship between you and the Company.

10. You covenant and agree that you shall not voluntarily cooperate with, encourage or instigate any third party, person or entity in threatening, preparing, commencing or prosecuting any legal action or proceeding against any Released Party by consulting or meeting with any such third party, person or entity or any attorney or representative thereof, or providing any assistance, information, documents, testimony or representation to or for the benefit of any such third party, person or entity or any attorney or

representative thereof. Provided, however, that this paragraph shall not be interpreted to limit your ability to respond to questions or otherwise provide information to or cooperate with the Arlington Legal Group and the Arlington Human Resources Group. Breach of this provision shall be considered material.

11. Nothing contained in this Agreement shall be deemed to preclude you from providing truthful testimony or information pursuant to a valid court order or similar legal process; provided, however, that prior to making any such disclosure, you will promptly notify the Company of such request or requirement so that the Company, if it so chooses, will have sufficient opportunity to seek to avoid or minimize the required disclosure and/or to obtain an appropriate protective order or other appropriate relief. In any such case, you will use your reasonable efforts to cooperate with the Company in its efforts to avoid or minimize the required disclosure and/or to obtain such protective order or other relief.

12. You agree to provide reasonable cooperation at mutually agreeable times and places to the Released Parties in connection with matters with which you were involved, including, but not limited to, the defense of any and all Claims, which are asserted by any person or entity other than you concerning or related to any matter that arises out of events or occurrences during your involvement in the business and affairs of the Company, and you will be reimbursed for reasonable out of pocket expenses incurred in connection therewith. Except as otherwise required pursuant to applicable law or court order, or as permitted under Section 11, and in each such case, provided that you comply with the provisions of Section 11, you further agree to maintain in strict confidence any information or knowledge you have regarding Claims against the Released Parties. You agree to communicate with any party adverse to the Released Parties, or with a representative, agent or legal counsel for any such Claims solely through legal counsel for the Released Parties, although you may at your own expense retain your own counsel in connection with any such matter.

13. You agree that for a twelve (12) month period following your Termination Date, you will not (i) be employed by or provide services or advice to any competitor of the Company or any Released Party or (ii) otherwise compete with the Company or any Released Party. For avoidance of doubt the parties hereto acknowledge and agree that this non-compete provision includes a prohibition on you: (i) attempting to or actually hiring or contracting for services from, or inducing or encouraging anyone else to hire or contract for services from, any employees or contractors working for or at the Company; or (ii) attempting to or actually inducing or encouraging any employees or contractors working for or at the Company to leave the Company; in each case without the prior approval of the Company.

14. You acknowledge (i) that you have not been forced or pressured in any manner whatsoever to sign this Agreement; (ii) that you have agreed to all of its terms voluntarily; (iii) that you have read this Agreement in its entirety and understand the terms of the Agreement; and (iv) that you have been given at least twenty-one (21) days to consider all of its terms and to consult with counsel of your choice. You may revoke your acceptance of this Agreement by sending written notice of your intent to revoke your acceptance within seven (7) days of your execution of this Agreement, to the Company, with such written notice addressed to the Company at the following address: 4300 Wilson Boulevard, Arlington, Virginia 22203. If you do not revoke your acceptance, your acceptance and this Agreement will become effective on the eighth (8^{th}) day after the date on which it is signed (the "Effective Date"). You further agree that in the event that you revoke your acceptance of this Agreement prior to the eighth (8^{th}) day after execution of this Agreement, this Agreement and the promises contained herein shall be deemed null and void.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

To accept this Agreement, please date and sign this document and return it to me. An extra copy for your files is enclosed. We wish you success in your future endeavors.

Very truly yours,

The AES Corporation

By: /s/ Paul Hanrahan
Paul Hanrahan
Title: President and Chief Executive Officer

BY SIGNING THIS AGREEMENT, I ACKNOWLEDGE (i) THAT I HAVE NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS AGREEMENT; (ii) THAT I HAVE HAD AT LEAST 21 DAYS TO CONSIDER ALL OF THE TERMS OF THIS AGREEMENT WITH COUNSEL OF MY CHOICE; (iii) THAT I HAVE READ THIS AGREEMENT IN ITS ENTIRETY AND UNDERSTAND THE TERMS OF THE AGREEMENT; AND (iv) THAT I VOLUNTARILY AGREE TO THEM. I FURTHER UNDERSTAND THAT I MAY REVOKE MY ACCEPTANCE OF THIS AGREEMENT BY SENDING WRITTEN NOTICE OF MY INTENT TO REVOKE MY ACCEPTANCE ADDRESSED TO THE COMPANY AT THE FOLLOWING ADDRESS: 4300 WILSON BOULEVARD, ARLINGTON, VIRGINIA, 22203 WITHIN SEVEN DAYS AFTER THIS AGREEMENT HAS BEEN EXECUTED AND RETURNED BY ME. IF I HAVE NOT REVOKED MY ACCEPTANCE, THIS AGREEMENT WILL BECOME EFFECTIVE ON THE EIGHTH DAY AFTER IT IS EXECUTED AND RETURNED TO THE COMPANY (THE "EFFECTIVE DATE").

By: /s/ David Gee
David Gee

Agreed to this 26th day of February 2009

Exhibit 12

The AES Corporation and Subsidiaries

Statement Re: Calculation of Ratio of Earnings to Fixed Charges
(In millions, unaudited)

	2004	2005	2006	2007	2008
Actual:					
Computation of Earnings:					
Income from continuing operations before income taxes and minority interest	$ 722	$ 1,144	$ 914	$ 1,521	$ 2,751
Adjustment for undistributed equity earnings, net of distributions	(49)	(34)	19	21	183
Depreciation of previously capitalized interest	17	18	18	18	35
Fixed charges	1,913	1,920	1,881	1,919	2,055
Less:					
Capitalized interest	(36)	(28)	(50)	(86)	(176)
Preference security dividend of consolidated subsidiary	(6)	(5)	(5)	(6)	(4)
Minority interest in pre-tax income of subsidiary that has not incurred fixed charges	(187)	(315)	(460)	(431)	(794)
Earnings	$ 2,374	$ 2,700	$ 2,317	$ 2,956	$ 4,050
Computation of Fixed Charges:					
Interest expensed and amortization of issuance costs	$ 1,811	$ 1,827	$ 1,766	$ 1,785	$ 1,841
Capitalized interest	36	28	50	86	176
Preference security dividend of consolidated subsidiary	6	5	5	6	4
Interest expense included in rental expense	60	60	60	42	34
Fixed Charges	$ 1,913	$ 1,920	$ 1,881	$ 1,919	$ 2,055
Ratio of earnings to fixed charges	1.24	1.41	1.23	1.54	1.97

Exhibit 21

Name	Where Incorporated
AEE2, L.L.C.	Delaware
AES (China) Investment Management Pte. Ltd.	Singapore
AES (China) Management Co. Ltd.	People's Republic of China
AES (India) Private Limited	Republic of India
AES (NI) Limited	Northern Ireland
AES Abigail S.a.r.l.	Luxembourg
AES Africa Power Company B.V.	The Netherlands
AES Aggregate Services, Ltd.	Cayman Islands
AES AgriVerde (Beijing) Environmental Technology Ltd.	People's Republic of China
AES AgriVerde (Poland) Sp. z o.o.	Republic of Poland
AES AgriVerde Holdings Cooperatief U.A.	The Netherlands
AES AgriVerde Holdings, B.V.	The Netherlands
AES AgriVerde II, Ltd.	Bermuda Islands
AES AgriVerde Limited	Bermuda Islands
AES AgriVerde Services (Malaysia) SDN BHD	Malaysia
AES AgriVerde Services (RUS) Limited Liability Company	Russian Federation
AES AgriVerde Services (Ukraine) Limited Liability Company	Ukraine
AES AgriVerde Services (US), L.L.C.	Delaware
AES Alamitos Development, Inc.	Delaware
AES Alamitos, L.L.C.	Delaware
AES Alicura Holdings S.C.A	Argentina
AES Alicura S.A.	Argentina
AES Alternative Energy (Southeast Asia) Pte. Ltd.	Singapore
AES Alternative Energy Brasil Holding Ltda.	Brazil
AES Americas International Holdings, Limited	Bermuda Islands
AES Americas Participacoes Ltda.	Brazil
AES Americas, Inc.	Delaware
AES Amsterdam Holdings B.V.	The Netherlands
AES Andes Energy, Inc.	Delaware
AES Andres BV	The Netherlands
AES Andres Finance, Ltd.	Cayman Islands
AES Andres Holdings I, Ltd	Cayman Islands
AES Andres Holdings II, Ltd.	Cayman Islands
AES Angel Falls, L.L.C.	Delaware
AES Anhui Power Co Pte. Ltd.	Singapore
AES Anhui Power Co. Ltd.	British Virgin Islands
AES Anhui Power Company (L) Ltd.	Malaysia
AES Ankara Holdings B.V.	The Netherlands
AES APC Holdings B.V.	The Netherlands
AES APEC Cayman Holding I, Ltd.	Cayman Islands
AES APEC Cayman Holding II, Ltd.	Cayman Islands
AES APEC Holdings, L.L.C.	Delaware
AES Aramtermelo Holdings B.V.	The Netherlands
AES Argentina Holdings S.C.A.	Uruguay

AES Argentina Investments, Ltd.	Cayman Islands
AES Argentina Operations, Ltd.	Cayman Islands
AES Argentina, Inc.	Delaware
AES Armenia Mountain Wind, LLC	Delaware
AES Asociados S.A.	Argentina
AES Athens Holdings B.V.	The Netherlands
AES Atlantic, Inc.	Delaware
AES Atlantis, Inc.	Delaware
AES Aurora Holdings, Inc.	Delaware
AES Aurora, Inc.	Delaware
AES Austin Aps	Denmark
AES Australia Retail II, Inc.	Delaware
AES Australia Retail, Inc.	Delaware
AES Bainbridge Holdings, LLC	Delaware
AES Bainbridge, LLC	Delaware
AES Baltic Holdings BV	The Netherlands
AES Bandeirante, Ltd.	Cayman Islands
AES Barka Holdings (Cayman), Ltd.	Cayman Islands
AES Barka Holdings Limited	United Kingdom
AES Barka Partner (Cayman) Ltd.	Cayman Islands
AES Barka SAOG	Oman
AES Barka Services 1 (Cayman) Ltd.	Cayman Islands
AES Barka Services 1 (Mauritius) Ltd.	Mauritius
AES Barka Services 2 (Cayman) Ltd.	Cayman Islands
AES Barka Services 2 (Mauritius) Ltd.	Mauritius
AES Barka Services, Inc.	Delaware
AES Barka Technical Services JV	Oman
AES Barry Limited	United Kingdom
AES Barry Operations Ltd.	United Kingdom
AES Battery Rock Holdings LNG, LLC	Delaware
AES Battery Rock LNG, LLC	Delaware
AES Beauvior BV	The Netherlands
AES Beaver Valley, L.L.C.	Delaware
AES Belfast West Power Limited	Northern Ireland
AES Big Cedar Holdings, LLC	Delaware
AES Big Sky, L.L.C.	Delaware
AES Black Sea Holdings B.V.	The Netherlands
AES Blue Tech Holdings, LLC	Delaware
AES Blue Tech Unit 1, LLC	Delaware
AES Bocas del Toro Hydro, S.A.	Panama
AES Bohemia SRO	Czech Republic
AES Bolivia Holdings, Ltd.	Cayman Islands
AES Borsod CFB Kft	Hungary
AES Borsod Energetic Ltd.	Hungary
AES Borsod Holdings Limited	United Kingdom
AES Botswana Holdings B.V.	The Netherlands
AES Brasil Energia, Inc.	Delaware
AES Brasil Ltda	Brazil
AES Brazil International Holdings, Limited	Bermuda Islands
AES Brazil Investimento II, LLC	Delaware

AES Brazil Investimento III, LLC	Delaware
AES Brazil Investimento, LLC	Delaware
AES Brazil, Inc.	Delaware
AES Brazilian Energy Holdings II S.A.	Brazil
AES Brazilian Energy Holdings Ltda.	Brazil
AES Brazilian Holdings, Ltd.	Cayman Islands
AES Bridge I, Ltd.	Cayman Islands
AES Bridge II, Ltd.	Cayman Islands
AES Bulgaria B.V.	The Netherlands
AES Bulgaria Holdings BV	The Netherlands
AES Bussum Holdings BV	The Netherlands
AES BVI Holdings I, Inc.	Delaware
AES BVI Holdings II, Inc.	Delaware
AES Bytservice LLP	Kazakhstan
AES C&W Africa Holdings B.V.	The Netherlands
AES CAESS Distribution, Inc.	Delaware
AES Calaca Pte. Ltd.	Singapore
AES Calgary ULC	Canada
AES Calgary, Inc.	Delaware
AES California Management Co., Inc.	Delaware
AES Cambridge Investments, LLC	Delaware
AES Cameroon Holdings S.A.	Cameroon
AES Canada Wind, LLC	Delaware
AES Canada, Inc.	Delaware
AES Canal Power Services, Inc.	Delaware
AES Caracoles I	Cayman Islands
AES Caracoles II	Cayman Islands
AES Caracoles III L.P.	Cayman Islands
AES Caracoles SRL	Argentina
AES Carbon Exchange, Ltd.	Bermuda Islands
AES Carbon Holdings, Ltd.	British Virgin Islands
AES Caribbean Finance Holdings, Inc.	Delaware
AES Caribbean Investment Holdings, Ltd.	Cayman Islands
AES Carly S.a.r.l.	Luxembourg
AES Carolina Wind, LLC	Delaware
AES Cartagena Operations, S.L	Spain
AES Cartegena Holdings BV	The Netherlands
AES Cayman Guaiba, Ltd.	Cayman Islands
AES Cayman I	Cayman Islands
AES Cayman II	Cayman Islands
AES Cayman Islands Holdings, Ltd.	Cayman Islands
AES Cayman Pampas, Ltd.	Cayman Islands
AES Cayuga, L.L.C.	Delaware
AES CC&T Holdings LLC	Delaware
AES CC&T International, Ltd.	British Virgin Islands
AES Cemig Empreendimentos II, Ltd.	Cayman Islands
AES Cemig Empreendimentos, Inc.	Cayman Islands
AES Cemig Holdings, Inc.	Delaware
AES Central America Electric Light, Ltd.	Cayman Islands

AES Central American Holdings, Inc.	Delaware
AES Central American Investment Holdings, Ltd.	Cayman Islands
AES Central American Management Services, Inc.	Delaware
AES Central Asia Holdings BV	The Netherlands
AES Central Valley, L.L.C.	Delaware
AES Ceprano Energia SRL	Italy
AES Changuinola, S.A.	Panama
AES Chaparron I, Ltd	Cayman Islands
AES Chaparron II, Ltd	Cayman Islands
AES Chengdu Power Company (L) Ltd.	Malaysia
AES Chengdu Pte. Ltd.	Singapore
AES Cherry Flats Wind, LLC	Delaware
AES Chhatissgarh Energy Private Limited	Republic of India
AES Chigen Company, Ltd.	British Virgin Islands
AES Chigen Holding Company (L) Ltd.	Malaysia
AES Chigen Holdings, Ltd.	Cayman Islands
AES China Co.	Cayman Islands
AES China Corp Pte. Ltd.	Singapore
AES China Corp.	Cayman Islands
AES China Generating Co Pte. Ltd.	Singapore
AES China Generating Co. Ltd.	Bermuda Islands
AES China Holding Co Pte. Ltd.	Singapore
AES China Holding Company (L) Ltd.	Malaysia
AES China Power Corporation	Cayman Islands
AES China Power Holding Company (L) Ltd.	Malaysia
AES Chivor & Cia S.C.A. E.S.P.	Colombia
AES Chivor S.A.	Colombia
AES CLESA Electricidad, S.A. de C.V.	El Salvador
AES CLESA Y Compania, Sociedad en Comandita de Capital Variable	El Salvador
AES Climate Services, LLC	Delaware
AES Climate Solutions (India) Private Ltd.	Republic of India
AES Climate Solutions Holdings I B.V.	The Netherlands
AES Climate Solutions Holdings I, LLC	Delaware
AES Climate Solutions Holdings II B.V.	The Netherlands
AES Climate Solutions Holdings II, LLC	Delaware
AES Climate Solutions Holdings, L.P.	Bermuda Islands
AES Climate Solutions Holdings, LLC	Delaware
AES Colombia I, Inc.	Delaware
AES Colorado Holdings, L.L.C.	Delaware
AES Colorado, L.L.C.	Delaware
AES Columbia Power, LLC	Delaware
AES Communications Bolivia S.A.	Bolivia
AES Communications Latin America, Inc.	Delaware
AES Communications Rio de Janeiro SA.	Brazil
AES Communications, Ltd.	Cayman Islands
AES Connecticut Management, L.L.C.	Delaware
AES Coral Reef, LLC	Cayman Islands
AES Coral, Inc.	Delaware
AES Costa Rica Energy SRL	Costa Rica
AES Costa Rica Holdings, Ltd.	Cayman Islands

AES Creative Resources, L.P.	Delaware
AES Deepwater, Inc.	Delaware
AES Denmark GP Holding I Aps	Denmark
AES Denmark GP Holding II ApS	Denmark
AES Desert Power, L.L.C.	Delaware
AES Development de Argentina S.A.	Argentina
AES Devin Co	Ireland
AES Disaster Relief Fund	Virginia
AES Distribuidores Salvadorenos Limitada	El Salvador
AES Distribuidores Salvadorenos Y Campania S en C de C.V.	El Salvador
AES Dominicana Energia Finance, S.A.	Cayman Islands
AES Dominicana Transportadora De Gas, Ltd.	Cayman Islands
AES Dordrecht Holdings BV	The Netherlands
AES DR Holdings, Ltd.	Cayman Islands
AES DR Services, Ltd.	Cayman Islands
AES Drax Energy Limited	Cayman Islands
AES Drax Financing, Inc.	Delaware
AES Drax IBC Limited	Guernsey
AES Drax Power Finance Holdings Limited	United Kingdom
AES Drax Power Finance Limited	United Kingdom
AES Eamon Theadore Holding, Inc.	Delaware
AES East Usk Limited	United Kingdom
AES Eastern Energy, L.P.	Delaware
AES Eastern Wind, L.L.C.	Delaware
AES Ebute Holdings, Ltd.	Cayman Islands
AES Ecotek Corporation	Delaware
AES Ecotek Europe Holdings B.V.	The Netherlands
AES Ecotek Holdings, L.L.C.	Delaware
AES Ecotek International Holdings, Inc.	Cayman Islands
AES EDC Funding II, L.L.C.	Delaware
AES EDC Holding II, Inc.	Delaware
AES EDC Holding, L.L.C.	Delaware
AES Edelap Funding Corporation, L.L.C.	Delaware
AES EEO Distribution, Inc.	Delaware
AES Ekibastuz LLP	Kazakhstan
AES El Faro Electric Light, Ltd.	Cayman Islands
AES El Faro Generating, Ltd.	Cayman Islands
AES El Faro Generation, Inc.	Delaware
AES El Salvador Distribution Ventures, Ltd.	Cayman Islands
AES El Salvador Electric Light, Ltd.	Cayman Islands
AES El Salvador Services Holding Ltda. de C.V.	El Salvador
AES El Salvador, Ltd.	Cayman Islands
AES El Salvador, S.A. de C.V.	El Salvador
AES Electric Ltd.	United Kingdom
AES Electroinversora Espana S.L.	Spain
AES Eletrolight, Ltd.	Cayman Islands
AES Elpa S.A.	Brazil
AES Elsta BV	The Netherlands
AES Empresa Electrica de El Salvador Limitada de Capital Variable	El Salvador
AES Endeavor, Inc.	Delaware

AES Energia Cartagena, S.R.L.	Spain
AES Energia I, Ltd.	Cayman Islands
AES Energia II, Ltd.	Cayman Islands
AES Energia Ltda	Brazil
AES Energia SRL	Italy
AES Energoline LLC	Ukraine
AES Energy and Natural Resources, L.L.C.	Delaware
AES Energy Developments (Pty) Ltd.	Republic of South Africa
AES Energy Developments, S.L.	Spain

AES Energy Ltd.	United Kingdom
AES Energy Mexico, Inc.	Delaware
AES Energy Services Inc.	Ontario
AES Energy Storage, LLC	Delaware
AES Energy, Ltd.	Bermuda Islands
AES Enerji Limited Sirketi	Turkey
AES Engineering (Vietnam) Limited Liability Company	Vietnam
AES Engineering, Ltd.	Cayman Islands
AES Esti Panama Holding, Ltd.	Cayman Islands
AES Europe S.A.R.L.	France
AES European Holdings BV	The Netherlands
AES Fifoots Point Limited	United Kingdom
AES Finance and Development, Inc.	Delaware
AES Florestal Ltda.	Brazil
AES Fonseca Energia Limitada de C.V.	El Salvador
AES Forca Empreendimentos Ltda	Brazil
AES Forca II, Ltd.	Cayman Islands
AES Forca, Ltd.	Cayman Islands
AES Fox Hill Wind, LLC	Delaware
AES Frontier Development, Inc.	Delaware
AES Gas Supply & Distribution Ltd.	Cayman Islands
AES Gasification Project Holdings, LLC	Delaware
AES GDC Investments B.V.	The Netherlands
AES GEH Holdings, L.L.C.	Delaware
AES GEH, Inc.	Delaware
AES GEI, L.L.C.	Delaware
AES Gener S.A.	Chile
AES GEO Energy OOD	Bulgaria
AES GITIC Power Development Company Ltd.	People's Republic of China
AES Global African Power (Proprietary) Limited	Republic of South Africa
AES Global Energy and Telecom Solutions, C.A.	Venezuela
AES Global Engineering & Construction, LLC	Delaware
AES Global Insurance Company	Vermont
AES Global Mobility Services, LLC	Delaware
AES Global Power Holdings B.V.	The Netherlands
AES GPH Holdings, Inc.	Delaware
AES Granbury, L.L.C.	Delaware
AES Grand Dominicana, Ltd.	Cayman Islands
AES Grand Itabo, Ltd.	Cayman Islands

AES Great Britain Holdings B.V.	The Netherlands
AES Great Britain Limited	United Kingdom
AES Greenidge, L.L.C.	Delaware
AES GT Holding Pty Ltd	Australia
AES Guaiba II Empreendimentos Ltda	Brazil
AES Guayama Holdings BV	The Netherlands
AES Hawaii Management Company, Inc.	Delaware
AES Hawaii, Inc.	Delaware
AES Hellas Societe Anonyme of Energy Production and Exploitation from Renewable Sources of Energy	Greece
AES Hickling, L.L.C.	Delaware
AES Highgrove Holdings, L.L.C.	Delaware
AES Highgrove, L.L.C.	Delaware
AES Hispanola Holdings BV	The Netherlands
AES Hispanola Holdings II BV	The Netherlands
AES Holanda Holdings C.V.	The Netherlands
AES Holdings Brasil Ltda.	Brazil
AES Honduras Generacion, Sociedad en Comandita por Acciones de Capital Variable	Honduras
AES Honduras Generation Ventures, Ltd.	Cayman Islands
AES Honduras Holdings, Ltd.	Cayman Islands
AES Horizons Holdings BV	The Netherlands
AES Horizons Investments Limited	United Kingdom
AES Horizons Ltd.	United Kingdom
AES Hulunbeier Wind Power Co. Pte. Ltd.	Singapore
AES Hungary Energiaszolgáltató Kft.	Hungary
AES Huntington Beach Development, L.LC.	Delaware
AES Huntington Beach, L.L.C.	Delaware
AES IA UAE, Ltd.	Cayman Islands
AES IA Ukraine, Ltd.	Cayman Islands
AES IB Valley Corporation	Republic of India
AES- IC Ictas Elektrik Toptan Satis ve Ticaret A.S.	Turkey
AES- IC Ictas Enerji Uretim ve Ticaret A.S.	Turkey
AES IHB Cayman, Ltd.	Cayman Islands
AES India Holdings (Mauritius)	Mauritius
AES India, L.L.C.	Delaware
AES Indian Queens Holdings Limited	United Kingdom
AES Indiana Holdings, L.L.C.	Delaware
AES Indus (Private) Limited	Pakistan
AES Infoenergy Ltda.	Brazil
AES Intercon II, Ltd.	Cayman Islands
AES Intercon, Ltd.	Cayman Islands
AES Interenergy, Ltd.	Cayman Islands
AES Internal Audit Brazil Ltda.	Brazil
AES International Holdings II, Ltd.	British Virgin Islands
AES International Holdings III, Ltd.	British Virgin Islands
AES International Holdings, Ltd.	British Virgin Islands
AES Ironwood, Inc.	Delaware
AES Ironwood, L.L.C.	Delaware
AES Isabella Holdings, Inc.	Delaware

AES Istanbul Holdings B.V.	The Netherlands
AES Isthmus Energy, S.A.	Panama
AES Italia S.r.l	Italy
AES Jennison, L.L.C.	Delaware
AES Jordan Holdco Cayman Limited	Cayman Islands
AES Jordan Holdco, Ltd.	Cayman Islands
AES Jordan IMCO, Ltd.	Cayman Islands
AES Jordan PSC	Jordan
AES Kalaeloa Venture, L.L.C.	Delaware
AES Kansas Wind, LLC	Delaware
AES Kelanitissa (Private) Limited	Sri Lanka
AES Kelanitissa Services, Ltd.	Cayman Islands
AES Keystone Wind, L.L.C.	Delaware
AES Keystone, L.L.C.	Delaware
AES Khanya - Kwazulu Natal (Proprietary) Limited	Republic of South Africa
AES Khanya - Port Elizabeth (Pty) Ltd.	Republic of South Africa
AES Kienke Holdings B.V.	The Netherlands
AES Kilroot Generating Limited	Northern Ireland
AES Kilroot Power Limited	Northern Ireland
AES King Harbor, Inc.	Delaware
AES Kingston Holdings B.V.	The Netherlands
AES Korea, Inc.	Delaware
AES Kribi Holdings B.V.	The Netherlands
AES Lal Pir (Pvt) Ltd.	Pakistan
AES Lal Pir (UK) Ltd.	United Kingdom
AES Landfill Carbon, Ltd.	British Virgin Islands
AES LATAM Energy Development Ltd.	Cayman Islands
AES Latin America Holdings, Ltd.	Cayman Islands
AES Latin American Development, Ltd.	Cayman Islands
AES Laurel Mountain, LLC	Delaware
AES Lion Telecom Investments B.V.	The Netherlands
AES LNG Holding II, Ltd.	Cayman Islands
AES LNG Holding III, Ltd.	Cayman Islands
AES LNG Holding IV, Ltd.	Cayman Islands
AES LNG Holding, Ltd.	Cayman Islands
AES LNG Marketing, L.L.C.	Delaware
AES LNG, Ltd.	Cayman Islands
AES London Holdings B.V.	The Netherlands
AES Loyalist ULC	Canada
AES LTC Transition, L.L.C.	Delaware
AES Maastricht Holdings B.V.	The Netherlands
AES Maritza East 1 Ltd.	Bulgaria
AES Maritza East 1 Services Ltd.	Cyprus
AES Maritza East 1 Services Ltd.	Bulgaria
AES Masinloc Pte. Ltd.	Singapore
AES Mathew, Inc.	Delaware
AES Mayan Holdings, S. de R.L. de C.V.	Mexico
AES Medway Electric Limited	United Kingdom

AES Merida B.V.	The Netherlands
AES Merida III, S. de R.L. de C.V.	Mexico
AES Merida Management Services, S. de R.L. de C.V.	Mexico
AES Merida Operaciones SRL de CV	Mexico
AES Mexican Holdings, Ltd.	Cayman Islands
AES Mexico Development, S. de R.L. de C.V.	Mexico
AES Mexico Farms, L.L.C.	Delaware
AES MicroPlanet, Ltd.	British Virgin Islands
AES Mid East Holdings 2, Ltd.	Cayman Islands
AES Mid-Atlantic LNG Marketing, LLC	Delaware
AES Mid-Atlantic Wind, L.L.C.	Delaware
AES Middelzee Holding B.V.	The Netherlands
AES Middle East Holdco Ltd.	Cayman Islands
AES Mid-West Holdings, L.L.C.	Delaware
AES Mid-West Wind, L.L.C.	Delaware
AES Minas PCH Ltda	Brazil
AES Mineral Ltda.	Brazil
AES Mitchell, Inc.	Delaware
AES Mobile Power Holdings, LLC	Delaware
AES Mobile Power, LLC	Delaware
AES Mong Duong Holdings B.V.	The Netherlands
AES Monroe Holdings B.V.	The Netherlands
AES Mont Blanc Holdings B.V.	The Netherlands
AES Mount Vernon B.V.	The Netherlands
AES NA Central, L.L.C.	Delaware
AES Nejapa Gas Ltda. de C.V.	El Salvador
AES Nejapa Services Ltda. de C.V.	El Salvador
AES Netherlands Holdings B.V.	The Netherlands
AES Network Communications, SCS	Venezuela
AES New Creek, LLC	Delaware
AES New Hampshire Biomass, Inc.	New Hampshire
AES New York Capital, L.L.C.	Delaware
AES New York Equity, LLC	Delaware
AES New York Funding, L.L.C.	Delaware
AES New York Holdings, L.L.C.	Delaware
AES New York Renewable Energy Co., L.L.C.	Delaware
AES New York Surety, L.L.C.	Delaware
AES New York Wind, L.L.C.	Delaware
AES Nigeria Barge Limited	Nigeria
AES Nigeria Barge Operations Holdings I	Cayman Islands
AES Nigeria Barge Operations Holdings II	Cayman Islands
AES Nigeria Barge Operations Limited	Nigeria
AES Nigeria Holdings, Ltd.	Cayman Islands
AES Nile Power Holdings Ltd.	Guernsey
AES Nile Power Ltd.	Uganda
AES Normandy Holdings B.V.	The Netherlands
AES North America Development, LLC	Delaware
AES North America Hydro, LLC	Delaware
AES North America Pacific Group SGA, LLC	Delaware
AES Northern Sea Holdings B.V.	The Netherlands

AES NY, L.L.C.	Delaware
AES NY2, L.L.C.	Delaware
AES NY3, L.L.C.	Delaware
AES Oasis Energy, Inc.	Delaware
AES Oasis Finco, Inc.	Delaware
AES Oasis Holdco (Cayman) Ltd.	Cayman Islands
AES Oasis Holdco, Inc.	Delaware
AES Oasis Ltd.	Cayman Islands
AES Oasis Mauritius Inc	Mauritius
AES Oasis Private Ltd.	Singapore
AES Ocean Cay, Ltd.	Bahamas
AES Ocean Express LLC	Delaware
AES Ocean Link, LLC	Delaware
AES Ocean LNG, Ltd.	Bahamas
AES Ocean Power, Ltd.	Delaware
AES Ocean Springs Trust Deed	Cayman Islands
AES Ocean Springs, Ltd.	Cayman Islands
AES Odyssey, L.L.C.	Delaware
AES Oklahoma Holdings, L.L.C.	Delaware
AES Oklahoma Management Co., LLC	Delaware
AES Oman Holdings, Ltd.	Cayman Islands
AES Ontario Holdings 1 BV	The Netherlands
AES Ontario Holdings 2 BV	The Netherlands
AES Operadora S.A	Argentina
AES OPGC Holding	Mauritius
AES Orient, Inc.	Delaware
AES Orissa Distribution Private Limited	Republic of India
AES Overseas Holdings (Cayman) Ltd.	Cayman Islands
AES Overseas Holdings Limited	United Kingdom
AES Pacific Ocean Holdings B.V.	The Netherlands
AES Pacific, Inc.	Delaware
AES Pacific, L.L.C.	Delaware
AES Pak Gen (Pvt) Co.	Pakistan
AES Pak Gen (UK) Ltd.	United Kingdom
AES Pak Gen Holdings, Inc.	Mauritius
AES Pak Holdings, Ltd.	British Virgin Islands
AES Pakistan (Holdings) Limited	United Kingdom
AES Pakistan (Pvt) Ltd.	Pakistan
AES Pakistan Holdco Ltd.	Cayman Islands
AES Pakistan Holdings	Mauritius
AES Pakistan Holdings (Cayman) Ltd.	Cayman Islands
AES Pakistan Operations, Ltd.	Delaware
AES Pakistan Power Holdings Ltd.	Cayman Islands
AES Pampa Energy, S.A.	Argentina
AES Panama Energy, S.A.	Panama
AES Panama Holding, Ltd.	Cayman Islands
AES Panama Hydro Holdings, Ltd.	Cayman Islands
AES Panama, S.A.	Panama
AES Parana Gas S.A.	Argentina
AES Parana Generation Holdings, Ltd.	Cayman Islands

AES Parana Holdings, Ltd.	Cayman Islands
AES Parana I Limited Partnership	Cayman Islands
AES Parana IHC, Ltd.	Cayman Islands
AES Parana II Limited Partnership	Cayman Islands
AES Parana Operations S.R.L.	Argentina
AES Parana Propiedades S.A	Argentina
AES Parana Uruguay S.R.L	Uruguay
AES Pardo Holdings, Ltd.	Cayman Islands
AES Pasadena, Inc.	Delaware

AES Penobscot Mountain, LLC	Delaware
AES Peru S.R.L.	Peru
AES Phil Investment Pte. Ltd.	Singapore
AES Philippine Holdings BV	The Netherlands
AES Philippines Inc.	Philippines
AES PJM Wind, LLC	Delaware
AES Placerita, Incorporated	Delaware
AES Platense Investments Uruguay S.R.L.	Uruguay
AES Power Holding III, Ltd.	Cayman Islands
AES Power Holding, Ltd.	Cayman Islands
AES Power One Pty Ltd.	Australia
AES Power, Inc.	Delaware
AES Prachinburi Holdings B.V.	The Netherlands
AES Prescott, L.L.C.	Delaware
AES Proyectos Electricos, S. de R.L.DE C.V.	Mexico
AES Puerto Rico Services, Inc.	Delaware
AES Puerto Rico, Inc.	Delaware
AES Puerto Rico, L.P.	Delaware
AES Pumped Storage Arkansas, L.L.C.	Delaware
AES Qatar Holdings Ltd.	Cayman Islands
AES Qatrana Holdco Limited	Cayman Islands
AES Ras Laffan Holdings Ltd.	Cayman Islands
AES Ras Laffan Operating Company WLL	Qatar
AES Ras Laffan Services I, Ltd.	Cayman Islands
AES Ras Laffan Services II, Ltd.	Cayman Islands
AES Ras Laffan Services JV	Qatar
AES Red Oak Urban Renewal Corporation	New Jersey
AES Red Oak, Inc.	Delaware
AES Red Oak, L.L.C.	Delaware
AES Redondo Beach, L.L.C.	Delaware
AES RES-Greek Holdings I B.V.	The Netherlands
AES RES-Greek Holdings II B.V.	The Netherlands
AES Rio Diamante, Inc.	Delaware
AES Rio PCH Ltda.	Brazil
AES River Mountain, LP	Delaware
AES Riverside Holdings, LLC	Delaware
AES Romenergia SRL	Romania
AES Rotterdam Holdings B.V.	The Netherlands
AES Ruzgar Enerjisi Limited Sirketi	Turkey
AES Saint Petersburg Holdings B.V.	The Netherlands
AES San Nicolas Holding Espana, S.L.	Spain

AES San Nicolas, Inc.	Delaware
AES Santa Ana, Ltd.	Cayman Islands
AES Santa Branca II, Ltd.	Cayman Islands
AES Santa Branca, Ltd.	Cayman Islands
AES Santo Domingo I, Ltd.	Cayman Islands
AES Santo Domingo II, Ltd.	Cayman Islands
AES Sao Paulo, Inc.	Delaware
AES Sayreville, L.L.C.	Delaware
AES Services Philippines Inc.	Philippines
AES Services, Inc.	Delaware
AES Services, Ltd.	Cayman Islands
AES Servicios America S.R. L.	Argentina
AES Servicios Electricos Limitada de Capital Variable	El Salvador
AES Servicios Electricos Y Compania Sociedad en Comandita de Capital Variable	El Salvador
AES Servicios Electricos, S. de R.L. de C.V.	Mexico
AES Shady Point 2, LLC	Delaware
AES Shady Point, LLC	Delaware
AES Shangyi Hong Kong Co., Limited	Hong Kong
AES Shannon Holdings BV	The Netherlands
AES Shigis Energy LLP	Kazakhstan
AES Shulbinsk GES LLP	Kazakhstan
AES Silk Road Cayman Ltd.	Cayman Islands
AES Silk Road Energy LLC	Russian Federation
AES Silk Road Financing Ltd.	Cayman Islands
AES Silk Road Trading BV	The Netherlands
AES Silk Road, Inc.	Delaware
AES Sirocco Limited	United Kingdom
AES Sogrinsk TETS LLP	Kazakhstan
AES Solar Energy B.V.	The Netherlands
AES Solar Energy Holdings B.V.	The Netherlands
AES Solar Energy, LLC	Delaware
AES Solar Energy, Ltd.	Cayman Islands
AES Solar Holdings, LLC	Delaware
AES Solutions, LLC	Delaware
AES Somerset 2 Holdings, LLC	Delaware
AES Somerset 2, LLC	Delaware
AES Somerset, L.L.C.	Delaware
AES SONEL S.A.	Cameroon
AES Songas Holdings, Ltd.	Cayman Islands
AES Sosa, L.L.C.	Delaware
AES South Africa Peakers Holdings (Proprietary) Limited	Republic of South Africa
AES South American Holdings, Ltd.	Cayman Islands
AES South Point, Ltd.	Cayman Islands
AES Southern Europe Holdings B.V.	The Netherlands
AES Southland Funding, L.L.C.	Delaware
AES Southland Holdings, L.L.C.	Delaware
AES Southland, L.L.C.	Delaware
AES Spanish Holdings, S.R.L.	Spain
AES Sparrows Point Holdings, LLC	Delaware

AES Sparrows Point LNG, LLC	Delaware
AES Sparta Holdings, B.V.	The Netherlands
AES Stonehaven Holding, Inc.	Delaware
AES Sul Distribuidora Gaucha de Energia S.A.	Brazil
AES Sul, L.L.C.	Delaware
AES Summit Generation Ltd.	United Kingdom
AES Swiss Lake Holdings B.V.	The Netherlands
AES Tamuin Development Services S. de R.L. de C.V.	Mexico
AES Tanzania Holdings, Ltd.	Cayman Islands
AES Teal Holding, Inc.	Delaware
AES Technical Services FZE	United Arab Emirates
AES Technologies Holdings, LLC	Delaware
AES Technology Holdings, LLC	Delaware
AES TEG Holdings I, LLC	Delaware
AES TEG Holdings, LLC	Delaware
AES TEG II Mexican Holdings, S. de R.L. de C.V.	Mexico
AES TEG II Mexican Investments, S. de R.L. de C.V.	Mexico
AES TEG II Operations, S. de R.L. de C.V.	Mexico
AES TEG Management, Inc.	Delaware
AES TEG Mexican Holdings, S. de R.L. de C.V.	Mexico
AES TEG Mexican Investments S. de R.L. de C.V.	Mexico
AES TEG Operations, S. de R.L. de C.V.	Mexico
AES TEG Power Investments B.V.	The Netherlands
AES TEG Power Investments II B.V.	The Netherlands
AES TEGTEP Holdings B.V.	The Netherlands
AES TEGTEP Treasury Holdings B.V.	The Netherlands
AES Tehachapi Wind, LLC	Delaware
AES TEP Holdings I, LLC	Delaware
AES TEP Holdings, LLC	Delaware
AES TEP Management, Inc.	Delaware
AES TEP Power II Investments Limited	United Kingdom
AES TEP Power Investments Limited	United Kingdom
AES Termo Bariri Ltda.	Brazil
AES Termosul Empreendimentos Ltda	Brazil
AES Termosul I, Ltd.	Cayman Islands
AES Termosul II, Ltd.	Cayman Islands
AES Terneuzen Management Services BV	The Netherlands
AES Tesoreria I S. de R.L. de C.V.	Mexico
AES Tesoreria II S. de R.L. de C.V.	Mexico
AES Texas Funding III, L.L.C.	Delaware
AES Texas Wind Holdings, LLC	Delaware
AES TH II, Ltd.	Cayman Islands
AES Thames, L.L.C.	Delaware
AES Thomas Holdings BV	The Netherlands
AES Tian Fu Power Co Pte. Ltd.	Singapore
AES Tian Fu Power Company (L) Ltd.	Malaysia
AES Tian Fu Power Company Ltd.	British Virgin Islands
AES Tiete Holdings, Ltd.	Cayman Islands
AES Tiete Participacoes SA.	Brazil

AES Tiete S.A.	Brazil
AES Tisza Holdings BV	The Netherlands
AES Tower Hill Wind, LLC	Delaware
AES Trade I, Ltd.	Cayman Islands
AES Trade II, Ltd.	Cayman Islands
AES Transatlantic Holdings B.V.	The Netherlands
AES Trans-Elect Holdings, L.L.C.	Delaware
AES Trans-Elect Texas, LLC	Delaware
AES Transgas I, Ltd.	Cayman Islands
AES Transgas II, Ltd.	Cayman Islands
AES Transmisores Salvadorenos Y Compania, Sociedad en Comandita de Capital Variable	El Salvador
AES Transmisores Salvadorenos, Ltda. de C.V.	El Salvador
AES Transpower Australia Pty Ltd.	Australia
AES Transpower Private Ltd.	Singapore
AES Transpower, Inc.	Mauritius
AES Transpower, Inc.	Delaware
AES Treasure Cove, Ltd.	Cayman Islands
AES Trinidad Services Unlimited	Trinidad and Tobago
AES Trust I	Delaware
AES Trust II	Delaware
AES Trust III	Delaware
AES Trust IV	Delaware
AES Trust V	Delaware
AES Trust VII	Delaware
AES Trust VIII	Delaware
AES Tyneside Ltd	United Kingdom
AES U&K Holdings B.V.	The Netherlands
AES UCH Holdings (Cayman) Ltd.	Cayman Islands
AES UCH Holdings, Ltd.	Cayman Islands
AES UK Datacenter Services Limited	United Kingdom
AES UK Holdings Limited	United Kingdom
AES UK Power Financing II Ltd	United Kingdom
AES UK Power Financing Limited	United Kingdom
AES UK Power Holdings Limited	United Kingdom
AES UK Power Limited	United Kingdom
AES UK Power, L.L.C.	Delaware
AES Union de Negocios, S.A. de C.V.	El Salvador
AES Uruguaiana Empreedimentos S.A.	Brazil
AES Uruguaiana, Inc.	Cayman Islands
AES US Wind Development, L.L.C.	Delaware
AES Ust-Kamenogorsk GES LLP	Kazakhstan
AES Ust-Kamenogorsk TETS LLP	Kazakhstan
AES Venezuela Finance Ltd.	United Kingdom
AES Venezuela, C.A.	Venezuela
AES VFL Holdings, L.L.C.	Delaware
AES Vostok LLP	Kazakhstan
AES Warrior Run Funding, L.L.C.	Delaware
AES Warrior Run, L.L.C.	Delaware
AES Washington Holdings BV	The Netherlands

AES Western Maryland Management, L.L.C.	Delaware
AES Western Power Holdings, L.L.C.	Delaware
AES Western Power, L.L.C.	Delaware
AES Western Wind MV Acquisition, LLC	Delaware
AES Western Wind, L.L.C.	Delaware
AES Westover, L.L.C.	Delaware
AES White Cliffs B.V.	The Netherlands
AES William Holding II, Inc.	Delaware
AES William Holding, Inc.	Delaware
AES Wilson Creek Wind, LLC	Delaware
AES Wind Bulgaria EOOD	Bulgaria
AES Wind France SAS	France
AES Wind Generation Asset Management Services Limited	United Kingdom
AES Wind Generation, Inc.	California
AES Wind Investments I B.V.	The Netherlands
AES Wind Investments II B.V.	The Netherlands
AES Wind, L.L.C.	Delaware
AES WR Limited Partnership	Delaware
AES Xinba'erhu Wind Power Co. Pte. Ltd.	Singapore
AES Yangchun Power Co. Ltd.	British Virgin Islands
AES Yucatan, S. de R.L. de C.V.	Mexico
AES ZEG Holdings B.V.	The Netherlands
AES Zephyr 2, LLC	Delaware
AES Zephyr 3, LLC	Delaware
AES Zephyr 4, L.L.C.	Delaware
AES Zephyr 5, LLC	Delaware
AES Zephyr 6, LLC	Delaware
AES Zephyr, Inc.	Delaware
AES-3C Maritza East 1 Ltd.	Bulgaria
AES-3C Maritza East 1 Ltd.	Cyprus
AES-Acciona Energy NY, LLC	Delaware
AESCom Sul Ltda.	Brazil
AESEBA Trust Deed	Cayman Islands
AES-R.E. Services Energy Investment Management Hellas EPE	Greece
AES-Tisza Erǒmû KFT	Hungary
AESWapiti Energy Corporation	British Columbia
AgCert Canada Co.	Canada
AgCert Canada Holdings, Limited	Ireland
AgCert Chile Servicios Ambientales Limitada	Chile
AgCert do Brasil Soluçœs Ambientais Ltda.	Brazil
AgCert International, Limited	Ireland
AgCert Mexico Servicios Ambientales, Sociedade de Responsibilidad Limitada de Capital Variable	Mexico
AgCert Services (USA), Inc.	Delaware
AgCert Servicios Ambientales S.R.L.	Argentina
ALBERICH Beteiligungsverwaltungs GmbH	Austria
Alpha Water and Realty Services Corp.	Philippines
Altai Power Limited Liability Partnership	Kazakhstan
Anhui Liyuan - AES Power Co., Ltd.	People's Republic of China

Ankares Enerji Uretim Ltd. Sti.	Turkey
ANTURIE Beteiligungsverwaltungs GmbH	Austria
ARNIKA Beteiligungsverwaltungs GmbH	Austria
Asia Alternative Energy Development Limited	Hong Kong
Asociados de Electrididad S.A.	Argentina
Atlantic Basin Services, Ltd.	Cayman Islands
B.A. Services S.R.L.	Argentina
Buffalo Gap Holdings 2, LLC	Delaware
Buffalo Gap Holdings 3, L.L.C.	Delaware
Buffalo Gap Holdings 4, L.L.C.	Delaware
Buffalo Gap Holdings 5, LLC	Delaware

Buffalo Gap Holdings 6, LLC	Delaware
Buffalo Gap Holdings, LLC	Delaware
Buffalo Gap Wind Farm 2, LLC	Delaware
Buffalo Gap Wind Farm 3, L.L.C.	Delaware
Buffalo Gap Wind Farm 4, L.L.C.	Delaware
Buffalo Gap Wind Farm 5, LLC	Delaware
Buffalo Gap Wind Farm 6, LLC	Delaware
Buffalo Gap Wind Farm, LLC	Delaware
Calaca Power Partners Co. Ltd.	Philippines
Camille Trust	Cayman Islands
Camille, Ltd.	Cayman Islands
Caprock Canyon Winds, LLC	Delaware
Cavanal Minerals, LLC	Delaware
Cayman Energy Traders	Cayman Islands
CCS Telecarrier	Cayman Islands
CDEC-SIC LTDA	Chile
CDEC-SING Ltda	Chile
Cenay Elektrik Uretim Insaat Sanayi ve Ticaret Ltd. Sti.	Turkey
Central Dique, S.A.	Argentina
Central Electricity Supply Company of Orissa Limited	Republic of India
Chengdu AES Kaihua Gas Turbine Power Co. Ltd.	People’s Republic of China
Chongqing Nanchuan Aixi Power Company Limited	People’s Republic of China
CIA.TRANSMISORA DEL NORTE CHICO S.A.	Chile
CJSC AES Kyivblenergo	Ukraine
CJSC AES Rivneenergo	Ukraine
Cleveland District Cooling Corporation	Ohio
Cleveland Thermal Energy Corporation	Ohio
Climate Solutions (Asia) Limited	Hong Kong
Cloghan Limited	Northern Ireland
Cloghan Point Holdings Limited	Northern Ireland
CMS Generation San Nicolas Company	Michigan
Coal Creek Minerals, LLC	Delaware
Coastal Itabo, Ltd.	Cayman Islands
Coastal Power Dominicana Generation, Ltd.	Cayman Islands
Coastal Power Guatemala, Ltd.	Cayman Islands

Companhia Energetica de Minas Gerais	Brazil
Companhia Brasiliana de Energia	Brazil
Compania de Alumbrado Eletrico de San Salvador, S.A. DE C.V.	El Salvador
Compania de Inversiones en Electricidad, S.A.	Argentina
Condon Wind Power, LLC	Delaware
Dagget Ridge Wind Farm, LLC	Delaware
Daglar Enerji Elektrik Uretim A.S.	Turkey
Distribuidora Electrica de Usulutan, Sociedad Anonima de Capital Variable	El Salvador
Dominican Power Partners	Cayman Islands
Dornoch Capital Management, L.L.C.	Delaware
DostykEnergo Limited Liability Partnership	Kazakhstan
Eastern Kazakhstan Regional Electricity Company Joint Stock Company	Kazakhstan
Ecotek Newco Corporation	Delaware
EDC Energy Ventures - Transmision Colombia	Cayman Islands
EDC Network Communications, SCS	Venezuela
Eden Village Produce Limited	Northern Ireland
El Salvador Energy Holdings	Cayman Islands
Eletropaulo Metropolitana Eletricidade de Sao Paulo S.A.	Brazil
Eletropaulo Telecomunicacoes Ltda.	Brazil
Elsta BV	The Netherlands
Elsta BV & Co. CV	The Netherlands
EMD Ventures BV	The Netherlands
Empresa Distribuidora de Energia Sur S.A.	Argentina
Empresa Distribuidora La Plata, S.A.	Argentina
Empresa Electrica Angamos S.A.	Chile
Empresa Electrica Campiche S.A.	Chile
Empresa Electrica de Oriente, S.A. de C.V.	El Salvador
Empresa Electrica Guacolda S.A.	Chile
Empresa Electrica Ventanas S.A.	Chile
Empresa Generadora De Electricidad Itabo, S.A.	Dominican Republic
Empresa Salvadoreña de Energia, S.A. de C.V.	El Salvador
ENERGEN S.A.	Argentina
Energia Verde S.A.	Chile
Energia y Servicios de El Salvador, S.A. De C.V.	El Salvador
Energia Y Servicios Industriales Enerxis, C.A.	Venezuela
Energocompany LLP	Kazakhstan
Energy Trade and Finance Corporation	Cayman Islands
Evrensel Enerji Uretim Limited Sirketi	Turkey
Foote Creek V, LLC	Delaware
Gasoducto GasAndes Argentina S.A.	Argentina
Gasoducto GasAndes S.A.	Chile
Gener Argentina S.A.	Argentina
Gener Blue Water, Ltd.	Cayman Islands
Genergia Power, Ltd.	Cayman Islands
GENERGIA S.A.	Chile
Global Atreo S.L.	Spain
Global Energy Holdings C.V.	The Netherlands
Global Energy Investments CV	The Netherlands

Goller Enerji Uretim Ltd. Sti.	Turkey
Greenhouse Gas Services, LLC	Delaware
Grupo Industrial EDC, C.A.	Venezuela
Guangzhou Dongjiang Methane Development Co., Ltd.	People's Republic of China
Guayama P.R. Holdings B.V.	The Netherlands
Guohua AES (Huanghua) Wind Power Co., Ltd.	People's Republic of China
Haddonfield Finance Ltd.	Ireland
Havza Enerji Uretim Limited Sirketi	Turkey
Health and Welfare Benefit Plans LLC	Delaware
Hefei Zhongli Energy Company Ltd.	People's Republic of China
Hemphill Power and Light Company	New Hampshire
Hipotecaria San Miguel Limitada de Capital Variable	El Salvador
Hipotecaria Santa Ana Limitada de Capital Variable	El Salvador
Hunan Xiangci - AES Hydro Power Company Ltd.	People's Republic of China
IC Ictas Elektrik Uretim A.S.	Turkey
Indianapolis Power & Light Company	Indiana
Indimento Inversiones, S.L.	Spain
InnoVent S.A.S.	France
InterAndes, S.A.	Argentina
Inversiones Cachagua Limitada	Chile
Inversiones LK Limitada	Chile
Inversiones Nueva Ventanas S.A.	Chile
Inversiones Termoenergia de Chile Ltda.	Chile
Inversiones Zappallar Limitada	Chile
Inversora AES Americas Holdings Espana SL	Spain
Inversora AES Americas S.A.	Argentina
Inversora de San Nicolas S.A.	Argentina
IPALCO Enterprises, Inc.	Indiana
IPL Funding Corporation	Indiana
Irtysh Power & Light LLP	Kazakhstan
Itabo Finance, S.A.	Cayman Islands
Itabo S.A.	Dominican Republic
Jiaozuo (G.P.) Corporation	Cayman Islands
Jiaozuo AES Wang Fang Power Company Limited	People's Republic of China
Jiaozuo Power Partners Pte. Ltd.	Singapore
Jiaozuo Power Partners, L.P.	Cayman Islands
JSC AES Leninogorsk TETS	Kazakhstan
JSC AES Shulbinsk GES	Kazakhstan
JSC AES Sogrinsk TETS	Kazakhstan
JSC AES Ust-Kamenogorsk CHP	Kazakhstan
JSC AES Ust-Kamenogorsk GES	Kazakhstan
JSC Ust-Kamenogorsk Heat Networks	Kazakhstan
Kazincbarcikai Iparteruletfejleszt Kft.	Hungary

Kilroot Electric Limited	Cayman Islands
Kiyi Enerji Elektrik Uretim A.S.	Turkey
KMR Power International Capital Corporation	Cayman Islands
Kribi Power Development Company S.A.	Cameroon
La Plata I Empreendimentos Ltda.	Brazil
La Plata II Empreendimentos Ltda.	Brazil
La Plata II, Ltd.	British Virgin Islands
La Plata III, Ltd.	British Virgin Islands
La Plata Partners, L.P.	Delaware
Lake Benton Holdings LLC	Delaware
Lake Benton Power Associates LLC	Delaware
Lake Benton Power Partners L.L.C.	Delaware
Luz de la Plata S.A.	Argentina
Magnicon BV	The Netherlands
Maley Ltd.	Cayman Islands
Marble River Holdings, LLC	Delaware
Marble River Landholdings LLC	Delaware
Marble River LLC	Delaware
Masin-AES Pte. Ltd.	Singapore
Masinloc AES Partners Company Limited	Philippines
Masinloc AES Power Company Limited	Philippines
Masinloc Power Partners Co. Ltd.	Philippines
Mercury Cayman Co. I, Ltd.	Cayman Islands
Mercury Cayman Co. II, Ltd.	Cayman Islands
Mercury Cayman Holdco, Ltd.	Cayman Islands
Mid-America Capital Resources, Inc.	Indiana
Mid-Atlantic Express Holdings, L.L.C.	Delaware
Mid-Atlantic Express, L.L.C.	Delaware
Mountain Minerals, LLC	Delaware
Mountain View Power Partners IV, LLC	Delaware
New Caribbean Investments S.A.	Dominican Republic
Niagara Shore Winds, LLC	Delaware
Nigen Supply Limited	Northern Ireland
Norgener S.A.	Chile
North Rim Wind, LLC	Delaware
Nuncia Investments BV	The Netherlands
Nurenergoservice LLP	Kazakhstan
Ocean LNG Holdings, Ltd.	Cayman Islands
Open Joint Stock Company Ust-Kamenogorsk TETS	Kazakhstan
Orissa Power Generation Corporation Limited	Republic of India
ORU Ekibastuz LLP	Kazakhstan
Placerita Oil Co., Inc.	Delaware
Pleasantville Participacoes Ltda.	Brazil
Prasentia, LLC	California
Profilaktoriy Shulbinsky LLP	Kazakhstan
PT AES AgriVerde Indonesia	Indonesia
Ras Laffan Power Company Limited	Qatar
Red Mountain Ridge Wind Farm, LLC	Delaware

Remittance Processing Services, LLC	Indiana
Riverside Canal Power Company	California
San Francisco Energy Company, L.P.	Delaware
San Jacinto Power Company	Nevada
SeaWest Asset Management Services, LLC	California
SeaWest Consulting, LLC	California
SeaWest Energy Project Associates, LLC	Delaware
SeaWest Holdings, Inc.	California
SeaWest Northwest Asset Holdings, LLC	Delaware
SeaWest Power Resources, LLC	California
SeaWest Properties, LLC	California
SeaWest Wyoming, LLC	Delaware
Selen Elektrik Uretim A.S.	Turkey
Semipalatinsk Power & Light LLP	Kazakhstan
Shazia S.R.L.	Argentina
SHHPPS LLP	Kazakhstan
Shygysenergotrade LLP	Kazakhstan
Sino-American Energy, Inc.	British Virgin Islands
Siram Investments BV	The Netherlands
Sociedad Electrica Santiago S.A.	Chile
Somerset Railroad Corporation	New York
Southern Electric Brazil Participacoes, Ltda.	Brazil
Store Heat and Produce Energy, Inc.	Indiana
Storm Lake II Holdings LLC	Delaware
Storm Lake II Power Associates LLC	Delaware
Storm Lake Power Partners II LLC	Delaware
T&T Power Generation Unlimited	Trinidad and Tobago
T&T Power Holdings I, SRL	Barbados
T&T Power Holdings II, Ltd.	Cayman Islands
Tau Power BV	The Netherlands
TD Communications Holdings	Cayman Islands
Tecumseh Coal Corporation	Missouri
TEG Business Trust	Mexico
TEG/TEP Management, LLC	Delaware
TEP Business Trust	Mexico
Termik Enerji Uretim Limited Sirketi	Turkey
TermoAndes S.A.	Argentina
Termoelectrica del Golfo, S. de R.L. de C.V.	Mexico
Termoelectrica Penoles, S. de R.L. de C.V.	Mexico
Terneuzen Cogen B.V.	The Netherlands
The AES Barry Foundation	United Kingdom
Thermo Fuels Company, Inc.	California
Totem Power, LLC	Colorado
Trabzon Enerji Uretim ve Ticaret A.S.	Turkey
Trinidad Generation Unlimited	Trinidad and Tobago
Tur-Gaz Enerji Uretim Limited Sirketi	Turkey
UKHPPS LLP	Kazakhstan
Vizyon Enerji Uretim Ltd. Sti.	Turkey

VPI Enterprises, Inc.	California
WE (Dunan) Holdings Ltd	United Kingdom
WE (Earlshaugh) Holdings Limited	United Kingdom
WE (Forse) Holdings Ltd	United Kingdom
WE (Glencalvie) Holdings Ltd	United Kingdom
WE (Hanna) Holdings Ltd	United Kingdom
WE (Hearthstanes) Holdings Ltd	United Kingdom
WE (Newfield) Holdings Ltd	United Kingdom
WE (North Rhins) Holdings Limited	United Kingdom
WE (Services) Holdings Ltd	United Kingdom
WE (South Uist) Holdings Ltd	United Kingdom
WE (Taobh Dubh) Holdings Ltd.	United Kingdom
Wildwood Funding, Ltd.	Cayman Islands
Wildwood I, Ltd.	Cayman Islands
Wildwood II, Ltd.	Cayman Islands
Wildwood Trust	Cayman Islands
Wind Energy (Dunan) Limited	United Kingdom
Wind Energy (Earlshaugh) Limited	United Kingdom
Wind Energy (Forse) Limited	United Kingdom
Wind Energy (Glencalvie) Limited	United Kingdom
Wind Energy (Hanna) Limited	United Kingdom
Wind Energy (Hearthstanes) Limited	United Kingdom
Wind Energy (Newfield) Limited	United Kingdom
Wind Energy (North Rhins) Limited	United Kingdom
Wind Energy (Services) Limited	United Kingdom
Wind Energy (South Uist) Limited	United Kingdom
Wind Energy (Taobh Dubh) Limited	United Kingdom
Wuhu Shaoda Electric Power Development Co. Ltd.	People’s Republic of China
Wyoming-Colorado Intertie, LLC	Delaware
Xinxing Huanong Methane Development Co., Ltd.	People’s Republic of China
Yangcheng International Power Generating Co. Ltd.	People’s Republic of China
Yangchun Fuyang Diesel Engine Power Co. Ltd.	People’s Republic of China
Yesilgaz Enerji Uretim Limited Sirketi	Turkey
Zarnowicka Elektrownia Gazowa Sp.zo.o.	Republic of Poland

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements and in the related Prospectuses of The AES Corporation:

(1) Registration Statements No. 333-156242, 333-49262, 333-26225, 333-28883, 333-28885, 333-30352, 333-38535, 333-57482, 333-66952, 333-66954, 333-82306, 333-83574, 333-84008, 333-97707, 333-108297, 333-112331, 333-115028, 33-44498, 333-156242, 333-150508 and 333-135128 on Form S-8;
(2) Registration Statement No. 333-64572 on Form S-3;
(3) Registration Statements No. 333-38924, 333-40870, 333-44698, 333-46564, 333-37924 and 333-83767 on Form S-3/A, and
(4) Registration Statements No. 333-45916, 333-49644, 333-43908 and 333-147951, on Form S-4/A

of our reports dated February 26, 2009, with respect to the consolidated financial statements and schedules of The AES Corporation and the effectiveness of internal control over financial reporting of The AES Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/Ernst & Young

McLean, Virginia
February 26, 2009

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-44498, 333-49262, 333-26225, 333-28883, 333-28885, 333-30352, 333-38535, 333-57482, 333-66952, 333-66954, 333-82306, 333-83574, 333-84008, 333-97707, 333-108297, 333-112331, 333-115028, 333-135128, 333-150508 and 333-156242 on Form S-8, Registration Statement No. 333-64572 on Form S-3, Registration Statements No. 333-37924, 333-38924, 333-40870, 333-44698, 333-46564, and 333-83767 on Form S-3/A, and Registration Statements No. 333-43908, 333-45916, 333-49644 and 333-147951 on Form S-4/A of our report dated March 14, 2008 (February 26, 2009 as to the Discontinued Operations and Reclassifications section of Note 1 and Note 21) relating to the consolidated financial statements and financial statement schedules of the AES Corporation which report expresses an unqualified opinion on the consolidated financial statements and financial statement schedules and includes an explanatory paragraph relating to the adoption of Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes"* in 2007 and Financial Accounting Standards Board Statement No. 158,*"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,"* in 2006, appearing in this Annual Report on Form 10-K of The AES Corporation for the year ended December 31, 2008.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 26, 2009

Exhibit 24

The AES Corporation (the "Company")

Power of Attorney

The undersigned, acting in the capacity or capacities stated opposite their respective names below, hereby constitute and appoint Victoria D. Harker and Brian A. Miller and each of them severally, the attorneys-in-fact of the undersigned with full power to them and each of them to sign for and in the name of the undersigned in the capacities indicated below the Company's 2008 Annual Report on Form 10-K and any and all amendments and supplements thereto. This Power of Attorney may be executed in one or more counterparts, each of which together shall constitute one and the same instrument.

Name	Title	Date
/s/ Paul Hanrahan Paul Hanrahan	President and Chief Executive Officer (Principal Executive Officer) and Director	February 20, 2009
/s/ Kristina M. Johnson Kristina M. Johnson	Director	February 20, 2009
/s/ John A. Koskinen John A. Koskinen	Director	February 20, 2009
/s/ Philip Lader Philip Lader	Director	February 20, 2009
/s/ John B. Morse John B. Morse	Director	February 20, 2009
/s/ Sandra O. Moose Sandra O. Moose	Director	February 20, 2009
/s/ Philip A. Odeen Philip A. Odeen	Chairman of the Board and Lead Independent Director	February 20, 2009
/s/ Charles O. Rossotti Charles O. Rossotti	Director	February 20, 2009
/s/ Sven Sandstrom Sven Sandstrom	Director	February 20, 2009

Exhibit 31.1

CERTIFICATIONS

I, Paul Hanrahan, certify that:

1. I have reviewed this Form 10-K of The AES Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

February 26, 2009

/s/ Paul Hanrahan
Name: Paul Hanrahan
Chief Executive Officer

CERTIFICATIONS

I, Victoria D. Harker, certify that:

1. I have reviewed this Form 10-K of The AES Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2009

/s/ Victoria D. Harker

Name: Victoria D. Harker
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, Paul Hanrahan, President and Chief Executive Officer of The AES Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Form 10-K for the year ended December 31, 2008 (the “Periodic Report”) which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of The AES Corporation.

Dated: February 26, 2009

/s/ Paul Hanrahan

Paul Hanrahan
President and Chief Executive Officer

CERTIFICATION OF PERIODIC FINANCIAL REPORTS

I, Victoria D. Harker, Executive Vice President and Chief Financial Officer of The AES Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Form 10-K for the year ended December 31, 2008 (the "Periodic Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of The AES Corporation.

Dated: February 26, 2009

/s/ Victoria D. Harker

Victoria D. Harker
Executive Vice President and
Chief Financial Officer