

AES CORPORATION
Form DEF 14A
March 26, 2003

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SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12
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THE AES CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(3) Filing Party:

(4) Date Filed:

PROXY STATEMENT

CONSENT SOLICITATION STATEMENT THE AES CORPORATION Solicitations of Consents Relating to Each Series of its Debt Securities Listed Below

Debt Securities	Principal Amount Outstanding**	CUSIP Number	ISIN Number	Consent Fee per \$1,000 Principal Amount**
8.00% Senior Notes, Series A, Due 2008	\$199,022,000	00130HAP0	US00130HAP01	\$ 1.25
8.375% Senior Notes, Series F, Due 2011	£135,000,000		XS0125168780	\$ 2.00
4.50% Convertible Junior Subordinated Debentures Due 2005	\$149,449,000	00130HAN5	US00130HAN5	\$ 1.25

The AES Corporation ("AES") hereby solicits the consents of the Holders (as defined herein) of the Debt Securities referenced above (collectively, the "**Debt Securities**") to the amendment (the "**Proposed Amendment**") to the indentures governing the Debt Securities as described herein. AES plans to distribute this Consent Solicitation Statement on or shortly after March 26, 2003 to Holders of the Debt Securities.

AES's obligation to accept consents and to pay a consent fee to consenting Holders is conditioned on, among other things, there being validly delivered and unrevoked consents to the Proposed Amendment from the holders of not less than (i) a majority in aggregate principal amount of the 8.00% Senior Notes, Series A, Due 2008 (the "**8.00% Senior Notes**") and (ii) a majority in aggregate principal amount of the 4.50% Convertible Junior Subordinated Debentures Due 2005 (the "**Convertible Junior Subordinated Debentures**") (collectively, the "**Requisite Consents**"). AES will, as promptly as practicable after its acceptance of the consents, pay the fee set forth above to the Holders of the Debt Securities that have delivered valid and unrevoked consents on or prior to the Expiration Time (as defined herein).

Pursuant to a separate consent solicitation (the "**Other Consent Solicitation**"), AES is seeking the consent of the holders of its 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 and 7.375% Remarketable or Redeemable Securities Due 2013 (collectively, together with the 8.00% Senior Notes and 8.375% Senior Notes, Series F, Due 2011 (the "**8.375% Senior Notes**"), the "**Senior Debt Securities**"), 8.375% Senior Subordinated Notes Due 2007 (the "**8.375% Senior Subordinated Notes**"), 10.25% Senior Subordinated Notes Due 2006 (the "**10.25% Senior Subordinated Notes**"), 8.50% Senior Subordinated Notes Due 2007 (the "**8.50% Senior Subordinated Notes**") and 8.875% Senior Subordinated Notes Due 2027 (the "**8.875% Senior Subordinated Notes**" and together with the 8.375% Senior Subordinated Notes, the 10.25% Senior Subordinated Notes and the 8.50% Senior Subordinated Notes, the "**Senior Subordinated Notes**") to certain proposed amendments. Our obligation to accept any consents validly tendered in the Solicitations (as defined below) and not revoked is conditioned on our receipt of the requisite consents in the Other Consent Solicitation (the "**Other Requisite Consents**") which, as defined in the consent solicitation statement for the Other Consent Solicitation, means validly delivered and unrevoked consents to (a) the Material Subsidiary Amendment (as defined herein) to the Senior Indenture (as defined herein) and the indentures governing the Senior Subordinated Notes (the "**Senior Subordinated Indentures**") from the holders of not less than (i) a majority in aggregate principal amount of the Senior Debt Securities (voting as a class) (pursuant to the Other Consent Solicitation and the Solicitations), (ii) a majority in aggregate principal amount of the 8.375% Senior Subordinated Notes, (iii) a majority in aggregate principal amount of the 10.25% Senior Subordinated Notes, and (iv) a majority in aggregate principal amount of the 8.50% Senior Subordinated Notes and 8.875% Senior Subordinated Notes (voting as a class), and (b) certain proposed amendments to the cross-acceleration and judgment default provisions contained in the Senior Subordinated Indentures which would conform these provisions to the comparable provisions in the Senior Indenture from the holders of not less than (i) a majority in aggregate principal amount of the 8.375% Senior Subordinated Notes, (ii) a majority in aggregate principal amount of the 10.25% Senior Subordinated Notes, and (iii) a majority in aggregate principal amount of the 8.50% Senior Subordinated Notes and 8.875% Senior Subordinated Notes (voting as a class).

Holders are requested to read and carefully consider the information contained herein and to give their consent to the Proposed Amendment by properly completing and executing the accompanying Consent Form in accordance with the instructions set forth herein and therein.

None of AES, the Tabulation and Information Agent, the Luxembourg Agent or the Solicitation Agent makes any recommendation as to whether or not Holders of the Debt Securities should consent to the Proposed Amendment.

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EACH SOLICITATION EXPIRES AT 5:00 P.M., NEW YORK CITY TIME, ON APRIL 1, 2003, UNLESS OTHERWISE EXTENDED. CONSENTS MAY BE REVOKED ON THE TERMS AND CONDITIONS SET FORTH HEREIN. SEE "THE CONSENT SOLICITATION REVOCATION OF CONSENTS."

The Solicitation Agent for the Solicitations is:

Salomon Smith Barney

March 26, 2003

*
Excluding any Debt Securities held by AES or its affiliates.

**
The 8.375% Senior Notes are denominated in pounds sterling therefore the consent fee for the 8.375% Senior Notes is per £1,000. The consent fee for the 8.375% Senior Notes has been computed at a rate of 0.125% per £1,000 and converted to U.S. dollars at an exchange rate of £1.00 = \$1.60. The consent fee will not be adjusted for fluctuations in the exchange rate.

IMPORTANT

Only Holders (as defined below) who consent (each a "Consent") to the Proposed Amendment (as defined below), by properly executing and delivering their Consent Form on or prior to 5:00 p.m., New York City time, on April 1, 2003, unless otherwise extended by AES (such time and date, as it may be extended by AES, being called the "Expiration Time"), and do not revoke such Consent will be entitled to receive a fee (the "Consent Fee") in the event all of the Conditions (as defined below) are satisfied or waived; provided that AES will not be required to pay a fee with respect to any series of Debt Securities if the Solicitation (as defined below) with respect to such series of Debt Securities is terminated. All other Holders will not be entitled to receive any Consent Fee, but will be bound by the Proposed Amendment if such amendment becomes effective with respect to the applicable series of Debt Securities. AES will accept the validly tendered Consents and pay the Consent Fee as promptly as practicable after the satisfaction (or waiver) of the Conditions.

Only Holders are eligible to Consent to the Proposed Amendment. Except as provided in this paragraph, the term "**Holder**" means each person, other than AES and its affiliates, shown on the records of the registrar or registrars for the Debt Securities as a holder at 5:00 p.m., New York City time, on March 24, 2003 (the "**Record Date**"). **For purposes of the Solicitations, The Depository Trust Company ("DTC") has authorized DTC participants ("Participants") set forth in the position listing of DTC as of the Record Date to execute Consent Forms as if they were the Holders of the Debt Securities held of record in the name of DTC or the name of its nominee. Accordingly, for purposes of the Solicitations, the term "Holder" shall be deemed to include such Participants. Any beneficial owner of the Debt Securities who is not a Holder of such Debt Securities must arrange with the person who is the Holder or such Holder's assignee or nominee to execute and deliver a Consent Form on behalf of such beneficial owner. By executing the Consent Form, the Holder will be deemed to waive any and all requirements under the Indentures regarding the establishment of the Record Date, including any requirement that such date be established on or by a specific date or during a specific period prior to the Solicitations.**

Any beneficial holders which hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg must comply with the procedures established by Euroclear or Clearstream, Luxembourg, as applicable, in order to provide their Consent in the Solicitation. Euroclear and Clearstream, Luxembourg may impose additional deadlines in order to properly process and submit the Consents to the Tabulation and Information Agent. If you hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg, you are required to become aware of and comply with any such additional deadlines and procedures.

Holders who wish to Consent must deliver their properly completed and executed Consent Form to the Tabulation and Information Agent at the applicable address set forth on the back cover page of this Consent Solicitation Statement and in the Consent Form in accordance with the instructions set forth herein and therein. Consents should not be delivered to AES, the Trustee (as defined below) or the Solicitation Agent. However, AES reserves the right to accept any Consent received by AES, the Trustee or the Solicitation Agent. Under no circumstances should any person tender or deliver Debt Securities to AES, the Trustee, the Solicitation Agent, the Tabulation and Information Agent or the Luxembourg Agent at any time.

In this Consent Solicitation Statement:

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the term "**Conditions**" means the conditions described herein on which AES is obligated to accept the Consents and to pay the Consent Fee for Consents validly delivered and not revoked;

the term "**Indentures**" means the (i) Senior Indenture and (ii) the Junior Subordinated Indenture;

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the term "**Junior Subordinated Indenture**" means the Junior Subordinated Indenture dated as of August 10, 1998 among AES and Bank One, National Association (formerly known as The First National Bank of Chicago), as trustee, pursuant to which the Convertible Junior Subordinated Debentures were issued and any supplemental indentures thereto;

the term "**Luxembourg Agent**" means Deutsche Bank Luxembourg SA;

the term "**Proposed Amendment**" means the Material Subsidiary Amendment as more fully described in this Consent Solicitation Statement;

the term "**Senior Indenture**" means the Senior Indenture dated as of December 8, 1998 among AES and Bank One, National Association (formerly known as The First National Bank of Chicago) ("**Bank One**"), as trustee, pursuant to which the Senior Debt Securities were issued and any supplemental indentures thereto;

the term "**Solicitation**" means the solicitation of Consents of the Holders of any series of Debt Securities and the term "**Solicitations**" means all such Solicitations;

the term "**Solicitation Agent**" means Salomon Smith Barney Inc.;

the term "**Tabulation and Information Agent**" means Mellon Investor Services LLC; and

the term "**Trustee**" means Wells Fargo Bank Minnesota, National Association (the assignee of Bank One's rights and obligations as Trustee under the Senior Indenture and the Junior Subordinated Indenture).

For any series of Debt Securities, any terms used in this document that are not otherwise defined herein have the meanings set forth in the Indenture governing such series of Debt Securities.

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* * *

No person has been authorized to give any information or make any representations other than those contained or incorporated by reference herein or in the accompanying Consent Form and other materials, and, if given or made, such information or representations must not be relied upon as having been authorized by AES, the Trustee, the Solicitation Agent, the Tabulation and Information Agent, the Luxembourg Agent or any other person. The statements made in this Consent Solicitation Statement are made as of the date on the cover page and the statements incorporated by reference are made as of the date of the document incorporated by reference. The delivery of this Consent Solicitation Statement and the accompanying materials shall not, under any circumstances, create any implication that the information contained herein or incorporated by reference is correct as of a later date.

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SUMMARY OF THE CONSENT SOLICITATIONS

This Consent Solicitation Statement and the related Consent Form contain important information which should be read carefully before any decision is made with respect to the Solicitations.

The Debt Securities	8.00% Senior Notes, Series A, Due 2008 8.375% Senior Notes, Series F, Due 2011 4.50% Convertible Junior Subordinated Debentures Due 2005				
The Solicitations	<p>The purpose of the Solicitations is to obtain the consent of the Holders to change the definition of "Material Subsidiary" contained in each Indenture (the "Material Subsidiary Amendment") so that the definition would be consistent with the definition of "Material Subsidiary" in the Indenture (the "Senior Secured Indenture") dated December 13, 2002 between AES and Wells Fargo Bank Minnesota, National Association, which governs AES's 10% Senior Secured Notes Due 2005 (the "Senior Secured Notes"). These changes will give AES more flexibility to optimally resolve the liquidity issues facing its subsidiaries AES Drax Power Limited ("Drax") and Eletropaulo Metropolitana ("Eletropaulo") and certain related subsidiaries.</p> <p>The Proposed Amendment will not alter the interest rate or maturity date of the Debt Securities, AES's obligation to make principal and interest payments on the Debt Securities nor, except as described in "Purpose and Effect of the Consent Solicitations" and "The Proposed Amendment and Requisite Consents," the substantive effect of any other covenant or provision designed to afford protection to the holders of the Debt Securities.</p>				
The Requisite Consents	AES's obligation to accept Consents and to pay a Consent Fee to consenting Holders is conditioned on, among other things, there being validly delivered and unrevoked consents to (i) the Proposed Amendment from the Holders of not less than a majority in aggregate principal amount of the 8.00% Senior Notes and (ii) a majority in aggregate principal amount of the Convertible Junior Subordinated Debentures.				
The Expiration Time	The Solicitations will expire at 5:00 P.M., New York City time, on April 1, 2003 unless extended.				
Consent Fee (per \$1,000 principal amount unless otherwise noted)	<table> <tbody> <tr> <td style="padding-right: 20px;">8.00% Senior Notes, Series A, Due 2008</td> <td style="text-align: right;">\$ 1.25</td> </tr> <tr> <td style="padding-right: 20px;">8.375% Senior Notes, Series F, Due 2011</td> <td style="text-align: right;">\$ 2.00*</td> </tr> </tbody> </table>	8.00% Senior Notes, Series A, Due 2008	\$ 1.25	8.375% Senior Notes, Series F, Due 2011	\$ 2.00*
8.00% Senior Notes, Series A, Due 2008	\$ 1.25				
8.375% Senior Notes, Series F, Due 2011	\$ 2.00*				

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4.50% Convertible Junior Subordinated Debentures \$ 1.25

* The 8.375% Senior Notes are denominated in pounds sterling therefore the consent fee for the 8.375% Senior Notes is per £1,000. The consent fee for the 8.375% Senior Notes has been computed at a rate of 0.125% per £1,000 and converted to U.S. dollars at an exchange rate of £1.00 = \$1.60. The consent fee will not be adjusted for fluctuations in the exchange rate.

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Record Date

March 24, 2003

Conditions

AES's obligation to accept the Consents and to pay the Consent Fee for Consents validly delivered and not revoked prior to the Expiration Time in any Solicitation is conditioned on:

there being validly delivered and unrevoked consents to the Proposed Amendment from Holders of not less than (i) a majority in aggregate principal amount of the 8.00% Senior Notes and (ii) a majority in aggregate principal amount of the Convertible Junior Subordinated Debentures;

the Other Requisite Consents being validly delivered and not revoked;

our completion of the Other Consent Solicitation;

the prior or concurrent execution and delivery by AES and the Trustee of a supplemental indenture to each Indenture (the "**Supplemental Indentures**"), providing for the Proposed Amendment;

the absence of any law or regulation which would, and the absence of any pending or threatened injunction or other proceeding which (if adversely determined) would, make unlawful or invalid or enjoin the implementation of the Proposed Amendment or the payment of the Consent Fee, or that would question the legality or validity thereof; and

that (i) no change (or development involving a prospective change) shall have occurred or shall be threatened in the business, properties, assets, liabilities, financial condition, operations, results of operations or prospects of AES, and (ii) no change (or development involving a prospective change) shall have occurred in financial markets generally or affecting the equity or debt securities of AES that, in the reasonable judgment of AES in the case of either (i) or (ii) above, is or may be adverse to AES or may have a material adverse effect upon the contemplated benefits to AES of the Solicitations.

The foregoing conditions are for the sole benefit of AES and AES may, in its sole discretion, waive any of the Conditions, in whole or in part, at any time and from time to time or otherwise amend the Solicitations at any time. No Consent Fee will be paid with respect to any series of Debt Securities if (i) the Solicitation with respect to such series is terminated or (ii) any of the Conditions are not satisfied (or waived) for any reason.

How to Deliver Consents

See "The Consent Solicitations Procedures for Consenting." For further information, please contact the Tabulation and Information Agent or consult your broker, dealer, commercial bank or trust company for assistance.

Holders of the 8.375% Senior Notes may also contact the Luxembourg Agent for assistance in executing and delivering their Consents. If you hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg, these entities may impose additional deadlines in order to process your consent. You are required to become aware of and comply with these additional deadlines.

Revocation of Consents

Consents may be revoked at any time prior to the Expiration Time by delivering a written notice of revocation to the Tabulation and Information Agent at the address shown on the back cover of this Consent Solicitation Statement.

Holders of the 8.375% Senior Notes may contact the Luxembourg Agent for assistance in executing and delivering a written notice of revocation. If you hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg, these entities may impose additional deadlines in order to process your revocation of consent. You are required to become aware of and comply with these additional deadlines.

Assistance and Information

Questions concerning the terms of the Solicitations and requests for additional copies of this Consent Solicitation Statement and the Consent Form should be directed to the Solicitation Agent at its address and telephone number set forth on the back cover of this Consent Solicitation Statement. Requests for copies of the Indentures and the form of each Supplemental Indenture may be directed to the Tabulation and Information Agent at the address and telephone number set forth on the back cover of this Consent Solicitation Statement. Beneficial owners may also contact their brokers, dealers, commercial banks or trust companies for assistance concerning the Solicitations.

Holders of the 8.375% Senior Notes may also contact the Luxembourg Agent, at the applicable address and telephone number set forth on the back cover of this Consent Solicitation Statement for copies of the Senior Indenture and the form of the applicable Supplemental Indenture and additional copies of the Consent Solicitation Statement and Consent Form. The Luxembourg Agent will also be available to assist holders of the 8.375% Senior Notes in executing and delivering their Consent.

Certain Federal Income Tax

For a summary of certain U.S. Federal income

Consequences tax consequences to the Holders in connection with the Consents and the Consent Fee, see "Certain Federal Income Tax Consequences". Non-U.S. Holders are urged to consult their own tax advisors regarding the application of United States federal income tax withholding, including eligibility for a withholding tax exemption and refund procedures.

Consequences to Non-Consenting Holders If the Requisite Consents are obtained and the other Conditions are satisfied (or waived) and the applicable Supplemental Indenture becomes operative, all Holders of the applicable series of Debt Securities will be bound by the Proposed Amendment whether or not they have provided Consents.

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PURPOSE AND EFFECT OF THE CONSENT SOLICITATIONS

The Solicitations. The purpose of the Solicitations is to obtain the Requisite Consent of the Holders of the Debt Securities to the Proposed Amendment.

AES is seeking Consents to the Proposed Amendment to the definition of "Material Subsidiary" contained in the Indentures from the Holders of the Debt Securities to give AES more flexibility to optimally resolve the liquidity issues facing its subsidiaries, Drax and Eletropaulo and certain related subsidiaries. The Indentures governing the Debt Securities currently define "Material Subsidiary" by reference to the definition of "significant subsidiary" contained in Article 1 of Regulation S-X of the Securities Act of 1933, as amended. Each of Drax and Eletropaulo and certain related subsidiaries constitutes a "Material Subsidiary" for purposes of the bankruptcy related event of default contained in the Debt Securities as a result of the significant asset impairment losses related to those entities recorded by AES in 2002. AES believes this is inappropriate given that it has written off its investment in Drax and has substantially written down its investment in Eletropaulo. In addition, AES is prohibited from making any further investments in Drax or Eletropaulo under AES's senior credit facilities.

Eletropaulo and its shareholders, AES Elpa and AES Transgas, are currently in default (including a \$330 million payment default by AES Transgas) under certain of their existing debt instruments and are negotiating with their lenders, including the Brazil National Bank for Economic and Social Development, to restructure this indebtedness. Drax has been working cooperatively with its lenders to address the liquidity needs of the project since the termination of its long term electricity sales hedging agreement with certain TXU Europe companies during the fourth quarter of 2002. Drax has entered into a standstill agreement with its senior lenders effective through May 31, 2003 to provide Drax time to restructure its business and its indebtedness after the termination of the hedging arrangement.

While an event of default does not currently exist under any of the Debt Securities and AES considers it unlikely that any of the specified bankruptcy related events will occur, AES's flexibility in restructuring Drax and Eletropaulo is limited by the inclusion of Drax and Eletropaulo as "Material Subsidiaries" for purposes of the bankruptcy related event of default. While AES has and is pursuing alternative strategies to restructure these subsidiaries, AES believes that the additional flexibility of being able to actively consider bankruptcy related strategies, even if not implemented, could significantly enhance AES's ability to restructure these businesses. For the reasons set forth above, AES believes that the definition of "Material Subsidiary" contained in the Senior Secured Indenture is a more appropriate test and is requesting your consent to conform the definition of "Material Subsidiary" in the Indentures to the "Material Subsidiary" definition included in the Senior Secured Indenture.

The Other Consent Solicitation. While no event of default currently exists under any of indentures governing AES's Senior Debt Securities or Senior Subordinated Notes, AES is separately seeking consents from the holders of the Senior Debt Securities other than the 8.00% Senior Notes and the 8.375% Senior Notes and from the holders of the Senior Subordinated Notes, pursuant to the Other Consent Solicitation, to (i) the Material Subsidiary Amendment to the Senior Indenture and the Senior Subordinated Indentures respectively, and (ii) an amendment to each of the Senior Subordinated Indentures which would change the cross-acceleration event of default provision and eliminate the judgment event of default provision contained in the Senior Subordinated Indentures so that the cross-acceleration event of default provision in the Senior Subordinated Indentures would be consistent with the cross-acceleration event of default provision contained in the Senior Indenture and, consistent with the Senior Indenture, the Senior Subordinated Indentures would not have a judgment default provision.

AES's acceptance of the consents received pursuant to the Other Consent Solicitation is conditioned on, among other things, AES's receipt of the Requisite Consents pursuant to this Solicitation.

PROPOSED AMENDMENT AND REQUISITE CONSENTS

The Material Subsidiary Amendment. The proposed Material Subsidiary Amendment will replace:

- (i) the following definition of "Material Subsidiary" contained in Section 1.1. of the Senior Indenture:

"Material Subsidiary" of a Person means, as of any date, any Subsidiary that would constitute a "significant subsidiary" within the meaning of Article 1 of Regulation S-X of the Securities Act of 1933, as amended;

and (ii) the following definition of "Material Subsidiary" contained in Section 1.1 of the Junior Subordinated Indenture:

"Material Subsidiary" of a Person is defined to mean, as of any date, any Subsidiary that would constitute a "significant subsidiary" within the meaning of Article 1 of Regulation S-X of the Securities Act of 1933, as amended;

with a new definition which conforms to the definition of "Material Subsidiary" contained in the Senior Secured Indenture and reads in its entirety as follows:

"Material Subsidiary" of any Person means, as of any date, any Subsidiary of which such Person's proportionate share of such Subsidiary's total assets (after intercompany eliminations) exceeds 15 percent of the total assets of such Person on a consolidated basis."

The proposed Material Subsidiary Amendment will not alter the interest rate or maturity date of the Debt Securities, AES's obligation to make principal and interest payments on the Debt Securities nor, except as described above and in "Purpose and Effect of the Consent Solicitations," the substantive effect of any other covenant or provision designed to afford protection to the holders of the Debt Securities.

The Requisite Consents. The Indentures governing the Debt Securities contain the following provisions regarding AES's and the Trustee's ability to enter into supplemental indentures for the purpose of amending the Indentures:

Section 9.2 of the Senior Indenture provides that the Trustee and AES may enter into a supplemental indenture for the purpose of amending provisions of such Indenture (excepting certain provisions not here relevant) with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding securities of all series affected by such amendment (all such series voting as a separate class). However, as discussed in "The Consent Solicitations Conditions to the Consent Solicitations," our obligation to accept any valid and unrevoked consents and pay the Consent Fee is subject to, among other things, our receipt of valid and unrevoked Consents from holders of (i) a majority in aggregate outstanding principal amount of Senior Debt Securities (voting as a class) (pursuant to the Other Consent Solicitation and the Solicitations) and (ii) a majority in aggregate principal amount of the 8.00% Senior Notes.

Section 9.2 of the Junior Subordinated Indenture provides that the Trustee and AES may enter into a supplemental indenture for the purpose of amending provisions of such Indenture (excepting certain provisions not here relevant) with the consent of the Holders of a majority in aggregate principal amount of the outstanding securities of all series affected by such amendment (all such series voting as a separate class).

AES is soliciting the Consents to the Proposed Amendment from Holders of not less than (i) a majority in aggregate principal amount of the 8.00% Senior Notes and (ii) a majority in aggregate principal amount of the Convertible Junior Subordinated Debentures. Pursuant to the Other Consent Solicitation, AES is seeking, among other things, the consents of holders of the Senior Debt Securities

other than the 8.00% Senior Notes and the 8.375% Senior Notes to the Material Subsidiary Amendment to the Senior Indenture. The Other Consent Solicitation is conditioned on, among other things, AES's receipt, pursuant to the Other Consent Solicitation and the Solicitations of valid and unrevoked consents to the Material Subsidiary Amendment from the holders of not less than a majority in aggregate principal amount of the Senior Debt Securities (voting as a class).

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the full and complete terms of the Indentures and of the Proposed Amendment as set forth in each form of Supplemental Indenture, each of which is incorporated herein by this reference. Copies of the Indentures and each form of Supplemental Indenture are available from AES upon request in the manner discussed under "Incorporation of Documents By Reference."

THE CONSENT SOLICITATIONS

General

AES is soliciting Consents from the Holders of the Debt Securities to the Proposed Amendment. Consents must be properly completed, duly executed and delivered prior to the Expiration Time. Consents may only be revoked as described below under "Revocation of Consents".

The Proposed Amendment will become effective with respect to the Debt Securities only upon acceptance by AES of the Requisite Consents validly tendered and not revoked. Such acceptance is also conditioned upon satisfaction (or waiver) of all other Conditions, including (i) the Other Requisite Consents being validly delivered and not revoked, (ii) our completion of the Other Consent Solicitation, and (iii) the prior or concurrent execution and delivery of the Supplemental Indentures by AES and the Trustee.

If the Consents are accepted by the Company and the Supplemental Indentures become effective with respect to any series of Debt Securities, the Proposed Amendment will be binding on all holders of Debt Securities of such series, whether or not such holders have consented to the Proposed Amendment. As promptly as practicable after the effectiveness of the Proposed Amendment, AES will pay (directly or through an agent) to each Holder who has delivered a properly executed and completed Consent Form to the Tabulation and Information Agent on or prior to the Expiration Time, which has not been subsequently revoked, the Consent Fee with respect to the Debt Securities for which a Consent was effective; provided that AES will not be obligated to pay a Consent Fee with respect to any series of Debt Securities if the Solicitation with respect to such Series is terminated. Failure to deliver a Consent Form will have the same effect as if a Holder had chosen not to give its Consent with respect to the Proposed Amendment. AES will issue a press release notifying Holders of Debt Securities of its receipt of the Requisite Consents (assuming the Requisite Consents have been received) promptly after the Expiration Time. No Consent will be deemed to have been accepted until all of the Conditions have been satisfied (or waived).

The delivery of a Consent Form will not affect a Holder's right to sell or transfer the Debt Securities. If a Holder delivers a Consent and subsequently transfers its Debt Securities prior to the Expiration Time, the Consent will be binding on all subsequent transferees of such securities, and any Consent Fee payment with respect to such Debt Securities will be made to such Holder unless the Consent with respect to such Debt Securities has been validly revoked at any time prior to the Expiration Time.

Beneficial owners of the Debt Securities who wish to provide a Consent and whose Debt Securities are held, as of the Record Date, in the name of a broker, dealer, commercial bank, trust company or other nominee institution must contact such nominee promptly and instruct such nominee, as the Holder of such Debt Securities, to promptly execute and deliver a Consent Form on behalf of the beneficial owner on or prior to the Expiration Time. Any beneficial holders which hold their 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg must comply with the procedures established by Euroclear or Clearstream, Luxembourg, as applicable, in order to provide their Consent to the Solicitation. Euroclear and Clearstream, Luxembourg may impose additional deadlines in order to process such consents and submit them to the Tabulation and Information Agent. Holders are required to become aware of and comply with these additional deadlines and procedures.

If the Proposed Amendment has not become effective on or before the date which is six months after the Record Date, then no Consent shall be valid, and AES shall not be obligated to pay any Consent Fee in respect of any such Consent.

Any Solicitation may be terminated by AES, in its sole discretion, at any time prior to the effectiveness of the Proposed Amendment. If any solicitation is terminated, all Consents received with

respect to such Solicitation shall be voided and AES will not be obligated to pay any Consent Fee to any Holders with respect to such Solicitation.

Consent Fee

Subject to the conditions set forth in this Consent Solicitation Statement, the Consent Fee to be paid to Holders of each series of Debt Securities who properly submit and do not revoke Consents that are accepted by AES, is set forth below:

Debt Securities	CUSIP Number	ISIN Number	Consent Fee per \$1,000 Principal Amount*
8.00% Senior Notes, Series A, Due 2008	00130HAP0	US00130HAP01	\$ 1.25
8.375% Senior Notes, Series F, Due 2011		XS0125168780	\$ 2.00**
4.50% Convertible Junior Subordinated Debentures, Due 2005	00130HAN5	US00130HAN5	\$ 1.25

* AES will not be obligated to pay a Consent Fee with respect to any series of Debt Securities if the Solicitation with respect to such series of Debt Securities is terminated.

** The 8.375% Senior Notes are denominated in pounds sterling therefore the consent fee for the 8.375% Senior Notes is per £1,000. The consent fee for the 8.375% Senior Notes has been computed at a rate of 0.125% per £1,000 and converted to U.S. dollars at an exchange rate of £1.00 = \$1.60. The consent fee will not be adjusted for fluctuations in the exchange rate.

Record Date

The Record Date for the determination of Holders entitled to give Consents pursuant to the Solicitations is 5:00 p.m., New York City time, on March 24, 2003. This Consent Solicitation Statement and the accompanying Consent Form are being sent to all Holders as of the Record Date. AES reserves the right to establish from time to time any new date as the Record Date with respect to any Solicitation and, thereupon, any such new date will be deemed to be the "Record Date" for purposes of such Solicitation. **By executing the Consent Form, the Holder will be deemed to waive any and all requirements under the Indentures regarding the establishment of the Record Date, including any requirement that such date be established on or by a specific date or during a specific period prior to the Solicitations.**

Conditions to the Consent Solicitations

The obligations of AES to accept any valid and unrevoked Consents and pay the Consent Fee are subject to the following Conditions:

- (1) the Requisite Consents being validly delivered and not revoked;
- (2) the Other Requisite Consents being validly delivered and not revoked;
- (3) our completion of the Other Consent Solicitation;

(4) the prior or concurrent execution and delivery by AES and the Trustee of a Supplemental Indenture to each Indenture, providing for the Proposed Amendment;

(5) the absence of any law or regulation which would, and the absence of any pending or threatened injunction or action or other proceeding which (in the case of any action or proceeding if adversely determined) would, make unlawful or invalid or enjoin the implementation of the Proposed

Amendment or the payment of the Consent Fee, or that would question the legality or validity thereof; and

(6) that (i) no change (or development involving a prospective change) shall have occurred or shall be threatened in the business, properties, assets, liabilities, financial condition, operations, results of operations or prospects of AES, and (ii) no change (or development involving a prospective change) shall have occurred in financial markets generally or affecting the equity or debt securities of AES that, in the reasonable judgment of AES in the case of either (i) or (ii) above, is or may be adverse to AES or has or may have a material adverse effect upon the contemplated benefits to AES of the Solicitations.

The foregoing conditions are for the sole benefit of AES and AES may, in its sole discretion, waive any of the Conditions, in whole or in part, at any time and from time to time or otherwise amend any Solicitation at any time. Further, if any of the Conditions are not satisfied or capable of satisfaction prior to or concurrent with the Expiration Time, AES may, in its sole discretion and without giving any notice, allow any Solicitation to lapse or extend the solicitation period for any Solicitation and continue soliciting Consents with respect thereto. No Consent Fee will be paid if any of the Conditions are not satisfied (or waived) for any reason.

Expiration Time; Extensions; Amendment; Termination; Waivers

The term "**Expiration Time**" means 5:00 p.m., New York City time, on April 1, 2003 unless AES, in its sole discretion, extends the period during which any Solicitation is open, in which case the term "**Expiration Time**" means the latest date and time to which such Solicitation is extended. To extend the Expiration Time, AES will so notify the Tabulation and Information Agent in writing or orally and will make a public announcement thereof in the United States not later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Time. If the extension relates to the 8.375% Senior Notes, AES will also notify the Luxembourg Agent in writing or orally and will publish a notice of such extension in the *Luxembourger Wort* as promptly as practicable. AES may extend the Solicitations on a daily basis or for such specified period of time as it determines in its sole discretion. Failure by any Holder or beneficial owner of the Debt Securities to learn of such public announcement or publication (if applicable) will not affect the extension of the Solicitations. **If you hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg, these entities may impose additional deadlines in order to process your consent and submit it to the Tabulation and Information Agent. You are required to become aware of and comply with any such additional deadlines and procedures. See " Procedures for Consenting".**

Notwithstanding anything to the contrary set forth in this Consent Solicitation Statement, AES reserves the right, in its sole discretion and regardless of whether any of the Conditions described above under " Conditions to the Consent Solicitations" have been satisfied, subject to applicable law, at any time prior to the effectiveness of the Proposed Amendment, to (1) terminate any Solicitation for any reason, (2) waive any of the Conditions to any Solicitation, (3) extend the Expiration Time of any Solicitation, (4) amend the terms of any Solicitation or (5) modify the form or amount of the consideration to be paid pursuant to any Solicitation; provided, however, that in no event will AES reduce the amount of the Consent Fee without at least five business days notice. In the event any Solicitation is abandoned or terminated prior to the effectiveness of the Proposed Amendment, any Consents received pursuant to that Solicitation will be voided and no Consent Fee will be paid with respect to such Consents.

If a Solicitation is amended or modified, in whole or in part, in a manner determined by AES to constitute a material change to the Holders of Debt Securities, AES will promptly disclose such amendment or modification in a manner reasonably calculated to inform Holders of such change. However, subject to applicable law, the requirements of the New York Stock Exchange and the

Luxembourg Stock Exchange (including but not limited to any notice or publication requirements) and the immediately preceding sentence and without limiting the manner in which AES may choose to make such disclosure, AES shall have no obligation to publish, advertise or otherwise communicate any such disclosure other than by the timely issuance of a press release containing such disclosure. In the event of a material amendment or modification to a Solicitation, AES will extend such Solicitation for a period deemed by it to be adequate to permit such Holders to deliver and/or revoke their Consents.

Procedures for Consenting

All Consent Forms that are properly executed and delivered to the Tabulation and Information Agent on or prior to the Expiration Time and not timely revoked will be counted and given effect in accordance with the specifications therein.

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In order to deliver a Consent, the Holder of the Debt Securities must indicate its consent by marking the appropriate box in the accompanying Consent Form, signing and dating such Consent Form and delivering it to the Tabulation and Information Agent at the address set forth in the Consent Form, in accordance with the instructions contained herein and therein. If none of the boxes in the Consent Form is checked, but the Consent Form is otherwise completed and signed, the Holder will be deemed to have consented to the Proposed Amendment. If the box entitled "Abstain" in the Consent Form is checked but the Consent Form is otherwise completed and signed, the Holder will be deemed to have neither consented to nor voted against the Proposed Amendment and no Consent Fee will be paid to such Holder. Signatures may be required to be guaranteed in accordance with paragraph 7 of the instructions in the Consent Form. Holders of the 8.375% Senior Notes may request additional assistance from the Luxembourg Agent in delivering their Consent Form to the Tabulation and Information Agent.

The Consent Form must be executed in exactly the same manner as the name of the Holder appears on the Debt Securities. An authorized DTC Participant must execute the Consent Form exactly as its name appears on DTC's position listing as of the Record Date. If the Debt Securities are held of record by two or more joint Holders, all such Holders must sign the Consent Form. If a signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other Holder acting in a fiduciary or representative capacity, such person should so indicate when signing and must submit proper evidence satisfactory to AES of such person's authority to so act. **If a Holder has Debt Securities registered in different names, separate Consent Forms must be executed covering each form of registration. If a Holder has more than one series of Debt Securities, a separate Consent Form must be executed for each series of Debt Securities.** If a Consent Form is executed by a person other than the Holder, then such person must have been authorized by proxy or in some other manner acceptable to AES to execute the Consent Form with respect to the applicable Debt Securities on behalf of the Holder. Any beneficial owner of the Debt Securities who is not a Holder of record of such Debt Securities must arrange with the person who is the Holder of record or such Holder's assignee or nominee to execute and deliver a Consent Form on behalf of such beneficial owner.

Any beneficial holders which hold their 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg must also comply with the procedures established by Euroclear or Clearstream, Luxembourg, as applicable, in order to provide their Consent to the Solicitation. Euroclear and Clearstream, Luxembourg may impose additional deadlines in order to properly process and submit the Consents to the Tabulation and Information Agent. Holders are required to become aware of and comply with any such additional deadlines and procedures.

If a Consent relates to fewer than all the Debt Securities held of record as of the Record Date by the Holder providing such Consent, such Holder must indicate on the Consent Form the aggregate dollar amount (in integral multiples of \$1,000 for the 8.00% Senior Notes and the Convertible Junior Subordinated Debentures and in integral multiples of £1,000 for the 8.375% Senior Notes) to which the

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Consent relates. Otherwise, the Consent will be deemed to relate to all such Debt Securities. The Holder will receive the Consent Fee for only that portion of such Debt Securities to which the Consent relates.

A Holder must complete, sign and date the Consent Form (or photocopy thereof) for such Holder's Debt Securities, obtain a signature guarantee thereof to the extent required by the terms thereof and deliver such Consent Form to the Tabulation and Information Agent by mail, first-class postage prepaid, hand delivery, overnight courier or by facsimile transmission (with an original to be delivered subsequently) at the address or facsimile number set forth on the back cover page hereof. Delivery of Consent Forms should be made sufficiently in advance of the Expiration Time to assure that the Consent Form is received prior to the Expiration Time (and, in the case of facsimile transmission, that the original Consent Form is received by the Tabulation and Information Agent prior to 5:00 p.m., New York City time, on the third business day following the Expiration Time). **Under no circumstances should any person tender or deliver Debt Securities to AES, the Trustee, the Solicitation Agent, the Tabulation and Information Agent or the Luxembourg Agent at any time.** AES reserves the right to receive Consent Forms by any other reasonable means or in any form that reasonably evidences the giving of Consent.

All questions as to the validity, form, eligibility (including time of receipt), acceptance and revocations of Consents will be resolved by AES whose determinations will be binding. AES reserves the absolute right to reject any or all Consents and revocations that are not in proper form or the acceptance of which could, in the opinion of AES's counsel, be unlawful. AES also reserves the right to waive any irregularities in connection with deliveries, which AES may require to be cured within such time as AES determines. None of AES, the Solicitation Agent, the Tabulation and Information Agent, the Luxembourg Agent, the Trustee or any other person shall have any duty to give notification of any such irregularities or waiver, nor shall any of them incur any liability for failure to give such notification. Deliveries of Consent Forms or notices of revocation will not be deemed to have been made until such irregularities have been cured or waived. AES's interpretation of the terms and conditions of the Solicitation (including this Consent Solicitation Statement and the accompanying Consent Form and the instructions hereto and thereto) will be final and binding on all parties.

Revocation of Consents

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All properly completed and executed Consent Forms received prior to the Expiration Time will be counted, notwithstanding any transfer of the Debt Securities to which such Consent Form relates, unless the applicable Tabulation and Information Agent receives from the Holder who submitted the Consent Form (or a subsequent holder which has received a proxy from the relevant Holder) a written notice of revocation or a changed Consent Form bearing a date later than the date of the prior Consent Form prior to the Expiration Time. A Consent to the Proposed Amendment by a Holder of Debt Securities will bind the Holder and every subsequent holder of such Debt Securities or portion of such Debt Securities, even if notation of the Consent is not made on such Debt Securities.

A transfer of the Debt Securities after the Record Date must be accompanied by a duly executed proxy from the relevant Holder if the subsequent transferee is to have revocation rights with respect to the Consent to the Proposed Amendment.

Any Holder of the Debt Securities as to which a Consent has been given may revoke such Consent as to such Debt Securities or any portion of such Debt Securities (in integral multiples of \$1,000 for the 8.00% Senior Notes and the Convertible Junior Subordinated Debentures and in integral multiples of £1,000 for the 8.375% Senior Notes) by delivering a written notice of revocation or a changed Consent Form bearing a date later than the date of the prior Consent Form to the Tabulation and Information Agent prior to the Expiration Time.

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To be effective, a notice of revocation must be in writing, must contain the name of the Holder, and the aggregate principal amount of the Debt Securities to which it relates and must be (a) signed in the same manner as the original Consent Form or (b) signed by the transferee of the relevant Debt Securities and accompanied by a duly executed proxy or other authorization from the relevant Holder (in form satisfactory to AES). **All revocations of Consents must be sent to the Tabulation and Information Agent at its address set forth in the Consent Form. If the Holder wishes to revoke Consents given with respect to more than one series of Debt Securities, a separate notice of revocation must be completed for each series of Debt Securities.** Holders of the 8.375% Senior Notes may contact the Luxembourg Agent for assistance in executing and delivering a written notice of revocation.

To be effective, the revocation must be executed by the Holder of such Debt Securities in the same manner as the name of such Holder appears on the books of the register maintained by the Trustee, as set forth in DTC's position listing or, in the case of the 8.375% Senior Notes, in the participant listing maintained by Euroclear or Clearstream, Luxembourg, without alteration, enlargement or any change whatsoever. If a revocation is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person must indicate such fact when signing and must submit with the revocation appropriate evidence of authority to execute the revocation. A revocation of the Consent will be effective only as to the Debt Securities listed on the revocation and only if such revocation complies with the provisions of this Consent Solicitation Statement and the Consent Form. Only a Holder of the Debt Securities is entitled to revoke a Consent previously given. A beneficial owner of the Debt Securities must arrange with the Holder to execute and deliver on its behalf a revocation of any Consent already given with respect to such Debt Securities.

A purported notice of revocation that is not received by the Tabulation and Information Agent in a timely fashion and accepted by AES as a valid revocation will not be effective to revoke a Consent previously given. If your 8.375% Senior Notes are held through Euroclear or Clearstream, Luxembourg, in order to revoke your Consent you must comply with the procedures established by Euroclear or Clearstream, Luxembourg, as applicable. Euroclear and Clearstream, Luxembourg may impose additional deadlines in order to properly process these revocations of Consents and submit them to the Tabulation and Information Agent. If you hold 8.375% Senior Notes directly or indirectly through Euroclear or Clearstream, Luxembourg, you are required to become aware of and comply with any such additional deadlines and procedures.

A revocation of a Consent may only be rescinded by the delivery of a written notice of revocation to the Tabulation and Information Agent or the execution and delivery of a new Consent Form. A Holder who has delivered a revocation may thereafter deliver a new Consent Form by following one of the described procedures at any time prior to the Expiration Time.

Prior to the Expiration Time, AES intends to consult with the Tabulation and Information Agent to determine whether such Tabulation and Information Agent has received any revocations of Consents. AES reserves the right to contest the validity of any such revocations.

Solicitation Agent

Consents may be solicited by mail, telephone or other means of communication. AES has retained Salomon Smith Barney Inc. as Solicitation Agent with respect to the Solicitations. The Solicitation Agent will solicit Consents and will receive a customary fee for such services and reimbursement for reasonable out-of-pocket expenses, including the reasonable fees and expenses of its counsel, incurred in connection with such services. AES has agreed to indemnify the Solicitation Agent against certain liabilities and expenses, including liabilities under securities laws, in connection with the Solicitations.

Salomon Smith Barney and its affiliates have from time to time provided certain commercial banking, financial advisory and investment banking services to AES and its affiliates for which they

have received customary fees. In the ordinary course of their businesses, Salomon Smith Barney or its affiliates may at any time hold long or short positions, and may trade for their own accounts or the accounts of customers, in the debt or equity securities of AES, including any of the Debt Securities. Citibank, N.A., an affiliate of Salomon Smith Barney, is administrative agent and a lender under AES's senior secured credit facilities. Salomon Smith Barney and its affiliates may from time to time engage in future transactions with AES and its affiliates and provide services to AES and its affiliates in the ordinary course of their respective businesses.

Questions with respect to the terms of the Solicitations or requests for additional copies of this Consent Solicitation Statement, the accompanying Consent Form and other related documents should be directed to the Solicitation Agent in accordance with its contact information set forth on the back cover of this Consent Solicitation Statement.

Tabulation and Information Agent

Mellon Investor Services LLC has been retained by AES to act as Tabulation and Information Agent with respect to the Solicitations. For the services of the Tabulation and Information Agent, AES has agreed to pay reasonable and customary fees and to reimburse the Tabulation and Information Agent for its reasonable out-of-pocket expenses in connection with such services.

Requests for assistance in completing and delivering the Consent Form should be directed to the Tabulation and Information Agent at its address and telephone number set forth on the back cover page hereof. Holders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Solicitations. The executed Consent Form and any other documents required by the Consent Form should be sent to the Tabulation and Information Agent at the applicable address set forth in the Consent Form, and not to AES, the Trustee or the Solicitation Agent.

Luxembourg Agent

Deutsche Bank Luxembourg S.A. has been retained by AES to act as Luxembourg Agent with respect to the Solicitation made to Holders of the 8.375% Senior Notes only. For the services of the Luxembourg Agent, AES has agreed to pay reasonable and customary fees and to reimburse the Luxembourg Agent for its reasonable out-of-pocket expenses in connection with such services. The Luxembourg Agent will be able to provide the Consent Solicitation Statement, the Consent Form and all other relevant documents related to the Consent Solicitation to the holders of the 8.375% Senior Notes. The Luxembourg Agent will also provide the holders of the 8.375% Senior Notes with assistance in completing and delivering the Consent Form. The address and facsimile numbers of the Luxembourg Agent are set forth on the back cover of this Consent Solicitation Statement.

Fees and Expenses

AES will bear the costs of the Solicitations and will reimburse the Trustee for expenses that the Trustee will incur in connection with the Solicitations. AES will also reimburse banks, trust companies, securities dealers, nominees, custodians and fiduciaries for their reasonable expenses in forwarding this Consent Solicitation Statement, the accompanying Consent Form and other materials to beneficial owners of the Debt Securities.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

In General

The following summary describes certain United States federal income tax consequences relating to the Solicitations that may be relevant to a Holder or a beneficial owner of the Debt Securities that is a

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citizen or resident of the United States or a domestic corporation or otherwise subject to United States federal income tax on a net income basis in respect of the Debt Securities (a "**U.S. Holder**"). The summary is based on the Internal Revenue Code of 1986 (the "**Code**") and existing final, temporary and proposed Treasury Regulations, Revenue Rulings and judicial decisions, all of which are subject to prospective and retroactive changes. This summary does not attempt to address the U.S. federal income tax consequences of all categories of Holders of Debt Securities, some of which may be subject to special rules (e.g. life insurance companies, banks, dealers in securities or currencies, tax-exempt entities and foreign taxpayers). AES will not seek a ruling from the Internal Revenue Service (the "**IRS**") with regard to the United States federal income tax treatment of the Solicitations and, therefore, there can be no assurance that the IRS will agree with the conclusions set forth below, or that if the IRS were to challenge such conclusions such challenge would not be sustained by a court. Accordingly, each Holder and beneficial owner of the Debt Securities should consult its own tax advisor with regard to the Solicitations and the application of United States federal income tax laws, as well as the laws of any state, local or foreign taxing jurisdictions, to its particular situation.

Characterization of Proposed Amendment

The modification of a debt instrument creates a deemed exchange upon which gain or loss is realized (a "**Deemed Exchange**") if the modified debt instrument differs materially either in kind or in extent from the original debt instrument. A modification of a debt instrument that is not a "significant modification" under the applicable Treasury Regulation does not create a Deemed Exchange. The effectiveness of the Proposed Amendment should not constitute a "significant modification" or cause a Deemed Exchange because the Consent Fee will not alter the yield on the Debt Securities (or will not alter the yield by more than a de minimis amount). Accordingly, a U.S. Holder should not recognize any income, gain or loss with respect to the Debt Securities as a result of the modification of the Indentures pursuant to the Proposed Amendment (except to the extent of any Consent Fee received as described below), regardless of whether a U.S. Holder consents to the Proposed Amendment, and should have the same adjusted tax basis and holding period in the Debt Securities after the adoption of the Proposed Amendment that such U.S. Holder had in the Debt Securities immediately before such adoption.

Consent Fee

The proper treatment of the Consent Fee is unclear. However, AES intends to take the position that the payments will represent ordinary income to Holders in the full amount of the payments, without reduction by any portion of a holder's basis in the Debt Securities. Each Holder or beneficial owner should consult its own tax advisor as to possible alternative treatments of the Consent Fee.

Backup Withholding

A U.S. Holder may be subject to backup withholding at a rate of 30% on Consent Fees unless such U.S. Holder (i) is a corporation or comes within certain other exempt categories and demonstrates this fact, or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The amount of any backup withholding from a Consent Fee will be allowed as a credit against such U.S. Holder's federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is furnished to the IRS.

Foreign Holders

Although, as noted above, the proper treatment of the Consent Fee is unclear, the Company intends to take the position that the Consent Fee represents ordinary income and intends to withhold United States federal income tax at a 30% rate on payments of the Consent Fee to beneficial owners

of the Debt Securities who are not "United States persons" (within the meaning of Code Section 7701(a)(30)). **Thus, non-U.S. Holders are urged to consult their own tax advisors regarding the application of United States federal income tax withholding, including eligibility for a withholding tax exemption and refund procedures.**

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document that we file at the public reference rooms of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the public reference rooms by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange

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Commission also maintains an Internet site at <http://www.sec.gov>, from which you can access our filings.

Any statement contained in this Consent Solicitation Statement concerning the provisions of any document filed with the Securities and Exchange Commission is not necessarily complete, and reference is made to the copy of the document filed.

FORWARD-LOOKING STATEMENTS

This Consent Solicitation Statement includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions related to AES, including those set forth under the caption "Cautionary Statements and Risk Factors" in our annual report on Form 10-K for the most recently ended fiscal year.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Consent Solicitation Statement might not occur.

MISCELLANEOUS

No person has been authorized to give any information or make any representations other than those contained or incorporated by reference herein or in the accompanying Consent Form and other materials, and, if given or made, such information or representations must not be relied upon as having been authorized by AES, the Trustee, the Solicitation Agent, the Tabulation and Information Agent, the Luxembourg Agent or any other person. The statements made in this Consent Solicitation Statement are made as of the date on the cover page and the statements incorporated by reference are made as of the date of the document incorporated by reference. The delivery of this Consent Solicitation Statement and the accompanying materials shall not, under any circumstances, create any implication that the information contained herein or incorporated by reference is correct as of a later date.

Recipients of this Consent Solicitation Statement and the accompanying materials should not construe the contents hereof or thereof as legal, business or tax advice. Each recipient should consult its own attorney, business advisor and tax advisor as to legal, business, tax and related matters concerning the Solicitations.

The Solicitations are not being made to, and Consent Forms will not be accepted from or on behalf of, Holders in any jurisdiction in which the making of the Solicitations or the acceptance thereof would not be in compliance with the laws of such jurisdiction. However, AES may in its discretion take such action as it may deem necessary to make the Solicitations in any such jurisdiction and to extend

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the Solicitations to Holders in such jurisdiction. In any jurisdiction in which the securities laws or blue sky laws require the Solicitations to be made by a licensed broker or dealer, the Solicitations will be deemed to be made on behalf of AES by the Solicitation Agent or one or more registered brokers or dealers that are licensed under the laws of such jurisdiction.

INCORPORATION OF DOCUMENTS BY REFERENCE

We are incorporating by reference any future filings made with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to Expiration Time or the termination of the Solicitations, which means that we disclose important information to you by referring you to these future filings. The information that we file later with the Securities and Exchange Commission will automatically update and supersede the information contained herein. You may request a copy of these filings by writing or telephoning the office of Brian A. Miller, Deputy General Counsel and Secretary, The AES Corporation, 1001 North 19th Street, Arlington, Virginia 22209, telephone number (703) 522-1315. If requested, we will provide copies of these filings, without charge, by first class mail or other equally prompt means within one business day of receipt of such request.

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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, 2002**

COMMISSION FILE NUMBER 0-19281

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.)

**1001 North 19th Street
20th Floor**

Arlington, Virginia

(Address of principal executive offices)

22209

(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
4.50% Junior Subordinated Debentures Due 2005	New York Stock Exchange
8.00% Senior Notes, Series A, Due 2008	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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Registrant's voting stock held by non-affiliates of Registrant, on June 28, 2002 (based on the closing sale price of \$5.42 of the Registrant's Common Stock, as reported by the New York Stock Exchange on such date) was approximately \$2,421,114,000. The

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number of shares outstanding of Registrant's Common Stock, par value \$0.01 per share, on March 3, 2003, was 564,542,183.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the Annual Meeting of Stockholders of the Registrant to be held on May 1, 2003 is hereby incorporated by reference. Certain information therein is incorporated by reference into Part III hereof.

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AES CORPORATION
FISCAL YEAR 2002 FORM 10-K
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Part I

Item 1 Business

Overview

The AES Corporation (including all its subsidiaries and affiliates, and collectively referred to herein as "AES" or the "Company" or "we"), founded in 1981, is a leading global power company. The Company's goal is to help meet the world's need for electric power in ways that benefit all of our stakeholders. AES participates primarily in four lines of business: contract generation, competitive supply, large utilities and growth distribution.

Mission Statement

The Company's goal is to help meet the world's need for electric power in ways that benefit all of our stakeholders, to build long-term value for the Company's shareholders, and to assure sustained performance and viability of the Company for its owners, employees and other individuals and organizations who depend on the Company. To achieve this goal, the Company has taken steps to improve performance and achieve excellence in the operation and management of each and every AES business, including the implementation of a compensation system which is dependent, in part, on each individual within AES meeting performance goals and targets. The Company shall continue to be guided by the four shared values that helped shape the Company's culture: Integrity, Fairness, Fun and Social Responsibility.

Contract Generation

AES's contract generation line of business consists of multiple power generation facilities located around the world. Provided that the counterparty's credit remains viable, these facilities have contractually limited their exposure to commodity price risks and electricity price volatility by entering into long-term (five years or longer) power purchase agreements for 75% or more of their capacity. Because they have contracted for a majority of their anticipated output, they are able to project their fuel supply requirements and also, generally, enter into long-term agreements for most of their fuel (coal, natural gas or fuel oil or other similar fuel) supply requirements, thereby also limiting their exposure to fuel price volatility. Through these contractual agreements, the businesses generally increase the predictability of their cash flows and earnings. In order to meet AES's definition of its contract generation segment, long-term power purchase agreements must have minimum initial durations of five years or longer and are typically entered into with one major customer, but may also be with a series of unrelated customers. In addition, AES may enter into tolling or "pass through" arrangements whereby the counterparty directly provides the necessary fuel and markets the resulting power output generated. However, not all businesses within AES's contract generation line of business have the same degree of contractually limited exposure, and therefore, the degree of predictability may vary from business to business.

Competitive Supply

AES's competitive supply line of business consists of generating facilities that sell electricity directly to wholesale customers in competitive markets. Additionally, as compared to the contract generation segment discussed above, these generating facilities generally sell less than 75% of their output pursuant to long-term contracts with pre-determined pricing provisions and/or sell into power pools, under shorter-term contracts or into daily spot markets. The prices paid for electricity under short-term contracts and in the spot markets are unpredictable and can be, and from time to time have been, volatile. The results of operations of AES's competitive supply business are also more sensitive to the impact of market fluctuations in the price of electricity, natural gas, coal and other raw materials, and these businesses also have higher needs for credit support of their operations.

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Large Utilities

AES's large utility business is comprised of three utilities located in three countries: the U.S. (IPALCO Enterprises, Inc. ("IPALCO")), Brazil (Eletropaulo Metropolitana Electricidade de Sao Paulo S.A. ("Eletropaulo")) and Venezuela (C.A. La Electricidad de Caracas ("EDC")). AES's equity interest in each of these utilities is over 70%. All of these utilities are significant in size, and all maintain a monopoly franchise within a defined service area. In most cases large utilities combine generation, transmission and distribution capabilities. Large utilities are subject to extensive local, state and national regulation relating to ownership, marketing, delivery and pricing of electricity and gas, with a focus on protecting customers. Large utility revenues result primarily from electricity sales to customers under regulated tariff or concession agreements and to a lesser extent from contractual agreements of varying lengths and provisions. The results of operations of AES's large utility businesses are sensitive to changes in economic growth, abnormal weather conditions affecting their market and regulatory changes.

Growth Distribution

AES's growth distribution line of business includes distribution facilities located in developing countries or regions where the demand for electricity is expected to grow at a higher rate than in more developed parts of the world. However, these businesses face particular challenges associated with their presence in developing countries such as outdated equipment, significant theft-related losses, cultural problems associated with safety and non-payment, emerging economies and potentially less stable governments or regulatory regimes. Often, however, the conditions of the business environment in a developing nation also provide for significant opportunities to implement operating improvements

that may stimulate growth in earnings and cash flow performance at rates greater than those typically achievable in AES's other business segments. Distribution facilities in this line of business may include integrated generation, transmission, distribution or related services companies. The results of operations of AES's growth distribution business are sensitive to changes in economic growth, abnormal weather conditions affecting their market and regulatory changes, as well as the success of the operational changes implemented.

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Strategic Initiatives

In 2002, the company changed certain senior management positions, including the Chief Executive Officer position. These changes were accompanied by a shift in management philosophy to a more centralized organizational structure in certain functional areas.

Refinancing

In December 2002, AES completed a \$2.1 billion refinancing of certain bank loans and debt securities by entering into new \$1.6 billion senior secured credit facilities and completing an exchange offer relating to \$500 million of outstanding debt securities. The refinancing substantially eliminates all scheduled parent debt maturities until November 2004. The \$1.6 billion senior secured credit facilities are comprised of a \$350 million senior secured revolving credit facility, three tranches of term loan facilities totaling approximately \$1.2 billion and a £52.25 million letter of credit. In the exchange offer the Company issued approximately \$258 million aggregate principal amount of its 10% senior secured notes with certain mandatory redemption provisions. The senior secured credit facilities and the senior secured notes are scheduled to mature in the second half of 2005. On March 14, 2003, the Company launched a consent solicitation seeking to change the definition of "Material Subsidiary" and amend certain other provisions of its outstanding senior and senior subordinated notes to conform those provisions to the provisions in its 10% senior secured notes. We cannot assure you that the consent solicitation will be successful.

Asset Sales

AES has announced a number of strategic initiatives designed to decrease its dependence on access to the capital markets, strengthen its balance sheet, reduce the financial leverage at the parent company and improve short-term liquidity. One of these initiatives involves the sale of all or part of certain of the Company's subsidiaries. During 2002, the Company announced agreements to sell AES NewEnergy, CILCORP, Inc. ("CILCORP"), AES Mt. Stuart, and AES Ecogen for net equity proceeds of approximately \$819 million. The NewEnergy transaction closed in September 2002, CILCORP and AES Mt. Stuart closed in January 2003 and AES Ecogen closed in February 2003. Additionally, the Company has reached agreements to sell 100% of Songas Limited and AES Kelvin (Pty.) Ltd, two generation businesses in Africa, for net equity proceeds of approximately \$116 million. These transactions are expected to close in early to mid-2003. In January 2003, the Company announced the sale of Mountainview for \$30 million with another \$20 million payment contingent on the achievement of project specific milestones. This

transaction closed in March 2003. Additionally, the Company announced in March 2003, agreements to sell 100% of its ownership interest in two generation businesses in Bangladesh (AES Haripur Private Limited ("Haripur") and AES Meghnaghat Limited ("Meghnaghat")) and 32% of its ownership interest in AES Oasis Limited ("AES Oasis"), which includes two electric generation development projects and desalination plants in Oman and Qatar (AES Barka and AES Ras Laffan, respectively), and the oil-fired generating facilities, AES LalPir and AES PakGen in Pakistan. Proceeds from the sales of Haripur and Meghnaghat are expected to be approximately \$127 million in cash plus assumption of debt, subject to certain closing adjustments. Cash proceeds from the sale of the minority interest in AES Oasis will be approximately \$150 million. Completion of this sale is subject to certain conditions, including government and lender approvals. The Company continues to evaluate which additional businesses it may sell. However, there can be no guarantee that the proceeds from such sales transactions will cover the entire investment in such subsidiaries. Additionally, depending on which businesses are eventually sold, the entire or partial sale of any subsidiaries may change the current financial characteristics of the Company's portfolio and results of operations, and in the future may impact the amount of recurring earnings and cash flows the Company would expect to achieve.

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Cost Cutting

In early 2002, the Company initiated a corporate-wide effort to more closely focus on cost reduction and revenue enhancement opportunities, and also to better capture the benefits of scale in the procurement of services and supplies. The Company expects to realize cost cutting benefits in both earnings and cash flows; however, there can be no assurance that the Cost Cutting Office will be successful in achieving these savings. The inability of the Company to achieve cost reductions and revenue enhancements may result in less than expected earnings and cash flows in 2003 and beyond. In addition, the shift to a more centralized organizational structure has led, and will continue to lead, to an expansion in the number of people performing certain financial and control functions, and will likely result in an increase in the Company's selling, general and administrative expense.

Restructuring

In July 2002 the Company established a Restructuring Office formerly referred to as the Turnaround Office, to focus on improving the operating and financial performance of, selling or abandoning certain of its underperforming businesses. Businesses are considered to be underperforming if they do not meet the Company's internal rate of return criteria, among other factors. The Restructuring Office is actively managing AES Drax Power Limited ("Drax"), AES Barry Limited ("Barry"), AES Gener S.A. ("Gener"), the Company's businesses within the Dominican Republic and the Company's Argentine businesses, as well as evaluating AES Sul Distribuidora Gaucha de Energia S.A.I ("Sul"), AES Uruguaiiana Empreedimentos Ltda. ("Uruguaiiana"), JSC AES Telasi ("Telasi"), Eletropaulo, Compagnia Energetica de Minas Gerais ("CEMIG") and certain development projects. The Company is evaluating whether the profitability and cash flows of such businesses can be sufficiently improved to achieve acceptable returns on the Company's investment, or whether such businesses should be disposed of or sold. If the Company determines that certain businesses are to be sold or otherwise disposed of, there can be no guarantee that the proceeds from such transactions would cover the Company's entire investment in such subsidiaries or that such proceeds will be available to the Company. It is possible that the restructuring efforts will change the ownership structure or the manner in which a business operates, and these efforts may result in an impairment charge if the Company is not able to recover its investment in such business. In 2002 the Company took after-tax charges of approximately \$465 million on investments in certain development projects, \$301 million on businesses classified as discontinued operations, and \$2.3 billion of asset impairment charges at Drax, Barry, Eletropaulo and CEMIG. The inability of the Company to successfully restructure the underperforming businesses may result in less earnings and cash flows in 2003 and beyond.

Charges related to dispositions

Most of the strategic initiatives described above involve potential sales or other dispositions of businesses by AES. Some of these sales or dispositions may result in AES recognizing losses related to asset write-downs and impairments, and severance and employee benefits. Additionally, depending on which businesses are eventually sold, the entire or partial sale of any subsidiary may change the current financial characteristics of the Company's portfolio and results of operations, and may impact the future amount of recurring earnings and cash flows the Company would expect to achieve.

Cautionary Statements and Risk Factors

The Company wishes to caution readers that the following important factors, among others, indicate areas affecting the Company, which involve risk and uncertainty. These factors should be considered when reviewing the Company's business, and are relied upon by AES in issuing any forward-looking statements. Such factors could affect AES's actual results and cause such results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, AES. Some or all of these factors may apply to the Company's businesses as currently maintained or to be maintained.

The inability to raise capital on favorable terms, to refinance existing corporate or subsidiary indebtedness or to fund operations, future acquisitions, construction of new plants (known as "greenfield development") and other capital commitments, particularly during times of uncertainty in the capital markets and in those areas of the world where the capital and bank markets are underdeveloped.

Successful and timely completion of pending and future asset sales.

Changes in operation and availability of the Company's generating plants (including wholly and partially owned facilities) compared to the Company's historical performance; changes in the Company's historical operating cost structure, including but not limited to those costs associated with fuel, operations, supplies, raw materials, maintenance and repair, people, environmental compliance, including the costs of required emission offsets, purchase and transmission of electricity and insurance; changes in the availability of fuel, supplies, raw materials, emission offsets, transmission access and insurance; changes or increases in planned or unplanned capital expenditures or other maintenance activities, including but not limited to expenditures relating to environmental emission equipment, changes in law or regulation, sudden mechanical failure, or acts of God.

Failure by the Company to achieve significant operating improvements and cost reductions in its distribution businesses; changes in cost structure of its distribution businesses, including unexpected increases in planned or unplanned capital expenditures or other maintenance activities; inability to predict, influence or respond appropriately to changes in law or regulatory schemes.

Inability to obtain expected or contracted changes in electricity tariff rates or tariff adjustments for increased expenses, changes in the underlying foreign currency exchange rates or unexpected changes in those rates or adjustments; the ability or inability of AES to obtain, or hedge against movements in an economical manner of foreign currency; foreign currency exchange rates and fluctuations in those rates; local inflation and monetary fluctuations; import and other charges or taxes; conditions or restrictions impairing repatriation of earnings or other cash flow; the economic, political and military conditions affecting property damage, interruption of business and expropriation risks; changes in trade, monetary and fiscal policies, laws and regulations; unwillingness of governments to honor contracts or other activities of governments, agencies, government-owned entities and similar organizations; development progress and other social and economic conditions; inability to obtain access to fair and equitable political, regulatory, administrative and legal systems, enforcement of judgments or a just result; nationalizations and unstable governments and legal systems, and intergovernmental disputes; inability to protect the Company's rights and assets due to dysfunctional, corrupt or ineffective administrative or legal systems.

In certain jurisdictions where the Company's electricity tariffs are subject to regulatory review or approval, changes in the application or interpretation of regulatory provisions 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 or other changes in the regulatory determinations under the relevant concessions; changes in state or federal regulatory provisions; inability to obtain redress from regulatory authorities; unwillingness of regulatory bodies to take required actions, retrenchment or delay in taking action.

Changes in the amount of, and rate of growth in, AES's selling, general and administrative expenses; the impact of AES's ongoing evaluation of its development costs, business strategies

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and asset valuations, including, but not limited to, the effect of a failure to successfully complete certain acquisition, construction or development projects.

Legislation intended to promote competition in U.S. and non-U.S. electricity markets, including the effects of such legislation upon existing contracts, such as: (i) The NewEnergy Trading Arrangements ("NETA") in England and Wales (see also the description under *Foreign Regulatory Environment* for related matters); (ii) legislation currently receiving serious consideration in the United States Congress to repeal (a) the Public Utility Regulatory Policies Act of 1978, as amended, or at least to repeal the obligation of utilities to purchase electricity from qualifying facilities, and (b) the Public Utility Holding Company Act of 1935, as amended; (iii) changes in regulatory rule-making by the U.S. Securities and Exchange Commission, the U.S. Federal Energy Regulatory Commission or other regulatory bodies; (iv) changes in energy taxes; (v) new legislative or regulatory initiatives in U.S. and non-U.S. countries; and (vi) changes in national, state or local energy, environmental, safety, tax and other laws and regulations applicable to the Company or its operations.

A reversal or continued slowdown of the trend toward electricity industry deregulation in the various markets in which the Company is conducting or is seeking to conduct business.

The failure by any significant customer of the Company or any of its subsidiaries to fulfill its contractual payment obligations presently or in the future, either because such customer is financially unable to fulfill such contractual obligation or otherwise refuses to do so.

Successful and timely completion of (i) the respective construction of each of the Company's electric generating projects now under construction and those projects yet to begin construction, (ii) capital improvements to existing facilities, and (iii) the favorable resolution of pending or potential disputes regarding the construction of the Company's projects.

Successful and timely completion of pending and future acquisitions; conducting appropriate due diligence; and accurate assumptions regarding the performance of countries, markets, and models.

The effects of a fluctuating dollar against foreign currencies; the lack of portability of products and services produced by the company's power plants and distribution companies beyond the local markets where such products or services are produced; failure by the Company to include dollar indexation and other protective provisions in contracts or through third party hedging mechanisms, or the refusal of contracting parties to abide by such provisions when included.

The effects of a worldwide depression, recession or economic downturn; prolonged economic crisis in countries, states or regions where the Company conducts, or is seeking to conduct, its business; political, economic and market instability related to or resulting from economic crisis and the related collateral effects, including, but not limited to, riots, looting, destruction of property, terrorism and civil war.

Changes and volatility in inflation, fuel, electricity and other commodity prices in U.S. and non-U.S. markets; conditions in financial markets, including fluctuations in interest rates and the availability of capital; temporary or prolonged over/under supply in key markets and changes in the economic and electricity consumption growth rates in the United States and non-U.S. countries.

Adverse weather conditions and the specific needs of each plant to perform unanticipated facility maintenance or repairs or outages (including annual or multi-year), or to install pollution control equipment or other environmental emission equipment.

The costs and other effects of legal and administrative cases, arbitrations or proceedings, settlements and investigations, claims (including insurance claims for losses suffered),

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environmental remediations and changes in those items, developments or assertions by or against AES; the effect of new, or changes in, accounting policies and practices and the application of such policies and practices.

Changes or increases in taxes on property, plant, equipment, emissions, gross receipts, income or other aspects of the Company's business or operations; investigation or reversal of the Company's tax positions by the IRS.

The failure of any significant manufacturer of parts for facilities of the Company's subsidiaries or any significant provider of construction services to the Company's subsidiaries to fulfill its contractual obligations presently or in the future, either because such manufacturer or service provider is financially unable to fulfill such obligations or otherwise refuses to do so.

Description of Business Segments

The Company operates in four business segments: contract generation, competitive supply, large utilities and growth distribution. See Note 19 to the Consolidated Financial Statements included in Item 8 herein for financial information about those segments as well as information about foreign and domestic operations.

Contract Generation

AES's contract generation line of business consists of multiple power generation facilities located around the world. Provided that the counterparty's credit remains viable, these facilities have contractually limited their exposure to commodity price risks, primarily electricity prices. These facilities generally limit their exposure to electricity price volatility by entering into long-term (five years or longer) power purchase agreements for 75% or more of their output capacity. Because they have contracted for a majority of their anticipated output, they are able to project their fuel supply requirements and also, generally, enter into long-term agreements for most of their fuel (coal, natural gas or fuel oil or other similar fuel) supply requirements, thereby also limiting their exposure to fuel price volatility. Through these contractual agreements, the businesses generally increase the predictability of their cash flows and earnings. In order to meet AES's definition of its contract generation segment, long-term power purchase agreements must have minimum initial durations of five years or longer and are typically entered into with one major customer, but may also be with a series of unrelated customers. In addition, AES may enter into tolling or "pass through" arrangements whereby the counterparty directly assumes the risks associated with providing the necessary fuel and markets the resulting power output generated. However, not all businesses within AES's contract generation line of business have the same degree of contractually limited exposure, and therefore, the degree of predictability may vary from business to business.

A significant portion of AES's contract generating business is comprised of agreements whereby a single customer contracts for the majority, if not all, of the power generated by a particular facility. The prolonged failure of any significant customer to fulfill its contractual payment obligations in the future could have a substantial negative impact on AES's results of operations and financial condition. AES has sought to reduce this risk, where possible, by contracting with customers who have their debt or preferred securities rated "investment grade," or by obtaining sovereign government guarantees of the customer's obligations. However, AES does not limit its business solely to developed countries or economies, nor even to those countries with investment grade sovereign credit ratings. In certain locations, particularly in developing countries or countries that are in a transition from centrally planned to market-oriented economies, the electricity purchasers, both wholesale and retail, may be unable or unwilling to honor all of their contractual payment obligations. Moreover, collection of receivables may be hindered in some countries due to ineffective systems for adjudicating contract disputes. In order to minimize the risk of contract abrogation, AES takes steps to maintain flexibility

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with its customers. In many instances, AES is able to avoid contract abrogation by creatively restructuring contracts without disadvantaging itself. In situations in which this is not possible, AES diligently pursues resolution through litigation or contractually prescribed arbitration. AES believes that locating its plants in different geographic areas helps to mitigate the effects of regional economic downturns, thereby mitigating a portion of the risks imposed by operating in less developed countries.

Certain of the Company's contract generation customers are regulated utilities that are regulated by state or local public utility commissions ("PUCs"). PUCs often restrict the amount of debt certain utilities are permitted to incur, as well as the types of business activities in which they participate. Two of these types of customers, at the Company's Warrior Run and Beaver Valley plants, are owned by Allegheny Energy, Inc., which has encountered financial difficulty due to its energy trading business. The Company does not believe the financial difficulties of Allegheny Energy, Inc. will have a material adverse effect on the performance of those customers; however, there can be no assurance that a further deterioration in Allegheny Energy, Inc.'s financial condition will not have a material adverse effect on the ability of those customers to

perform their operations. Other customers are commercial entities that have no such restrictions, and therefore, may be of lesser credit quality, which increases the risk of payment default to AES. One commercial customer at three of the Company's subsidiaries, Williams Energy, has recently encountered financial difficulties related to its electricity trading operations and has been downgraded below investment grade by a number of ratings agencies. There can be no assurance that Williams Energy will continue to meet its contractual commitments.

Certain subsidiaries and affiliates of the Company (domestic and non-U.S.) 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. As of December 31, 2002, capitalized costs for projects under development and in early stage construction were approximately \$15 million and capitalized costs for projects under construction were approximately \$3.2 billion. The Company believes that these costs are recoverable; however, no assurance can be given that individual projects will be completed and reach commercial operation.

Competitive Supply

AES's competitive supply line of business consists of generating facilities that sell electricity directly to wholesale customers in competitive markets. Additionally, as compared to the contract generation segment discussed above, these generating facilities generally sell less than 75% of their output pursuant to long-term contracts with pre-determined pricing provisions and/or sell into power pools, under shorter-term contracts or into daily spot markets.

In managing supply and price risk, all options for supply are actively considered, including (i) utilizing the output from AES-owned generating assets, (ii) building or acquiring additional generating assets and (iii) buying electricity from other generators or marketers. AES permits its wholesale and retail businesses to operate independently but may choose to integrate businesses in certain instances where it is economically advantageous to AES to do so. The prices paid for electricity under short-term contracts and in the spot markets are unpredictable and can be, and from time to time have been, volatile. This volatility is influenced by peak demand requirements, weather conditions, competition, market regulation, interest rate and foreign exchange rate fluctuations, electricity transmission and environmental emission constraints, the availability or prices of emission credits and fuel prices, as well as plant availability and other relevant factors. In addition to exposure to the risks associated with market movement, the competitive supply business is also exposed to credit risk either because such business may be required to establish sufficient credit to support its operations, or because of the potential nonperformance of contractual obligations by a counterparty. AES maintains credit policies

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with regard to its counterparties; however, there can be no assurance that these parties will ultimately be able to pay when called to do so. The absence of long-term contracts can also result in uncertainty relating to future production volumes, which in turn causes uncertainty with respect to the volume of fuel to be consumed to support such production. As a result, the competitive supply business may also be exposed to volume risk in connection with its purchase of natural gas, coal and other raw materials. In the U.S., AES hedges certain aspects of its "net open" positions. AES has used a hedging strategy, where appropriate, to hedge its financial performance against the effects of fluctuations in energy commodity prices. The implementation of this strategy involves the use of commodity forward contracts, futures, swaps and options.

During the third quarter of 2002, AES completed the sale of 100% of its ownership interest in AES NewEnergy to Constellation Energy Group. AES NewEnergy was previously reported in the competitive supply segment.

Two AES Competitive Supply businesses, AES Wolf Hollow, L.P. and Granite Ridge have fuel supply agreements with El Paso Merchant Energy L.P., an affiliate of El Paso Corp., which has encountered financial difficulties. The Company does not believe the financial difficulties of El Paso Corp. will have a material adverse effect on El Paso Merchant Energy L.P.'s performance under the supply agreement; however, there can be no assurance that a further deterioration in El Paso Corp.'s financial condition will not have a material adverse effect on the ability of El Paso Merchant Energy L.P. to perform its obligations. While El Paso Corp.'s financial condition may not have a material adverse effect on El Paso Merchant Energy, L.P. at this time, it could lead to a default under AES Wolf Hollow, L.P.'s fuel supply agreement, in which case AES Wolf Hollow, L.P.'s lenders may seek to declare a default under its credit agreements. AES Wolf Hollow, L.P. is working in concert with its lenders to explore options to avoid such a default.

Large Utilities

AES's large utility business is comprised of three utilities located in the U.S. (IPALCO), Brazil (Eletropaulo) and Venezuela (EDC). AES's equity interest in each of these utilities is over 70%. In January 2003, AES sold 100% of its ownership interest in a fourth utility, CILCORP, a utility holding company whose largest subsidiary is Central Illinois Light Company ("CILCO"), to Ameren Corporation. The sale of CILCORP

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by AES was required under the U.S. Public Utility Holding Company Act (PUHCA) when AES purchased IPALCO, a regulated utility in Indianapolis, Indiana in March 2001. CILCORP was previously reported in the large utilities segment. In February 2002, AES also exchanged a minority interest in a fifth utility, Light Servicos de Eletricidade S.A. ("Light"), for an additional ownership interest in Eletropaulo. All of these utilities are of significant size and all maintain a monopoly franchise within a defined service area. In most cases large utilities combine generation, transmission and distribution capabilities. Large utilities are subject to extensive local, state and national regulation relating to ownership, marketing, delivery and pricing of electricity and gas with a focus on protecting customers. AES's large utilities, including IPALCO (3,431 MW) and EDC (2,616 MW), aggregate 6,047 gross MW of generation capacity and serve over 1.6 million customers with annual sales of nearly 27,000 gigawatt hours. Large utility revenues result primarily from electricity sales to customers under regulated tariff or concession agreements and to a lesser extent from contractual agreements of varying lengths and provisions.

IPALCO is a holding company and its principal subsidiary is Indianapolis Power & Light Company ("IPL"). IPL is engaged in generating, transmitting, distributing and selling electric energy in the City of Indianapolis and neighboring cities, towns and communities, and adjacent rural areas, all within the state of Indiana. IPL owns and operates two primarily coal-fired generating plants and a separately-sited combustion turbine that are used for electric generation. IPL also operates one coal and gas-fired plant. For electric generation, the total demonstrated net winter capability is 3,342 MW and net summer capability is 3,224 MW.

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Eletropaulo has served the São Paulo area for over 100 years and is the largest electricity distribution company in Latin America in terms of revenues. Eletropaulo's concession contract with the Brazilian National Electric Energy Agency ("ANEEL"), the government agency responsible for regulating the Brazilian electric industry, entitles Eletropaulo to distribute electricity in its service area for 30 years. Eletropaulo's service territory consists of 24 municipalities in the greater São Paulo metropolitan area and adjacent regions and accounts for about 15% of Brazil's GDP, covering 5.0 million customers or about 44% of the population in the State of São Paulo, Brazil. On February 6, 2002, AES exchanged its interest in Light for an additional 31% equity interest in Eletropaulo.

EDC was founded in 1895 and is the largest private-sector electric utility in Venezuela serving approximately 1.2 million customers (approximately 20% of the Venezuelan population). EDC generates, transmits and distributes electricity primarily to metropolitan Caracas and its surrounding area. EDC's distribution area covers 5,176 square kilometers. EDC has an installed generating capacity of 2,616 MW.

In April 2002, AES reached an agreement to sell 100 percent of its ownership interest in CILCORP, a utility holding company whose largest subsidiary is Central Illinois Light Company ("CILCO"), to Ameren Corporation in a transaction valued at \$1.4 billion including the assumption of debt and preferred stock at the closing (which was approximately \$900 million at December 31, 2002). The sale of CILCORP closed on January 31, 2003. The transaction also included an agreement to sell AES Medina Valley Cogen ("Medina Valley"), a gas-fired cogeneration facility located in CILCO's service territory, which closed on February 4, 2003. The sales of CILCORP and Medina Valley generated net proceeds (after expenses) of approximately \$500 million, which are subject to certain adjustments. The sale of CILCORP by AES was required under PUHCA when AES purchased IPALCO in March 2001. CILCORP was previously reported in the large utilities segment.

AES believes it is important to manage the regulatory frameworks of its large utilities, which are becoming increasingly competitive. As regulated entities, each large utility is subject to extensive local, state and national regulation relating to ownership, marketing, delivery and pricing of electricity and gas with a focus on protecting customers. Regulatory approval must generally be sought for the purchase, acquisition, sale or disposal of these businesses. In some instances, the approval process can broadly affect all of AES's public utility holdings. For example, as mentioned above, the provisions of the regulatory approval for AES's acquisition of IPALCO required AES to relinquish control or dispose of a portion of its regulated assets or businesses in the United States, in particular certain transmission and distribution assets owned by CILCO, a subsidiary of CILCORP, within two years.

Growth Distribution

AES's growth distribution line of business includes distribution facilities located in developing countries where the demand for electricity is expected to grow at a higher rate than in more developed parts of the world. However, these businesses face particular challenges associated with their presence in developing countries such as outdated equipment, significant theft-related losses, cultural problems associated with safety and non-payment, emerging economies, and potentially less stable governments or regulatory regimes. Often, however, the conditions of the business environment in a developing nation also provide for significant opportunities to implement operating improvements that may stimulate growth in earnings and cash flow performance at rates greater than those typically achievable in AES's other business segments. Distribution facilities included in this line of business may include generation, transmission, distribution or related services companies. The results of operations of AES's growth distribution business are sensitive to changes in economic growth, abnormal weather conditions affecting their market and regulatory changes, as well as the success of the operational changes implemented.

Growth distribution revenues are derived from the distribution and sale of electricity made pursuant to the provisions of long-term electricity sale concessions granted by the appropriate governmental authorities, or in some locations, under existing regulatory laws and provisions. One of our distribution facilities ("SONEL") is "integrated," in that it also owns electric power plants for the purpose of generating a portion of the electricity it sells. The facilities currently in this line of business represent approximately 850 Gross MW of generation and serve over 4.8 million customers with sales exceeding 28,000 gigawatt hours in Argentina, Brazil, Cameroon, Dominican Republic, El Salvador, Georgia and Ukraine.

AES Facilities

The following tables set forth information regarding the Company's facilities that are in operation or under construction at December 31, 2002. For a description of risk factors and additional factors that may apply to the Company's facilities, see also the information contained under the caption "Cautionary Statements and Risk Factors" in Item 1 above, and Item 7, "Discussion and Analysis of Financial Condition and Results of Operations" herein.

Generation Facilities	Dominant Fuel	Year of Acquisition or Commencement of Commercial Operations	Geographic Location	Gross MW	AES Equity Interest (percent)
<i>Contract Generation</i>					
<i>North America</i>					
Kingston	Gas	1997	Canada	110	50
Beaver Valley	Coal	1987	USA	125	100
Thames	Coal	1990	USA	181	100
Shady Point	Coal	1991	USA	320	100
Hawaii	Coal	1992	USA	180	100
Southland-Alamitos	Gas	1998	USA	2,123	100
Southland-Huntington Beach	Gas	1998	USA	430	100
Southland-Redondo Beach	Gas	1998	USA	1,330	100
Warrior Run	Coal	2000	USA	180	100
Hemphill	Biomass	2001	USA	14	100
Mendota	Biomass	2001	USA	25	100
Medina Valley (1)	Gas	2001	USA	47	100
Ironwood	Gas	2001	USA	705	100
Red Oak	Gas	2002	USA	832	100
<i>South America</i>					
Gener-Termoandes	Gas	2000	Argentina	643	99
Uruguaiana	Gas	2000	Brazil	600	100
Tiete (10 plants)	Hydro	1999	Brazil	2,650	53
GENER-Norgener	Oil	2000	Chile	277	99
GENER-Centrogener (9 plants)	Hydro	2000	Chile	756	99
GENER-Electrica de Santiago	Gas	2000	Chile	379	89
GENER-Energia Verde	Biomass	2000	Chile	39	99
GENER-Guacolda	Coal	2000	Chile	304	49
<i>Europe and Africa</i>					
Bohemia	Coal	2001	Czech Republic	50	100
Elsta	Gas	1998	Netherlands	405	50
Ebute	Gas	2001	Nigeria	290	95
Kelvin (2)	Coal	2001	South Africa	600	95
Kilroot	Oil & Coal	1992	UK	520	97
Medway	Gas	1996	UK	688	25
Tisza II	Gas	1996	Hungary	860	100

Generation Facilities	Dominant Fuel	Year of Acquisition or Commencement of Commercial Operations	Geographic Location	Gross MW	AES Equity Interest (percent)
<i>Contract Generation (continued)</i>					
<i>Asia</i>					
Khrami I	Hydro	2000	Georgia	113	0
Khrami II	Hydro	2000	Georgia	110	0
Mktvari	Gas	2000	Georgia	600	100
Xiangci-Cili	Hydro	1996	China	26	51
Wuhu	Coal	1996	China	250	25
Chengdu	Gas	1997	China	48	35
Hefei	Oil	1997	China	115	70
Jiaozuo	Coal	1997	China	250	70
Aixi-Chongqing Nanchuan	Coal	1998	China	50	70
Yangcheng	Coal	2001	China	2,100	25
OPGC	Coal	1998	India	420	49
Lal Pir (3)	Oil	1997	Pakistan	351	90
PakGen (3)	Oil	1998	Pakistan	344	90
Meghnaghat (3)	Gas	2002	Bangladesh	450	100
Barka (3)	Gas	2003	Oman	427	85
Ras Laffan (3)	Gas	2004	Qatar	750	55
Kelanitissa	Gas	2003	Sri Lanka	165	90
Mt. Stuart (1)	Oil	1999	Australia	288	100
Ecogen-Jeeralang (1)	Gas	1999	Australia	449	100
Ecogen-Yarra (1)	Gas	1999	Australia	510	100
Haripur (3)	Gas	2001	Bangladesh	360	100
<i>Caribbean</i>					
Merida III	Gas	2000	Mexico	497	55
Puerto Rico	Coal	2002	USA	454	100
Itabo	Gas	2001	Dominican Republic	587	25
Los Mina	Oil	1996	Dominican Republic	210	100
Andres	Gas	2003	Dominican Republic	310	100
<i>Competitive Supply</i>					
<i>North America</i>					
Deepwater	Pet Coke	1986	USA	143	100
Placerita	Gas	1989	USA	120	100
NY-Cayuga	Coal	1999	USA	306	100
NY-Greenidge	Coal	1999	USA	161	100
NY-Somerset	Coal	1999	USA	675	100
NY-Westover	Coal	1999	USA	126	100
Delano	Biomass	2001	USA	50	100
Mountainview Existing (4)	Gas	2001	USA	126	100
Whitefield	Biomass	2001	USA	14	100
Huntington Beach 3&4	Gas	2004	USA	450	100
Granite Ridge	Gas	2003	USA	720	100
Wolf Hollow	Gas	2003	USA	730	100
Lake Worth	Gas	2004	USA	205	100
Mountainview Development (4)	Gas	2003	USA	1,056	100

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Generation Facilities

Dominant Fuel

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		Year of Acquisition or Commencement of Commercial Operations	Geographic Location	Gross MW	AES Equity Interest (percent)
<i>Competitive Supply (continued)</i>					
<i>South America</i>					
San Nicolás-CTSN	Coal	1993	Argentina	650	88
Rio Juramento-Cabra Corral	Hydro	1995	Argentina	102	98
Rio Juramento-El Tunal	Hydro	1995	Argentina	10	98
San Juan-Sarmiento	Gas	1996	Argentina	33	98
San Juan-Ullum	Hydro	1996	Argentina	45	98
Quebrada de Ullum	Hydro	1998	Argentina	45	100
Alicura	Hydro	2000	Argentina	1,040	100
Central Dique	Gas	1998	Argentina	68	31
Parana	Gas	2001	Argentina	845	67
Caracoles	Hydro	2006	Argentina	123	100
<i>Europe and Africa</i>					
Borsod	Coal	1996	Hungary	171	100
Tiszapalkonya	Coal	1996	Hungary	250	100
Ottana	Oil	2001	Italy	140	100
Indian Queens	Oil	1996	UK	140	100
Barry	Gas	1998	UK	230	100
Drax	Coal	1999	UK	4,065	100
Songas (2)	Gas	2003	Tanzania	112	49
<i>Asia</i>					
Ekibastuz	Coal	1996	Kazakhstan	4,000	100
Altai-Shulbinsk Hydro	Hydro	1997	Kazakhstan	702	100
Altai-Sogrinsk CHP	Coal	1997	Kazakhstan	349	100
Altai-Ust Kamenogorsk Heat Nets	Coal	1998	Kazakhstan	310	0
Altai-Ust-Kamenogorsk CHP	Coal	1997	Kazakhstan	1,464	100
Altai-Ust-Kamenogorsk Hydro	Hydro	1997	Kazakhstan	331	100
<i>Caribbean</i>					
Bayano	Hydro	1999	Panama	236	49
Chiriqui-La Estrella	Hydro	1999	Panama	42	49
Chiriqui-Los Valles	Hydro	1999	Panama	48	49
Panama	Oil	1999	Panama	42	49
Bayano	Hydro	2003	Panama	24	49
Esti	Hydro	2003	Panama	120	49
Chivor	Hydro	2000	Colombia	1,000	99
Colombia I	Gas	2000	Colombia	90	69
<i>Large Utilities</i>					
<i>North America</i>					
CILCORP-Duck Creek (1)	Coal	1999	USA	366	100
CILCORP-Edwards (1)	Coal	1999	USA	772	100
CILCORP-Indian Trails (1)	Gas	1999	USA	19	100
IPALCO-Georgetown	Oil	2001	USA	79	100
IPALCO-Eagle Valley	Coal	2001	USA	364	100
IPALCO-Petersburg	Coal	2001	USA	1,842	100
IPALCO-Harding Street	Coal	2001	USA	1,146	100
<i>Caribbean</i>					
EDC-generation (4 plants)	Gas	2000	Venezuela	2,616	87

EDE Este	1999	Dominican Republic	300,000	2,996	50
CAESS	2000	El Salvador	451,772	1,697	75
DEUSEM	2000	El Salvador	47,108	75	74
EEO	2000	El Salvador	162,496	339	89

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- | Generation Facilities | Dominant Fuel | Year of Acquisition
or Commencement
of Commercial
Operations | Geographic
Location | Gross
MW | Share
Interest
(percent) |
|-----------------------|---|---|------------------------|-------------|--------------------------------|
| (1) | At December 31, 2002, the Company had entered into agreements to sell these businesses. The CILCORP and Mt. Sierra transactions closed in January 2003. Ecogen and Medina Valley closed in February 2003. | | | | |
| (2) | At December 31, 2002, the Company had entered into agreements to sell these businesses. These transactions are expected to close in the first half of 2003. | | | | |
| (3) | In March 2003, the Company announced that it had entered into agreements to sell all or a portion of its interest in these businesses. | | | | |
| (4) | In January 2003, the Company entered into an agreement to sell this business. This transaction closed in March 2003. | | | | |

Note: Some of the Company's generation businesses may change between the competitive supply and contract generation segments due to changes in the amount of output contracted.

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United States Regulatory Environment

General

Over the past decade the United States implemented a series of regulatory policies that encourage competition in wholesale and retail electricity markets. Such policies have been implemented both at the federal level and in many states, reflecting the federal structure of the U.S. system. Wholesale power markets and transmission facilities are regulated by the federal government while retail electricity markets and distribution are regulated by each of the fifty states.

Beginning in the fall of 2001 and continuing through 2002, however, primarily as a result of events in California (the electricity shortage and price rise during the period from May 2000 through June 2001) and the bankruptcy of Enron, previously the largest U.S. electricity trading company, regulatory officials both in the United States and abroad have begun to reexamine the nature and pace of deregulation of electricity markets. This reexamination, however, just as the movement toward deregulation before it, has not occurred in a uniform manner but rather

differs from state to state and between the federal government and the states themselves. Thus, over the last several years the state of California abandoned the framework for deregulation that had been adopted in 1996, while the Federal Energy Regulatory Commission ("FERC") has not indicated any inclination to roll back its efforts to enhance "open access" electric transmission and enhance competition in bulk power markets.

Volatility in the wholesale power markets in California coupled with structural flaws inherent in the state's deregulation law that shifted the risk of wholesale deregulation to the states' investor-owned utilities led the state government to impose emergency measures that effectively repealed California electric market restructuring legislation. (See below, "*California Businesses*," for more information). While the confluence of events that occurred in California may not be repeated in other states pursuing restructuring programs, to the extent these other states adopt, or have adopted, policies similar to California's, particularly the use of "default" or regulated retail prices while wholesale prices are set by the market, the problems experienced in California could be repeated elsewhere.

The events in California generally have caused state lawmakers and politicians to postpone restructuring legislation or even to propose a return to more traditional regulated markets. A recent survey by the Energy Information Administration shows 18 states (including the District of Columbia)

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are actively pursuing restructuring, 6 states have delayed or suspended such restructuring, and 27 states have no active restructuring plans. The Company believes the most likely outlook over the next decade is for the United States to continue to resemble a "patchwork quilt" of differing regulatory policies at the retail level. Because AES has sold its primary retail electric business in the United States, the impact of these differing retail policies on it is expected to be small in the near term.

The federal government, through regulations promulgated by the FERC, has primary jurisdiction over wholesale electricity markets. Since 1990, FERC has approved market-based rates for many providers of wholesale generation, and the mix of market players has shifted dramatically toward non-utility entities, referred to as independent power producers or wholesale generators whose rates are based on competitive conditions rather than on costs. The Electric Power Supply Association reports that non-utility generators now account for approximately 30 percent of U.S. wholesale generation. FERC has proposed new regulations to implement a "standard market design" for wholesale electric markets and may publish a final rule in 2003. This rule generally is intended to further promote non-discriminatory, open access wholesale transmission and workably competitive wholesale generation markets. Some states and members of Congress have expressed concerns, however, and it is uncertain whether and in what form FERC will issue a final rule. Congress may seek to pass legislation affecting U.S. electric markets, including possible repeal of significant portions of the Public Utility Holding Company Act of 1935 and the Public Utility Regulatory Policies Act of 1978.

One major result of creating competitive wholesale electricity markets has been the advent of marketing and trading companies. These entities buy and sell electricity, creating an interface between generators and retail customers. In December 2001, the largest of such marketers/traders, Enron, filed for bankruptcy. Several other companies subsequently have reduced or eliminated their marketing and trading activities. These activities have resulted in a less liquid wholesale market, in which AES participates primarily as a generator. Due to the Enron bankruptcy and difficulties of other marketing/trading companies, stricter trading and credit requirements have been implemented, which has made wholesale transactions more expensive for AES and its competitors.

California Businesses

During the first half of 2001, the wholesale electricity and natural gas markets in California continued to exhibit the high price volatility that began in May 2000. The volatility and unpredictable market dynamics were the result of a confluence of factors, including, among other things, growing demand, a supply/demand imbalance on natural gas pipelines importing gas to California, regional electrical supply shortages due to weather conditions, limited additions of new generating capacity over the previous decade, and the cost and availability of NOx emissions credits. The situation was further exacerbated by credit concerns among market participants brought on by the bankruptcies and near bankruptcies of the major investor-owned utilities and the California Power Exchange. The freezing of retail prices avoided the natural reduction in overall demand that would have been the result of higher prices caused by undersupply, which left the state's electricity system out of balance. In response to persistent high prices, the Federal Energy Regulatory Commission issued a number of orders, most notably on April 26 and June 19 of 2001, adopting a price mitigation plan that included price caps, obligations on generators to offer all available capacity into the market, and tighter requirements on generators to coordinate their outage schedules with the California Independent System Operator. Many commercial and regulatory issues existing at the beginning of 2002 remain to be settled, the ultimate resolution of which may result in significant market or regulatory changes that cannot currently be determined or predicted. The outcome of any such changes will affect market conditions for all participants, including AES. Among the outstanding commercial issues are the status of certain payables owed to generators and marketers for power delivered during 2000 and 2001. Although AES's overall exposure to this risk is largely mitigated as a result of its tolling agreement related to the Southland plants (see description below), at December 31, 2002 the Company had receivables of \$4 million relating to this period from various California entities, and is actively pursuing recovery of these amounts. In addition, the State of

California is seeking refunds from certain entities that supplied power within the state during 2000 and 2001, including AES. Because the pricing of the majority of power sold by the Company during that period was determined under the tolling agreement, the Company does not anticipate that its exposure to such refunds will be material. Nonetheless, it has been named in a number of proceedings and lawsuits related to refunds and cannot be certain of their outcome. See "Legal Proceedings."

Foreign Regulatory Environment

Argentina

In 2002, Argentina continued to experience a political, social and economic crisis that has resulted in significant changes in general economic policies and regulations as well as specific changes in the energy sector. In January and February 2002, many new economic measures were adopted by the Argentine government, including abandonment of the country's fixed dollar-to-peso exchange rate, converting U.S. dollar-denominated loans into pesos and placing restrictions on the convertibility of the Argentine peso. The government also adopted new regulations in the energy sector that have the effect of repealing U.S. dollar-denominated pricing under electricity tariffs as prescribed in existing electricity distribution concessions in Argentina by fixing all prices to consumers in pesos. Presidential elections are scheduled to occur in Argentina in 2003, and the new government may enact changes to the regulations governing the electricity industry. In combination, these circumstances create significant uncertainty surrounding the performance, cash flow and potential for profitability of the electricity industry in Argentina, including the Argentine subsidiaries of AES.

The new regulations in the energy sector effectively overturn the U.S. dollar based nature of the electricity sector. Formerly, both the wholesale generation market and the distribution sector received payments that were linked to the U.S. dollar, not only because of the Convertibility Law that pegged the peso at a 1:1 exchange rate with the U.S. dollar but also because the price paid for wholesale generation reflected the U.S. dollar-linked nature of the fuels used by the country's generating facilities.

In the wholesale power market, electricity generators declared on a semi-annual basis their costs of generation which reflected the costs of their fuel. For thermal generators these fuel costs reflected the U.S. dollar costs of these commodities. Under the current regulations both the declaration of costs and the prices received as capacity and energy payments are denominated in pesos but are not permitted to reflect the devaluation of the peso against the U.S. dollar. As a result, the fuel costs for thermal generators no longer reflect the true costs of producing or delivering that fuel. At the same time generation prices now reflect an artificially low price of fuels and as a result the real price received for wholesale generation has been reduced by nearly 50% from the previous year.

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 have been delinked from the U.S. dollar and U.S. inflation indices. The tariffs of all distribution companies have been converted to pesos and frozen at the peso notional rate as of December 31, 2001.

Brazil

The Brazilian electricity industry is regulated by ANEEL. Its responsibilities include, among others, (i) granting and supervising concessions for electricity generation, transmission and distribution, (ii) establishing regulations for the electricity sector, including the approval of electricity tariffs, (iii) overseeing and auditing the activities of electric power concessionaires, and (iv) implementing and regulating the use of electricity, in the form of both thermal and hydroelectric power.

In order to establish competition and to ensure short-term power supply to the market in Brazil upon deregulation of the power industry, the Federal Government created the MAE. The MAE was originally a self-regulated body, responsible for settling and clearing short-term power purchases according to the rules established by the market participants (generators and distributors) under a

collective agreement, the Market Agreement, and to regulations issued by governing authorities, primarily ANEEL.

The electricity industry in Brazil reached a critical point in 2001, as the result of a series of regulatory, meteorological and market-driven problems. The MAE had a poor performance record due to an inability to resolve commercial disputes. In addition, the combined effects of

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growth in demand, decreased rainfall on the country's heavily hydro-electric dependent generating capacity and delays by the Brazilian energy regulatory authorities in developing an attractive regulatory structure (necessary to encourage new generation in the country) have led to shortages of electricity to meet expected demand in certain regions of Brazil. As a result, the Brazilian government, effective as of June 2001, implemented a program for the rationing of electricity consumption.

Under these conditions, another issue arose, which is referred to as Annex V. It is an appendix included in all the regulated contracts established prior to the privatization of the generation companies in Brazil, which are known as the Initial Contracts. Under the Initial Contracts, ANEEL defined both prices and volumes, which were then entered into between all generators (both privatized and state-owned) and distribution companies. Annex V contains a mathematical formula that was designed to reduce the impact on generators during times when reservoir levels are low (such as those during rationing periods) and spot electricity prices are high. In these situations, Annex V decreases the generators' contractual fixed volume obligations. However, that contractual reduction is generally not sufficient to cover the full extent of the actual reductions in energy available resulting from the water shortage conditions. As such, the generators are required to fulfill the remaining portion of their reduced contractual obligations to the distributors with a calculated and financially settled payment under the terms of Annex V. Such calculated payment effectively provides compensation to distributors for the shortfall in actual electricity delivered by generators and serves to partially offset the reductions in operating income experienced by the distributors resulting from the implications of lower electricity demand under imposed rationing conditions.

In order to restore the economic equilibrium contained in all of the concession contracts, an industry-wide agreement, sometimes referred to herein as the MAE settlement, that applies to both AES's generation and distribution businesses in Brazil was reached. This agreement applies to the rationing-related loss of income incurred by both generation and distribution businesses as a result of the imposition of rationing in June 2001 and replaces the former Annex V contractual provisions, as follows:

Initial Contracts will be amended to eliminate Annex V provisions;

Distribution companies will be entitled to recover rationing-related loss recovery through a tariff increase which has been in effect since December 26, 2001 and will remain in effect for 65 months from the date of the agreement, which the Company believes is sufficient to bill and collect all amounts recorded;

Non-contracted (thermal) power plants, dispatched in order to fulfill the contractual requirements of the hydroelectric power plants, are to be paid at the spot price by the hydroelectric power plant generators (up to a price cap); with the consumers of electricity paying the difference between the spot price and the allowed price cap;

Distribution companies will use their tariff increase to pay approximately 97% of the amounts originally payable under the Initial Contracts in order to provide the generation companies with recovery of their contractually allowed revenue amount;

A loan funded by the National Development Bank of Brasil (BNDES) will provide liquidity prior to recovery through the allowed tariff increases. The loan will amortize in line with the recovery of costs through future tariff increases and will cover approximately 90% of the rationing-related losses for the distribution companies and the non-contracted energy payment of the generators.

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The net ownership-adjusted impact to AES from the elimination of Annex V and the resulting tariff increase represented additional income before taxes of \$60 million. However, the amount recorded under the new methodology at December 31, 2001 was substantially the same as the contractual receivable previously recorded under Annex V. Accordingly, the only impact was the balance sheet reclassification of the receivable to a regulatory asset. The tariff increase will remain in effect for 65 months from the date of the agreement, which the Company believes is sufficient to bill and collect all amounts recorded. The agreement also establishes that BNDES will fund 90% of the amounts recoverable under the tariff increase up front through loans prior to their recovery through tariffs. The loans are repayable over the tariff increase collection period. In addition, the agreement provided a resolution to a long-standing regulatory issue related to Parcel A costs which are certain costs that each distribution company is permitted to defer and pass through to its customers via a future tariff adjustment. Parcel A costs are limited by the concession contracts to the cost of purchased power and certain other costs and taxes. The Brazilian regulator had granted tariff increases to recover a portion of previously deferred Parcel A costs. However, due to uncertainty surrounding the Brazilian economy, the regulator had delayed approval of some Parcel A tariff increases. As part of the agreement, a tracking account that was previously established was officially defined. Parcel A costs incurred previous to January 1, 2001 were not allowed under the definition of the tracking account. As a result, in 2001, the Company wrote off approximately \$160 million (\$101 million representing the Company's portion from equity affiliates), of Parcel A costs

incurred prior to 2001 that will not be recovered.

Under the agreement, Sul was permitted to record additional revenue and a corresponding receivable from the spot market in the fourth quarter of 2001. However, ANEEL promulgated Order 288 during May 2002 which retroactively changed certain previously communicated methodologies, and resulted in a change in the calculation methods for electricity pricing in the Wholesale Energy Market. The Company recorded a pretax provision of approximately \$160 million, including the amounts for Sul against revenues during May 2002 to reflect the negative impacts of this retroactive regulatory decision.

Sul filed a motion for an administrative appeal with ANEEL challenging the legality of Order 288 and requested a preliminary injunction in the Brazilian federal courts to suspend the effect of Order 288 pending the determination of the administrative appeal. Both were denied. In August 2002, Sul appealed and in October 2002 the court confirmed the preliminary injunction's validity. Its effect, however, was subsequently suspended pending an appeal by ANEEL and an appeal by Sul.

In December 2002, prior to any settlement of the Brazilian Wholesale Electricity Market ("MAE"), Sul filed an incidental claim requesting, by way of a preliminary injunction, the suspension of the Company's debts registered in the MAE. A Brazilian federal judge granted the injunction and ordered that an amount equal to one-half of the amount claimed by Sul from inter-market trading of energy purchased from Itaipu in 2001 be set aside by the MAE in an escrow account. The injunction was subsequently overturned. Sul has appealed that decision and requested the judge to reinstate the injunction and the escrow account. A decision is expected shortly.

The MAE partially settled its registered transactions between late December 2002 and early 2003. If the final settlement occurs with the effect of Order 288 in place, Sul will owe approximately \$21 million, based upon the December 31, 2002 exchange rate. Sul does not believe it will have sufficient funds to make this payment. However, if the MAE settlement occurs absent the effect of Order 288, Sul will receive approximately \$106 million, based upon the December 31, 2002 exchange rate. If Sul is unable to pay any amount that may be due to MAE, penalties and fines could be imposed up to and including the termination of the concession contract by ANEEL.

The Company does not believe that the terms of the industry-wide rationing agreement as currently being implemented restored the economic equilibrium of all of the concession contracts because the agreement covered only the rationing period, the consumption never returned to the previous levels and previously communicated methodologies for implementing the terms of the rationing agreement were retroactively changed.

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On September 3, 2002, ANEEL issued an order providing that the formula for adjusting the tariffs applicable to distribution companies, which are scheduled to be reset in 2003, should be based on a replacement cost method. The Company, together with other electric distribution companies, disagrees with the proposed method and filed a lawsuit advocating that a minimum bid price methodology be used to set the rate base. The companies have not obtained an injunction to date, but the lawsuit is ongoing. Taken alone, the method proposed in the ANEEL order would lead to a significantly lower adjustment in the tariff than would methodologies proposed by the distribution companies. Because a number of other factors that affect the formula have yet to be determined, we are unable to predict the ultimate impact, if any, of this order. These other factors include an "X" factor. The X factor is intended to permit the regulator to adjust tariffs so that consumers may share in the distribution company's realization of increased operating efficiencies. The revision, however, is entirely within the regulator's discretion. Currently, ten companies are under the tariff reset public hearing process, including Sul. These results are likely to influence Eletropaulo's tariff reset.

Under the industry-wide agreement reached in December 2001, Eletropaulo can receive Brazilian Real-denominated loans from BNDES, for revenues to be received through future tariff increases. Repayment will be made in 12 consecutive monthly installments beginning March 15, 2002. Eletropaulo is required to deposit a portion of its revenues in a restricted bank account as collateral for the loan. Future BNDES disbursements under the rationing agreement will have a repayment term of approximately 5 years.

Chile

In Chile, the regulation of production schedules for electricity generation facilities is based on the marginal cost of production, which is the cost of the most expensive unit required by the system at the time. The spot price among generation companies for both electrical capacity (the amount of electricity available at any point in time) and electrical energy (the amount of electricity produced or consumed over a period of time) is also the marginal cost of production. Chile has four electricity systems; the major two interconnected electricity systems are the SIC and the SING, which cover almost 97% of the population of the country.

In order to meet demand for electricity at any point in time, the lowest marginal cost generating plant in an interconnected system is used before the next lowest marginal cost plant is dispatched. As a result, at any specific level of demand, the appropriate supply will be provided at the lowest possible marginal cost of production available in the system. Generation companies are free to enter into sales contracts with distribution

companies and other customers for the sale of capacity and energy. However, the electricity necessary to fulfill these contracts is provided by the contracting generation company only if the generation company's marginal cost of production is low enough for its generating capacity to be dispatched to meet demand. Otherwise, the generation company will purchase electricity from other generation companies at the marginal cost of production in the system, if the contracting generation company's marginal cost is above that of the last generator required to meet demand at the time.

According to existing law, during periods when production cannot meet system demands, regardless of whether the government has enacted a rationing decree, the price of energy exchanges among generation companies is valued at the "unserved energy cost" or "shortage cost" which is the cost to consumers for not having energy available. This law remained untested until November 1998 when generators in the SIC were unable to agree on the implementation of the shortage cost during the supply deficit and associated mandated rationing periods. The matter was referred to the Ministry of Economy, which in March 1999 ruled the application of the shortage cost. Based on this decision, generators with energy deficits at the time were required to pay companies with energy surpluses the shortage cost or corresponding spot price equal to the cost of unserved energy for energy purchases during that period. The prices paid to generation companies by distribution companies for capacity and energy to be resold to their retail customers are based on the expected average marginal cost of

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capacity or energy. In order to ensure price stability, however, the regulatory authorities in Chile establish prices, known as "node prices," every six months to be paid by distribution companies for the energy and capacity requirements of regulated consumers. Node prices for energy are calculated on the basis of the projections of the expected marginal costs within the system over the next 24 to 48 months in the case of the SIC and the SING. The formula takes into account, among other things, assumptions regarding available supply and demand in the future. Node prices for capacity are based on the marginal investment required to meet peak demand, based on the cost of a diesel-fired turbine. Prices for capacity and energy sold to large customers (over 2MW) and other generation companies purchasing on a contractual basis are unregulated and are often set with reference to node prices, alternative fuel prices, exchange rates and other factors. If average prices for capacity and energy sold to non-regulated customers differ from node prices by more than 10%, node prices are adjusted upward or downward, as the case may be, so that the difference between such prices equals 10%. In contrast, the spot price paid by one generation company to another for energy is referred to as the "system marginal cost," which is based on the actual marginal cost of the highest cost generator producing electricity in the system during the relevant period, as determined on an hourly basis.

Since the system marginal cost for energy is set weekly (but may in certain circumstances be changed on a daily basis) based on variables that can change on an instantaneous basis, and the node price for energy is set every six months based on projections of these variables over the next 24 to 48 months, in the case of the SIC, or 24 to 48 months, in the case of the SING, the system marginal cost for energy of a system tends to be more volatile than the node price for energy of that system. In periods of low water conditions that require greater generation of energy by more costly thermoelectric plants, the system marginal cost typically exceeds the node price. In periods of high water conditions when lower cost hydroelectric facilities can meet the majority of demand, the system marginal cost is typically below the node price and may in fact decline to zero at some hours.

United Kingdom

The New Electricity Trading Arrangements ("NETA") became effective on March 27, 2001. The NETA system is structured around bilateral trading between generators, suppliers, traders and customers. The system operates like a standard commodity market, but makes special provision for the electricity system to be kept in physical balance. NETA includes forward and futures markets, allowing contracts for future delivery of electricity to be entered into up to several years in advance. The balancing mechanism enables the system operator, The National Grid Company, to change levels of generation and demand in near real-time. If an imbalance between a party's net physical and net contractual positions occurs, the system provides a mechanism for settlement which creates an incentive for generators to accurately forecast their availability. A number of power exchanges have now emerged to facilitate medium- and short-term trading of standard products. It is anticipated that more sophisticated trading tools and financial instruments will develop as the market matures.

Since the introduction of NETA, there has been a marked decline in the price paid for wholesale electricity. Day ahead and one-year forward prices have declined approximately 30% and appear to result from a combination of factors, some of which are specific to the new structure of the market and others which relate to fundamental market conditions (specifically warmer weather during the Winter 2001-2002). Specifically with reference to NETA, it appears that the new trading rules have increased competitiveness in the market. As a result of the significant price declines over this past year, virtually all generation facilities which do not have long-term contracts to sell their power have come under severe financial pressure and several have been taken off-line or shut-down as prices have fallen below their variable costs. In February 2002, the Company announced that it would take its Fifoots plant off-line as it had become no longer possible to sell power above its marginal cost of generation. Subsequently in March 2002, the Fifoots plant was placed into administrative receivership.

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Venezuela

In September 1999 the Electric Service Law (LSE), which provides a framework for the deregulation of the electric utility industry in Venezuela, was enacted. On December 14, 2000 the Ministry of Energy and Mines enacted the Electric Law Regulations pursuant to the LSE. The LSE, as amended in December 2001, requires the restructuring of integrated electric companies by January 2003. On November 20, 2002 the MEM extended the date for the restructuring of integrated utilities to January 2004. The restructuring involves legally dividing generation, transmission, distribution and commercialization businesses into new independent legal entities that are financially, operationally and administratively autonomous. Under the LSE, generation and commercialization will be deregulated and will be opened up to competition whereas distribution and transmission will remain regulated businesses. The Ministry of Energy and Mines in consultation with the electric utility companies in Venezuela is currently developing a framework for the implementation of the LSE requirements.

In addition, in January 1999 a joint resolution of the Ministry of Energy and Mines and the Ministry of Industry and Commerce (the "Joint Resolution") established the basic tariff rates applicable during the Four-Years Tariff Regime (1999-2002). The tariffs were established by the Ministry of Energy and Mines using a cost-plus methodology in that tariffs are calculated based on a return on investment methodology. Each company provides information about their business (assets and costs), and the tariffs are calculated by the regulator based on the expected return for a model company. Tariffs are adjusted: (i) semi-annually to reflect fluctuations in inflation and the currency exchange rate; and (ii) monthly to reflect fluctuations in fuel prices. In light of the potential for energy shortages facing Venezuela due primarily to a long dry season, the government has been considering introducing incentives to reduce the consumption of energy. Under the current plan there would be an increased tariff for energy consumption over certain thresholds. The increased tariff will apply to all commercial, industrial and residential sectors.

United States Environmental and Land Use Regulations

The Company's businesses are subject to extensive environmental and land use laws and regulations. In the United States the laws and regulations applicable to AES primarily involve the emissions into the air, discharge of effluents into the water and the use of water, as well as wetlands preservation, endangered species, waste disposal and noise regulation. These laws and regulations often require a lengthy and complex process of obtaining licenses, permits and approvals from federal, state and local agencies. If AES violates or fails to comply with such laws, regulations, licenses, permits or approvals, AES could be fined or otherwise sanctioned by regulators. In addition, under certain environmental laws, AES could be responsible for costs relating to contamination at its facilities or at third-party waste disposal sites. AES has accrued liabilities for projected environmental remediation costs. See Note 11 of the consolidated financial statements for more detail. AES has at times been in non-compliance with environmental laws, regulations, licenses, permits and approvals, although no such instance has resulted in revocation of any material permit or license. AES has incurred and will continue to incur significant capital and other expenditures to comply with environmental laws and regulations, in particular, with respect to the laws and regulations described below. Although AES is not aware of any costs of complying with environmental laws and regulations which would reasonably be expected to result in a material adverse effect on its business, consolidated financial position or results of operations except as described below, there can be no assurance that AES will not be required to incur material compliance costs in the future.

Environmental laws and regulations affecting power generation and distribution are complex, change frequently and have tended to become more stringent over time. If such laws and regulations are changed and any of AES's facilities are not "grandfathered" (that is, made exempt by the fact that the facility pre-existed the law) or are not otherwise excluded, extensive modifications to a facility's technologies and operations could be required. Should environmental laws or regulations change in the

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future, there can be no assurance that AES would be able to recover all or any increased costs from its customers or that its consolidated financial position or results of operations would not be materially and adversely affected. In addition, the Company may be required to make significant capital or other expenditures in connection with such changes in environmental laws or regulations. The Company is not aware of any currently planned changes in law, however, that would reasonably be expected to have a material adverse effect on its business, consolidated financial position or results of operations, except as described below.

Clean Air Act

The Clean Air Act of 1970 (the "Clean Air Act"), as amended in 1990 (the "1990 Amendments"), sets guidelines for emissions standards for major pollutants including sulfur dioxide ("SO₂") and nitrogen oxides ("NOx"). Among other things, the 1990 Amendments require reductions in acid rain precursor emissions (SO₂ and NOx) from existing sources, particularly large, older power plants that were exempted from certain

requirements of the Clean Air Act. Other provisions of the Clean Air Act relate to the reduction of ozone precursor emissions (volatile organic compounds ("VOC") and NOx) and have resulted in the imposition by various U.S. states of "reasonably available control technology" requirements to reduce such emissions.

National Ambient Air Quality Standards

In 1997, the U.S. Environmental Protection Agency ("EPA") published new standards that tighten national ambient air quality standards ("NAAQS") for ozone and fine particulate matter ("PM"). In October 1999, a federal appeals court overturned the new standards. In February 2001, the U.S. Supreme Court reversed and remanded the case to the appeals court for further review of the standards but held that EPA's policy for implementing the new ozone standard was unlawful. In March 2002, the federal appeals court upheld the new standards. However, as directed by the U.S. Supreme Court, EPA must develop a new implementation policy for the ozone standard in 2003. Although we cannot predict what EPA's final policy for implementing the new ozone and PM standards will be, AES's plants will likely be faced with further emission reduction requirements that could necessitate both the installation of additional control technology and a related increase in capital expenditures.

Also, EPA intends to propose a rule in December 2003 which would control certain SO₂ emissions which form fine PM that is transported to downwind states. The rule will likely require an approximately 70% reduction in SO₂ emissions by 2010 through market-based emissions trading.

NOx SIP Call

In October 1998, EPA issued a final rule addressing the regional transport of ground-level ozone across state boundaries to the eastern United States. The rule ("NOx SIP Call"), as amended in June and August of 2000, requires twenty-two states and the District of Columbia, including Illinois, Indiana, New York and Pennsylvania, states in which AES's plants are located, to reduce NOx emissions that cross state boundaries, including emissions from electric generating units. The District of Columbia and these states were required to submit revised state implementation plans ("SIPs") by October 2000, with a compliance date for affected emissions sources, including electric generating plants, of May 31, 2004. As a result of the NOx SIP Call, AES will likely be required to make further reductions in NOx emissions at some of its facilities.

Section 126 Petitions

In December 1999, EPA granted petitions filed by four northeastern states seeking to reduce ozone damage from certain sources in midwestern upwind states. In granting the petitions, submitted under

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Section 126 of the Clean Air Act, the EPA made a finding that certain large electric generating units in upwind states significantly contribute to non-attainment of the NAAQS for ozone in the northeastern downwind states. The compliance date for affected emission sources, including electric generating plants, is May 31, 2004. As a result of EPA's ruling, certain AES plants may be required to make further reductions in NOx emissions, in addition to those needed to comply with the ozone NAAQs and the NOx SIP Call described above.

New Source Review

In the 1990s, EPA commenced an industry-wide investigation of coal-fired electric generators to determine compliance with environmental requirements under the Clean Air Act associated with repairs, maintenance, modifications and operational changes made to the facilities over the years. The EPA's focus is on whether the changes were subject to new source review ("NSR") regulations which require companies to obtain permits prior to making major modifications to their facilities. In December 2002, EPA promulgated revised NSR regulations. However, EPA has stated that the revised regulations will not affect existing enforcement cases. See Item 3 *Legal Proceedings* for a description of certain related litigation affecting AES.

Regional Haze

The EPA published the final regional haze rule on July 1, 1999. This rule establishes planning and emission reduction timelines for states to use to improve visibility in national parks throughout the United States. On June 22, 2001, the EPA signed a proposed rule to guide states in implementing the 1999 rule and in controlling power plant emissions that cause regional haze problems. The proposed rule set guidelines for states in determining best available retrofit technology, or BART, at older power plants. Under the rule, states are required to submit to the EPA their regional haze SIPs by sometime during 2004 through 2008, depending on whether and when the EPA determines that state is in "attainment" or "non-attainment." The ultimate effect of the regional haze rule could be requirements for (i) newer and cleaner technologies and additional controls on conventional particulates, and (ii) reductions in SO₂, NOx and particulate matter emissions from utility sources. If the

proposed rule is finalized and implemented, and utility emissions reductions are required, compliance costs to AES could be significant.

Hazardous Air Pollutants

The 1990 Amendments also regulate certain hazardous air pollutants ("HAPs"). In February 1998, the EPA released a final report on HAP emissions from power plants that, among other things, concluded that the risk of contracting cancer from exposure to HAPs (other than mercury) from most plants is low (less than one in one million) and that further research on mercury emissions was necessary. In December 2000, the EPA announced it would adopt rules to regulate mercury emissions from coal- and oil-fired power plants. The EPA expects to propose these regulations by December 2003 and issue final regulations by December 2004 with reductions required in 2007-2008. Once these final regulations have been issued, the use of "maximum available control technology" may be required to control these emissions. See "Recent Legislative and Regulatory Proposals" below for a description of other proposed mercury restrictions.

Global Warming

Global warming continues to be a concern and remains a policy issue that is regularly considered for possible government regulation. The Kyoto Protocol to the United Nations Framework Convention on Climate Change, if ratified by the requisite number of signatory countries, would require the signatory countries to make substantial reductions in "greenhouse gas" emissions which include carbon dioxide (CO₂). Although the United States agreed to the Kyoto Protocol, the treaty has not been sent to the

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Senate for ratification. Several U.S. states, including Massachusetts, California and New Hampshire, have taken action to reduce greenhouse gas emissions. Also, several European countries have some regulations concerning greenhouse gases. U.S. federal legislation requiring reductions in greenhouse gases could substantially affect both the costs and the operating characteristics of AES's fossil-fuel (coal, oil, gas) fired businesses. See "Recent Legislative and Regulatory Proposals" below.

Recent Legislative and Regulatory Proposals

New legislation has been introduced in Congress which, if passed into law, would require reduction in power plant air emissions beyond the requirements described above. In particular, various bills sponsored by members of Congress would require significant reductions for CO₂, NO_x, SO₂ and mercury. In addition, President Bush's "Clear Skies" legislation, which would cap emissions of three pollutants (NO_x, SO₂ and mercury), with voluntary reductions of CO₂, was introduced in Congress in July 2002 and reintroduced by Senator Inhofe in February 2003.

In February 2002, the New York Department of Environmental Conservation ("DEC") issued proposed regulations requiring electric generators to reduce SO₂ emissions by 50% below current Clean Air Act standards. The state environmental authorities are scheduled to vote on this regulation on March 26, 2003. If adopted, the SO₂ regulation would be phased in beginning on January 1, 2005 with implementation completed by January 1, 2008. DEC's proposed regulations would also require electric generators to meet stringent NO_x reduction requirements year-round, rather than just during the summertime ozone season. These new NO_x regulations, if adopted, would take effect on October 1, 2004. If any of these and/or other similar rules or legislation are passed into law, AES's generation facilities would likely be required to incur additional significant costs to install additional environmental pollution control technology.

In early 2002, the EPA, pursuant to Section 316 of the United States Federal Water Pollution Control Act, proposed a regulation establishing location, design, construction and capacity standards for cooling water intake structures at existing power plants, including many of AES's U.S. facilities. The proposed regulation, which is designed to protect aquatic life affected by these intake structures, would require subject facilities to demonstrate their cooling water intake systems meet best technology available ("BTA"). While the proposed regulation is subject to public comment and potential revision prior to being finalized, the EPA is required to publish a final rule by August 2003. If the proposed regulation is adopted, AES will be required, for each subject facility, (i) to demonstrate the facility already meets the proposed performance requirements; (ii) to select, design and construct new technologies, operational measures and/or restorative measures that meet the proposed requirements or (iii) to request a facility-specific determination of BTA if the costs of compliance are significantly greater than those estimated by EPA or if the costs of compliance would be significantly greater than the benefits of complying with the requirements. These requirements could result in significant capital expenditures and operating costs for each subject facility.

Foreign Environmental Regulations

AES has ownership interests in power plants and projects in many countries outside the United States. Each of these countries (and the localities therein) have separate laws and regulations governing the siting, construction, permitting, ownership, operation, decommissioning and remediation of, and power sales from, such power plants. These countries also have laws governing waste disposal, the discharge of pollutants into the air, water or ground and noise pollution. These laws and regulations are often different from those in effect in the United States. In

addition to such foreign laws and regulations, projects funded by the World Bank are subject to World Bank environmental standards. These standards may be more stringent than local country standards but are typically not as strict as corresponding standards in the United States. AES has incurred and will continue to incur capital and other expenditures to comply with these laws and regulations, in particular, laws governing air

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emissions. Whenever feasible, AES attempts to use advanced environmental technologies (such as CFB coal technology or advanced gas turbines) in its non-U.S. businesses in order to minimize environmental impacts.

Our operations in the European Union (the "EU") are subject to EU directives and national legislation implementing those directives. Many of AES's non-U.S. facilities are also subject to international conventions and protocols, including, without limitation, the Kyoto Protocol described in "United States Environmental and Land Use Regulation" above. On March 4, 2002, the fifteen Member Nations of the EU agreed to ratify the Kyoto Protocol. Also, in December 2002, Canada ratified the Kyoto Protocol, and the Russian Federation has declared its intention to ratify the Protocol in the spring of 2003. If ratified by the Russian Federation, the Protocol will enter into force for all countries that have ratified it. If the governments of the United Kingdom and The Netherlands, in particular, ratify and adopt regulations implementing the Kyoto Protocol, our facilities in those countries will be required to incur significant costs to reduce CO₂ emissions, and their operating characteristics may be affected. These costs would be in addition to costs to comply with any other foreign regulations governing greenhouse gas emissions, including those already in effect in Europe.

Based on current trends, AES expects that environmental and land use regulations affecting its plants located outside the United States will likely become more stringent over time. This may be due in part to a greater participation by local citizenry in the monitoring and enforcement of environmental laws, better enforcement of applicable environmental laws by the regulatory agencies, and the adoption of more sophisticated environmental requirements. If foreign environmental and land use regulations were to change in the future, the Company may be required to make significant capital or other expenditures. There can be no assurance that AES would be able to recover from its customers all or any increased costs to comply with current or future environmental or land use regulations or that its business, financial condition or results of operations would not be materially and adversely affected by such foreign environmental and land use regulations.

Competition

Contract generation

In the contract generation line of businesses, AES faces most of its competition during the development phase of its projects. Its competitors in this business include other independent power producers as well as various utilities and their affiliates. Traditionally, competition in this segment is limited due to the long-term nature of the generation contracts. However, due to the introduction of competitive power markets, and the addition of new market participants, there may be increased competition in attracting new customers and maintaining our current customers as their existing contracts expire.

Competitive supply

AES competes in the competitive supply segment with numerous other independent power producers, energy marketers and traders, energy merchants, transmission and distribution providers and retail energy suppliers. Competitive factors include price, contract terms, including credit requirements and quality of service.

Large Utilities

Historically, energy utilities operated within specific service territories where they were essentially the sole suppliers of electricity services, and therefore competition was limited to alternative means of energy such as gas and fuel. However, in certain locations, the large utilities business is facing significant challenges and increased competition as a result of changes in laws and regulations allowing wholesale and retail services to be provided on a competitive basis. There can be no assurance that the

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deregulation will not adversely affect the future operations, cash flows and financial condition of our large utilities.

Growth distribution

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In the growth distribution line of business there may be competition to acquire facilities. However, there is currently little competition in growth distribution business due to the significant barriers to entry present in these markets. AES competes against a number of other participants, some of which have greater financial resources and have been engaged in growth distribution related businesses for periods longer than AES and have accumulated more significant portfolios. Relevant competitive factors include financial resources, governmental assistance, and access to non-recourse financing and regulatory factors.

Customers

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 2002 net sales.

Employees

As of December 31, 2002, AES employed approximately 36,000 people.

Executive Officers and Significant Employees of the Registrant

The following is information concerning the present executive officers and significant employees of the Registrant set out in alphabetical order.

Joseph C. Brandt, 38 years old, was appointed Chief Restructuring Officer and Vice President in February 2003. From January 2002 to February 2003, Mr. Brandt was Group Manager for AES Andes, a business group responsible for AES's business interests in Argentina. From 1999 to 2002, Mr. Brandt held various corporate and development positions with the Company. From 1998 to 1999, Mr. Brandt worked as an investment advisor. Mr. Brandt received a JD from Georgetown University Law Center, an MA from the University of Virginia and an AB from George Mason University and was a Fulbright Scholar at the University of Helsinki, Finland.

Mark Fitzpatrick, 52 years old, was appointed Executive Vice President of the Company in February 2000. His responsibilities included overseeing the AES businesses in the Latin American Region. Mr. Fitzpatrick was Senior Vice President until February 2000, and was appointed Vice President of the Company in 1987. Mr. Fitzpatrick became Managing Director of Applied Energy Services Electric Limited for the United Kingdom and Western Europe operations in 1990. From 1984 to 1987, he served as a project director of the AES Beaver Valley and AES Thames projects.

Paul T. Hanrahan, 45 years old, was appointed President and Chief Executive Officer in June 2002. He was one of the four Chief Operating Officers appointed in February 2002. He was appointed Executive Vice President in February 2000, Senior Vice President since in 1997, and was appointed Vice President of the Company effective January 1994. From May 1, 2000 to February 2002, Mr. Hanrahan was Managing Director of AES Americas, a business group responsible for Bolivia, Colombia, Ecuador, Peru, Venezuela and Southern Brazil. From May 1, 1998 until becoming director of AES Americas, Mr. Hanrahan was Managing Director of AES Americas South, a business group within AES responsible for all of AES's activities in Argentina, Paraguay, and Chile. From February 1995 until becoming Managing Director of AES Americas South he was President and Chief Executive Officer of AES Chigen, where he served as Executive Vice President, Chief Operating Officer and Secretary from December 1993 until February 1995. He was General Manager of AES Transpower, Inc., a subsidiary of the Company, from 1990 to 1993.

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William R. Luraschi, 39 years old, was appointed Senior Vice President in February 2002 and has been Vice President of the Company since January 1998, and General Counsel of the Company since January 1994. He also was Secretary from February 1996 until June 2002. Prior to that, Mr. Luraschi was an attorney with the law firm of Chadbourne & Parke L.L.P.

Dr. Roger F. Naill, 56 years old, was appointed Senior Vice President in February 2001 and has been Vice President for Planning at AES since 1981. Dr. Naill is responsible for AES's financial forecasts and other corporate issues. Prior to joining the Registrant, Dr. Naill was Director of the Office of Analytical Services at the Department of Energy. Dr. Naill received a Ph.D in Engineering from Dartmouth College and a MSM Degree from the A.P. Sloan School of Business (MIT).

John Ruggirello, 52 years old, was appointed Chief Operating Officer for Generation in February 2003. He was appointed Executive Vice President of the Registrant in February 2000, was Senior Vice President until February 2000 and was appointed Vice President in January 1997. Mr. Ruggirello led the AES Enterprise group, with responsibility for project development, construction and plant operations in the United States. Prior to joining the Company in 1987, Mr. Ruggirello was Operations Manager for a division of the Diamond Shamrock Corporation.

Barry J. Sharp, 43 years old, holds the position of Chief Financial Officer. His responsibilities include overseeing the finance function. He was appointed Executive Vice President in February 2001. Mr. Sharp was appointed Senior Vice President in January 1998 and had been Vice

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President and Chief Financial Officer since 1987. He also served as Secretary of the Company until February 1996. From 1986 to 1987, he served as the Company's Director of Finance and Administration. Mr. Sharp is a certified public accountant.

Kenneth R. Woodcock, 59 years old, has been Senior Vice President of the Company since 1987. Mr. Woodcock is responsible for coordinating AES's relationships with the investment community, and he provides support for AES business development activities worldwide. From 1984 to 1987, he served as a Vice President for Business Development. Prior to the founding of AES he served in the United States federal government in energy and environment departments.

How to Contact AES and Sources of Other Information

The Company, a corporation organized under the laws of Delaware, was formed in 1981. AES has its principal offices located at 1001 North 19th Street, Suite 2000, Arlington, Virginia 22209. Its telephone number is (703) 522-1315, and its web address is <http://www.aes.com>. The Company's 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 the Company's website at <http://www.aes.com> as soon as practical after they are filed with the Securities and Exchange Commission and are available free of charge. Material contained on the Company's website is not incorporated by reference in this report on Form 10-K.

Item 2 Properties

Offices are maintained by the Registrant in many places around the world, which are generally occupied pursuant to the provisions of long- and short-term leases, none of which are material to the Company. With a few exceptions, the Registrant's facilities, which are described in Item 1 hereof, are subject to mortgages or other liens or encumbrances as part of the project's related finance facility. The land interest held by the majority of the facilities is that of a lessee or, in the case of the facilities located in the People's Republic of China, a land use right that is leased or owned by the related joint venture that owns the project. However, in a few instances, there exists no accompanying project financing for the facility, and in a few of these cases, the land interest may not be subject to any encumbrance and is owned by the subsidiary or affiliate owning the facility outright.

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Item 3 Legal Proceedings

In September 1999, a judge in the Brazilian appellate state court of Minas Gerais granted a temporary injunction suspending the effectiveness of a shareholders' agreement between the Company's joint venture ("SEB") and the state of Minas Gerais concerning CEMIG which granted SEB certain rights and powers in respect of CEMIG (the "Special Rights"). The temporary injunction was granted pending determination by the lower state court of whether the shareholders' agreement could grant SEB the Special Rights. In November 1999, the full state appellate court upheld the temporary injunction. In March 2000, the lower state court in Minas Gerais ruled on the merits of the case, holding that the shareholders' agreement was invalid where it purported to grant SEB the Special Rights. In April 2001, the state appellate court denied an appeal of the merits decision, and extended the injunction. In October 2001, SEB filed two appeals against the decision on the merits of the state appellate court, one to the Federal Superior Court and the other to the Supreme Court of Justice. In August 2002, SEB filed two interlocutory appeals against the state appellate court's refusal to consider SEB's appeal on the merits, one directed to the Federal Superior Court and the other to the Supreme Court of Justice. The appeals continue to be pending. The Company, together with SEB, intends to vigorously pursue by all legal means a restoration of the value of its investment in CEMIG. However, there can be no assurances that the Company and SEB will be successful in their efforts. Failure to prevail in this matter may limit the SEB's influence on the daily operation of CEMIG.

In November 2000, the Company was named in a purported class action suit along with six other defendants alleging unlawful manipulation of the California wholesale electricity market, resulting in inflated wholesale electricity prices throughout California. Alleged causes of action include violation of the Cartwright Act, the California Unfair Trade Practices Act and the California Consumers Legal Remedies Act. In December 2000, the case was removed from the San Diego County Superior Court to the U.S. District Court for the Southern District of California. The case has been consolidated with five other lawsuits alleging similar claims against other defendants. In March 2002, the plaintiffs filed a new master complaint in the consolidated action, which asserted the claims asserted in the earlier action and names the Company, AES Redondo Beach, L.L.C., AES Alamitos, L.L.C., and AES Huntington Beach, L.L.C. as defendants. Defendants have filed a motion to dismiss the action in its entirety. The Company believes it has meritorious defenses to any actions asserted against it and expects that it will defend itself vigorously against the allegations.

In addition, the crisis in the California wholesale power markets has directly or indirectly resulted in several administrative and legal actions involving the Company's businesses in California. Each of the Company's businesses in California (AES Placerita and AES Southland, which is

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comprised of AES Redondo Beach, AES Alamitos, and AES Huntington Beach) are subject to overlapping state investigations by the California Attorney General's Office, the Market Oversight and Monitoring Committee of the California Independent System Operator ("ISO"), the California Public Utility Commission and a subcommittee of the California Senate. The businesses have cooperated with the investigation and responded to multiple requests for the production of documents and data surrounding the operation and bidding behavior of the plants.

In August 2000, the Federal Energy Regulatory Commission ("FERC") announced an investigation into the national wholesale power markets, with particular emphasis upon the California wholesale electricity market, in order to determine whether there has been anti-competitive activity by wholesale generators and marketers of electricity. The FERC has requested documents from each of the AES Southland plants and AES Placerita. AES Southland and AES Placerita have cooperated fully with the FERC investigation.

In May 2001, the Antitrust Division of the United States Department of Justice initiated an investigation to determine whether a provision in the AES Southland plants' Tolling Agreement with Williams Energy Services Company has restricted the addition of new capacity in the Los Angeles area

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in contravention of the antitrust laws. The AES Southland businesses have provided documents and other information to the Department of Justice.

In July of 2001, a petition was filed against CESCO, an affiliate of the Company by the Grid Corporation of Orissa, India ("Gridco"), with the Orissa Electricity Regulatory Commission ("OERC"), alleging that CESCO has defaulted on its obligations as a government licensed distribution company; that CESCO management abandoned the management of CESCO; and asking for interim measures of protection, including the appointment of a government regulator to manage CESCO. Gridco, a state owned entity, is the sole energy wholesaler to CESCO. In August 2001, the management of CESCO was handed over by the OERC to a government administrator that was appointed by the OERC. Gridco also has asserted that a Letter of Comfort issued by the Company in connection with the Company's investment in CESCO obligates the Company to provide additional financial support to cover CESCO's financial obligations. In December 2001, a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 was served on the Company by Gridco pursuant to the terms of the CESCO Shareholder's Agreement ("SHA"), between Gridco, the Company, AES ODPL, and Jyoti Structures. The notice to arbitrate failed to detail the disputes under the SHA for which the Arbitration had been initiated. After both parties had appointed arbitrators, and those two arbitrators appointed the third neutral arbitrator, Gridco filed a motion with the India Supreme Court seeking the removal of AES' arbitrator and the neutral chairman arbitrator. In the fall of 2002, the Supreme Court rejected Gridco's motion to remove the arbitrators. Gridco has now asked the arbitrators themselves to rule on the same motion, which motion again requests their removal from the panel. Although that motion remains pending, the present panel has requested that the parties' statements of claim be filed by April 2003. The Company believes that it has meritorious defenses to any actions asserted against it and expects that it will defend itself vigorously against the allegations.

In November 2002, the Company was served with a grand jury subpoena issued on application of the United States Attorney for the Northern District of California. The subpoena seeks, inter alia, certain categories of documents related to the generation and sale of electricity in California from January 1998 to the present. The Company intends to comply fully with its legal obligations in responding to the subpoena.

In April 2002, IPALCO and certain former officers and directors of IPALCO were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of Indiana. On May 28, 2002, an amended complaint was filed in the lawsuit. The amended complaint asserts that former members of the pension committee for the thrift plan breached their fiduciary duties to the plaintiffs under the Employment Retirement Income Securities Act by investing assets of the thrift plan in the common stock of IPALCO prior to the acquisition of IPALCO by the Company. In February 2003, the Court denied the defendants motion to dismiss the lawsuit. Discovery continues in the lawsuit. The subsidiary believes it has meritorious defenses to the claims asserted against them and intends to defend these lawsuits vigorously.

In July 2002, the Company, Dennis W. Bakke, Roger W. Sant, and Barry J. Sharp were named as defendants in a purported class action filed in the United States District Court for the Southern District of Indiana. In September 2002, two virtually identical complaints were filed against the same defendants in the same court. All three lawsuits purport to be filed on behalf of a class of all persons who exchanged their shares of IPALCO common stock for shares of AES common stock pursuant to the Registration Statement dated and filed with the SEC on August 16, 2000. The complaint purports to allege violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 based on statements in or omissions from the Registration Statement covering certain secured equity-linked loans by AES subsidiaries; the supposedly volatile nature of the price of AES stock, as well as AES's allegedly unhedged operations in the United Kingdom. In October 2002, the defendants moved to consolidate these three actions with the IPALCO securities lawsuit referred to immediately below. This consolidation motion is pending. On November 5, 2002, the Court appointed lead plaintiffs and lead

and local counsel. The Company and the individual defendants believe that they have meritorious defenses to the claims asserted against them and intend to defend these lawsuits vigorously.

In September 2002, IPALCO and certain of its former officers and directors were named as defendants in a purported class action filed in the United States District Court for the Southern District of Indiana. The lawsuit purports to be filed on behalf of the class of all persons who exchanged shares of IPALCO common stock for shares of AES common stock pursuant to the Registration Statement dated and filed with the SEC on August 16, 2000. The complaint purports to allege violations of Sections 11 of the Securities Act of 1933 and Sections 10(a), 14(a) and 20(a) of the Securities Exchange Act of 1934, and Rules 10b-5 and 14a-9 promulgated thereunder based on statements in or omissions from the Registration Statement covering certain secured equity-linked loans by AES subsidiaries; the supposedly volatile nature of the price of AES stock; and AES's allegedly unhedged operations in the United Kingdom. The Company and the individual defendants believe that they have meritorious defenses to the claims asserted against them and intend to defend the lawsuit vigorously.

In October 2002, the Company, Dennis W. Bakke, Roger W. Sant and Barry J. Sharp were named as defendants in purported class actions filed in the United States District Court for the Eastern District of Virginia. Between October 29, 2002 and December 4, 2002, six virtually identical lawsuits were filed against the same defendants in the same court. The lawsuits purport to be filed on behalf of a class of all persons who purchased the Company's stock between April 26, 2001 and February 14, 2002. The complaints purport to allege that certain statements concerning the Company's operations in the United Kingdom violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. On December 4, 2002, defendants moved to transfer the seven actions to the United States District Court for the Southern District of Indiana. By stipulation dated December 9, 2002, the parties agreed to consolidate these actions into one action. On December 12, 2002 the Court entered an order consolidating the cases under the caption In re AES Corporation Securities Litigation, Master File No. 02-CV-1485. On January 16, 2003, the Court granted defendants' motion to transfer the consolidation action to the United States District Court for the Southern District of Indiana. The Company and the individuals believe that they have meritorious defenses to the claims asserted against them and intend to defend the lawsuit vigorously.

Beginning in September 2002, El Salvador tax and commercial authorities initiated investigations involving four of the Company's subsidiaries in El Salvador, Compañía de Luz Electrica de Santa Ana S.A. de C.V. ("CLESA"), Compañía de Alumbrado Electrico de San Salvador, S.A. de C.V. ("CAESS"), Empresa Electrica del Oriente, S.A. de C.V. ("EEO"), and Distribuidora Electrica de Usultán S.A. de C.V. ("DEUSEM"), in relation to two financial transactions closed in June 2000 and December 2001, respectively. The authorities have issued document requests and the Company and its subsidiaries are cooperating fully in the investigations. As of March 18, 2003, certain of these investigations have been successfully concluded, with no fines or penalties imposed on the Company's subsidiaries. The tax authorities' and attorney general's investigations are pending conclusion.

In March 2002, the general contractor responsible for the refurbishment of two previously idle units at AES's Huntington Beach plant filed for bankruptcy in the United States bankruptcy court for the Central District of California. A number of the subcontractors hired by the general contractor, due to alleged non-payment by the general contractor, have asserted claims for non-payment against AES Huntington Beach. The general contractor has also filed claims seeking up to \$57 million from AES Huntington Beach for additional costs it allegedly incurred as a result of changed conditions, delays, and work performed outside the scope of the original contract. The general contractor's claim includes its subcontractors' claims. All of these claims are adversary proceedings in the general contractor's bankruptcy case. In the event AES Huntington Beach were required to satisfy any of the subcontractor claims for payment, AES Huntington Beach may be unsuccessful in recovering such amounts from, or offsetting such amounts against claims by, the general contractor. The Company does not believe that

any additional amounts are owed by its subsidiary and such subsidiary intends to defend vigorously against such claims.

The U.S. Department of Justice is conducting an investigation into allegations that persons and/or entities involved with the Bujagali hydroelectric power project which the Company is developing in Uganda, have made or have agreed to make certain improper payments in violation of the Foreign Corrupt Practices Act. The Company is conducting its own internal investigation and is cooperating with the Department of Justice in this investigation.

In November 2002, a lawsuit was filed against AES Wolf Hollow L.L.P. and AES Frontier L.P., two subsidiaries of the Company, in Texas State Court by Stone and Webster, Inc. The complaint in the action alleges claims for declaratory judgment and breach of contract allegedly arising out of the denial of certain force majeure claims purportedly asserted by the plaintiff in connection with its construction of the Wolf

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Hollow project, a gas-fired combined cycle power plant being constructed in Hood County, Texas. Stone and Webster is the general contractor for the Wolf Hollow project. The subsidiary believes it has meritorious defenses to the claims asserted against it and intends to defend the lawsuit vigorously.

On August 24, 2002, Bechtel Power Corporation ("Bechtel") filed a lawsuit against the Company in California State court alleging three claims for breach of guaranty and one claim for fraud. Bechtel contends that AES owes Bechtel approximately \$47 million based on AES's alleged guaranty of purported payment obligations of Mountainview to Bechtel under a certain construction contract. Bechtel also asserts that the Company fraudulently induced Bechtel to enter into such construction contract. In December 2002, the Company's motion seeking a stay of the lawsuit as issues asserted in the lawsuit are the subject of a mandatory arbitration currently pending between Bechtel and Mountainview (see "Bechtel Arbitration" referenced below) was granted by the Court. In January 2003, Bechtel and the Company agreed to a further stay of the litigation pending the parties' finalization of an agreement whereby the Mountainview project would be sold by the Company. In March 2003, in connection with the sale of Mountainview, the parties agreed to file a voluntary dismissal of the arbitration.

On September 25, 2002, Mountainview filed a demand for arbitration against Bechtel Power Corporation (the "Bechtel Arbitration"). The claims asserted in the Bechtel Arbitration relate to existing disputes between the parties regarding amounts that Bechtel asserts are owing by Mountainview due to purported services provided in connection with the construction of the Mountainview power project located in California. Mountainview seeks a determination in the arbitration that Mountainview has fully performed all obligations owing to Bechtel and Mountainview owes no further amounts to Bechtel. In December 2003, the members of the arbitration panel were appointed by the parties. In January 2003, Bechtel and the Company agreed to a further stay of the arbitration pending the parties' finalization of an agreement whereby the Mountainview project would be sold by the Company. In March 2003, in connection with the sale of Mountainview, the parties agreed to file a voluntary dismissal of the arbitration.

In March 2003, the office of the Federal Public Prosecutor for the State of Sao Paulo, Brazil notified Eletropaulo that it had commenced an inquiry related to the BNDES financings provided to AES Elpa and AES Transgas 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. Also in March 2003, the Commission for Public Works and Services of the Sao Paulo Congress requested Eletropaulo to appear at a hearing relating to the default by AES Elpa and AES Transgas with BNDES and the quality of service rendered.

In December 2002, Enron filed a lawsuit in the Bankruptcy Court for the Southern District Court of New York against the Company, NewEnergy, and CILCO. Pursuant to the Complaint, Enron seeks to

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recover approximately \$13 million dollars from NewEnergy (and the Company as guarantor of the obligations of NewEnergy). Enron contends that NewEnergy and the Company are liable to Enron based upon certain accounts receivables purportedly owing from NewEnergy and an alleged payment arising from the purported termination by NewEnergy of a "Master Energy Purchase and Sale Agreement." In the Complaint, Enron seeks to recover from CILCO the approximate amount of \$31.5 million dollars arising from the termination by CILCO of a "Master Energy Purchase and Sale Agreement" and certain accounts receivables that Enron claims are due and owing from CILCO to Enron. On February 13, 2003 the Company, NewEnergy and CILCO filed a motion to dismiss certain portions of the action and compel arbitration of the disputes with Enron. Also in February 2003, the Bankruptcy Court Ordered the parties to mediate the disputes. The Company believes it has meritorious defenses to the claims asserted against it and intends to defend the lawsuits vigorously.

In December 2002, plaintiff David Schoellermann filed a purported derivative lawsuit in Virginia State Court on behalf of the Company against the members of the Board of Directors and numerous officers of the Company (the "Schoellermann Lawsuit"). The lawsuit alleges that defendants breached their fiduciary duties to the Company by participating in or approving the Company's alleged manipulation of electricity prices in California. Certain of the defendants are also alleged to have engaged in improper sales of stock based on purported inside information that the Company was manipulating the California electricity prices. The complaint seeks unspecified damages and a constructive trust on the profits made from the alleged insider sales. On February 28, 2003, a motion to dismiss the action was filed based on the plaintiff's failure to make a demand on the Company to investigate the allegations. On February 21, 2003, a second Derivative lawsuit was filed by plaintiff Joe Pearce in Virginia State Court on behalf of the Company against the members of the Board of Directors and numerous officers of the Company (the "Pearce Lawsuit"). It is anticipated that a similar motion to dismiss, as filed in the Schoellerman Lawsuit, will be filed to dismiss the Pearce Lawsuit.

On February 26, 2003, the Company, Dennis W. Bakke, Roger W. Sant, and Barry J. Sharp were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of Indiana captioned Stanley L. Moskal and Barbara A. Moskal v. The AES Corporation, Dennis W. Bakke, Roger W. Sant and Barry J. Sharp. 1:03-CV-0284 (Southern District of Indiana). The lawsuit purports to be filed on behalf of a class of all persons who engaged in "option transactions" concerning AES securities between July 27, 2002

and November 8, 2002. The complaint alleges that AES and the individual defendants failed to disclose information concerning purported manipulation of the California electricity market, the effect thereof on AES's reported revenues, and AES's purported contingent legal liabilities as a result thereof, in violation of Sections 10(b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The Company and the individual defendants have not yet responded to the complaint.

The Company is also involved in certain other legal proceedings in the normal course of business.

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 2002.

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Part II

Item 5 Market for Registrant's Common Equity and Related Stockholder Matters

Market Information.

The common stock of the Company is currently traded on the New York Stock Exchange (NYSE) under the symbol "AES." The following tables set forth the high and low sale prices for the common stock as reported by the NYSE for the periods indicated.

Price Range of Common Stock

2002	High	Low	2001	High	Low
First Quarter	\$ 17.84	\$ 4.11	First Quarter	\$ 60.15	\$ 41.30
Second Quarter	9.17	3.55	Second Quarter	52.25	39.95
Third Quarter	4.61	1.56	Third Quarter	44.50	12.00
Fourth Quarter	3.57	0.95	Fourth Quarter	17.80	11.60

Holdings.

As of March 3, 2003, there were 9,663 record holders of the Company's Common Stock, par value \$0.01 per share.

Dividends.

Under the terms of the Company's senior secured credit facilities entered into with a commercial bank syndicate, the Company is not allowed to pay cash dividends. In addition, the Company is precluded from paying cash dividends on its Common Stock under the terms of a guaranty to the utility customer in connection with the AES Thames project in the event certain net worth and liquidity tests of the Company are not met.

The ability of the Company's project subsidiaries to declare and pay cash dividends to the Company is subject to certain limitations in the project loans, governmental provisions and other agreements entered into by such project subsidiaries.

Securities Authorized for Issuance under Equity Compensation Plans.

See the information contained under the caption "Securities Authorized for Issuance under Equity Compensation Plans" of the Proxy Statement for the Annual Meeting of Stockholders of the Registrant to be held on May 1, 2003, which information is incorporated herein by reference.

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Item 6 Selected Financial Data

Please note that 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 for further explanation of the effect of such activities.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in millions, except per share data)				
Statement of Operations Data:					
Revenues	\$ 8,632	\$ 7,645	\$ 6,206	\$ 3,772	\$ 3,237
(Loss) income from continuing operations	(2,590)	446	806	365	453
Discontinued operations, net of tax	(573)	(173)	(11)	(8)	(12)
Cumulative effect of change in accounting principle, net of tax	(346)				
Net (loss) income	\$ (3,509)	\$ 273	\$ 795	\$ 357	\$ 441
Basic (loss) earnings per share:					
(Loss) income from continuing operations	\$ (4.81)	\$ 0.84	\$ 1.67	\$ 0.86	\$ 1.14
Discontinued operations	(1.05)	(0.32)	(0.01)	(0.02)	(0.03)
Cumulative effect of change in accounting principle	(0.65)				
Basic (loss) earnings per share	\$ (6.51)	\$ 0.52	\$ 1.66	\$ 0.84	\$ 1.11
Diluted (loss) earnings per share:					
(Loss) income from continuing operations	\$ (4.81)	\$ 0.83	\$ 1.61	\$ 0.84	\$ 1.10
Discontinued operations	(1.05)	(0.32)	(0.02)	(0.02)	(0.03)
Cumulative effect of change in accounting principle	(0.65)				
Diluted (loss) earnings per share	\$ (6.51)	\$ 0.51	\$ 1.59	\$ 0.82	\$ 1.07