

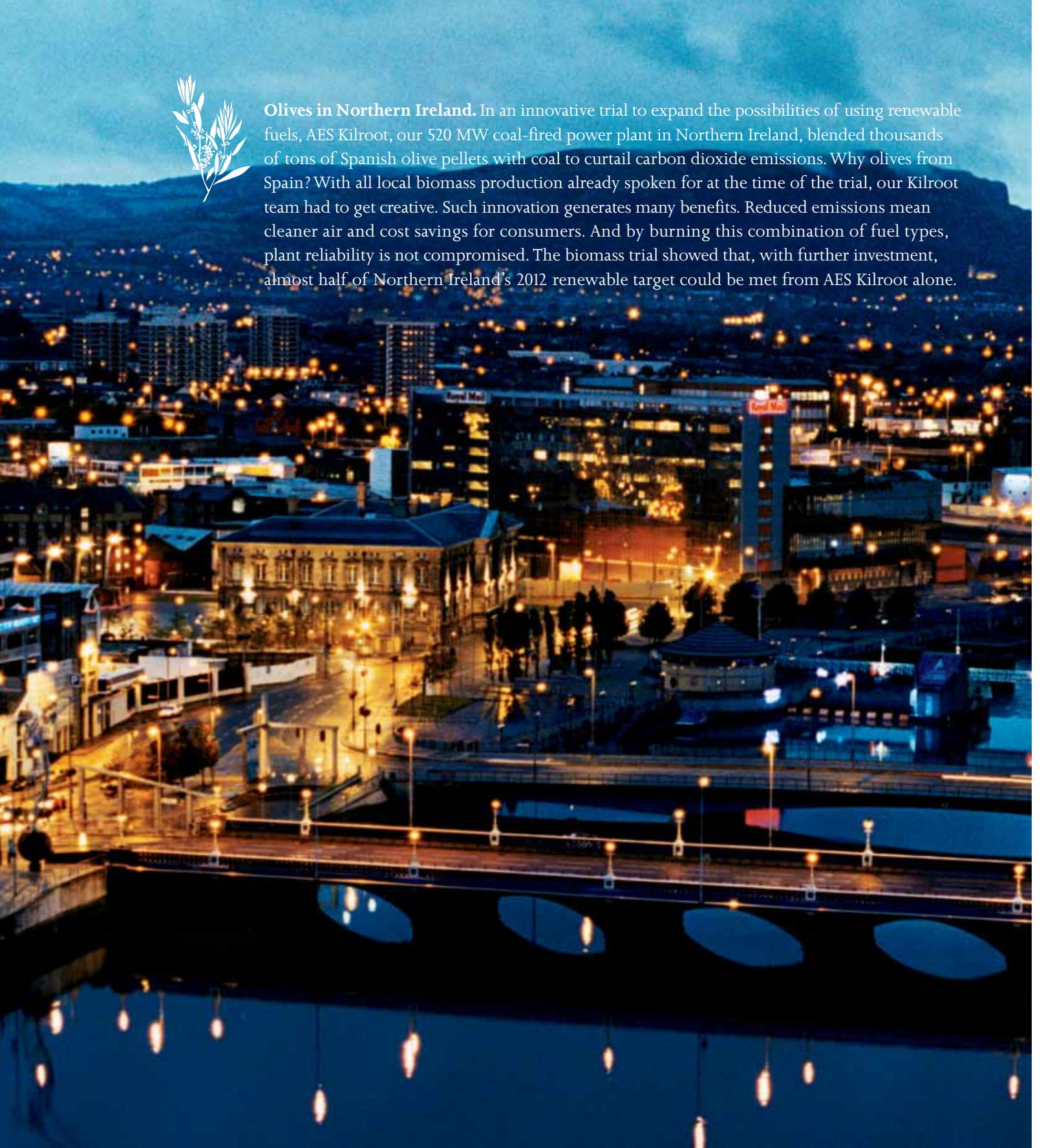


how do olives
from Spain

light
homes
in Belfast?



Olives in Northern Ireland. In an innovative trial to expand the possibilities of using renewable fuels, AES Kilroot, our 520 MW coal-fired power plant in Northern Ireland, blended thousands of tons of Spanish olive pellets with coal to curtail carbon dioxide emissions. Why olives from Spain? With all local biomass production already spoken for at the time of the trial, our Kilroot team had to get creative. Such innovation generates many benefits. Reduced emissions mean cleaner air and cost savings for consumers. And by burning this combination of fuel types, plant reliability is not compromised. The biomass trial showed that, with further investment, almost half of Northern Ireland's 2012 renewable target could be met from AES Kilroot alone.





• the answer is
innovation



AES is all about being global. And for good reason. Being global helps spread innovation.

Sharing knowledge across our enterprise fosters excellence and yields remarkable results. A best practice for turbine life cycle management found in Africa provides the power to improve performance across Europe and the Middle East. Deep local insights and presence in the Southern Cone help mitigate the cross-border impacts of a gas shortage in Argentina.

Globally, we command a robust and well-balanced portfolio of businesses. With practical expertise in almost every form of power generation, we can identify the right fuel technology for each particular market—helping to lower costs for consumers and supporting continued economic growth and expansion in the markets we serve.

Globally, regionally and locally, AES seeks out ways to drive strategic growth. And our people are as dynamic as our global footprint, cultivating deep roots in each local culture and economy. Wherever we do business, we deliver results.

These qualities make AES a good investment, a good partner and a great place to work. At AES, that's the power of being global.

2005 has been another successful year for AES. Free cash flow is up. Earnings are up. The ratio of enterprise value to debt is up. And virtually all the conventional measures are headed in the right direction.

In last year's letter, I said we were turning toward execution of a strategy for renewed growth. It is well under way. Our reorganization along regional lines has helped focus our expertise on favorable opportunities in areas where we have "critical presence" (the concentrated scale necessary to give us competitive advantages). At the same time, our corporate development team has actively expanded our growth initiatives in LNG, wind, and other forms of clean energy. The number and range of interesting opportunities before us continue to expand. So, with a disciplined approach to investment, we should be able to achieve high-quality growth.

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AES has also made significant progress with respect to the two measures I suggested may be especially relevant for shareholders.

The first is long-term stock price appreciation relative to the Standard & Poor's 500 Index. In 2005, AES's share price increased by 16 percent, compared with five percent for the S&P 500. From 2003 through 2005, AES's share price increased by 424 percent, compared with 50 percent for the S&P 500. Arguably, it may be more difficult to continue such out-performance after a company completes a turnaround and gains scale. But our intentions and plans are to do so.

The second relevant measure involves integrity. Last year, I emphasized our performance in meeting the highest standards of responsible corporate governance. That emphasis continues. This year, I wish to touch on Sarbanes-Oxley requirements.





In addition to its advocates, Sarbanes-Oxley has many critics. I am not among them. It is true that the burdens of financial reporting have increased substantially. It is also true that, if pushed to the extreme, they may breed a reporting risk-aversion that could become paralytic—in some cases preventing the very financing they are intended to inform and facilitate. Yet if sensibly administered, Sarbanes-Oxley should be helpful.

It is instructive that, in 2005 alone, the new law spurred more than 1,000 public companies to issue restatements. AES is among that group. We ourselves have identified weaknesses in our financial reporting, brought in additional outside experts to conduct a comprehensive review of our systems, and are allocating the resources necessary to address the weaknesses. The process has been difficult at times. But I am confident that—along with improvements we have made in forecasting, risk management, performance enhancement, and strategy development—the time and effort we are expending to upgrade our financial reporting and control systems will make us even stronger. I especially appreciate the fact that as we have moved through the restatement process, our investors have shown continuing confidence in us.

We will do our very best to remain worthy of your confidence.

Richard Darman, Chairman of the Board

April 4, 2006





The power of being global. It enables a team of 30,000 people from all over the world to reap the benefits of the best ideas and innovations from the most diverse circumstances.

It provides a vantage point to look at opportunities in a global market—and assess where we want to go. On the ground in 25 countries and a myriad of communities, our people also have the local insight and presence to surface opportunities others might miss—and turn them into results. It's what enables AES to grow strategically through well-structured, balanced investments. And for our customers, teammates, owners, suppliers, partners and communities? It makes us better—a better service provider, a better place to work and a better investment.

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At AES, we call this harnessing “the power of being global.” And it's what has helped us achieve a good year in 2005: strong financial results, expanded growth opportunities and continued steps to improve the overall quality of our performance.

We delivered on all of our targets and reached a significant new milestone: we exceeded \$11 billion in annual revenue. We strengthened our balance sheet and generated free cash flow of over \$1.5 billion. Gross margin increased 14 percent and return on invested capital increased by 360 basis points to 11.3 percent. Credit quality rose incrementally, on track with our long-term goals, and we reaffirmed our 2008 financial targets for earnings per share, growth margin and return on invested capital. We also continued our momentum in financings and debt reduction. Across our subsidiaries, we refinanced approximately \$1.3 billion in debt; on the corporate level, we paid down more than \$250 million in debt and refinanced our corporate revolver.

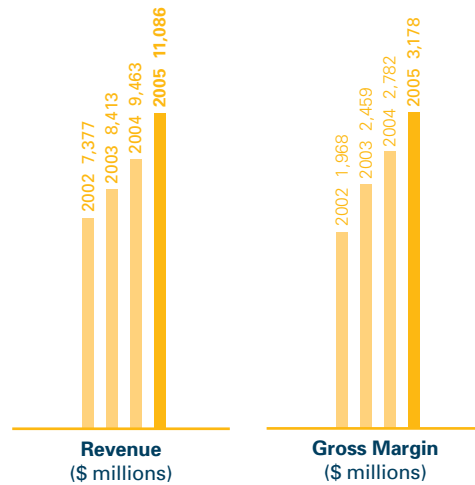
It was a good year for growth, too. We acquired one of the largest wind energy companies in the US, SeaWest, and are completing construction of our first new wind project, Buffalo Gap, in Texas. In Bulgaria, we secured the financing for a 670 MW lignite-fired power plant, the first large scale plant to be built in that country in 20 years, and the single largest foreign investment in Bulgaria to date. We also signed a Memorandum of Understanding to build a 1,000 MW coal-fired plant in Vietnam, where demand for electricity is expected to grow by 15 percent a year through 2010.

A Values-Driven Company

- Put Safety First
- Act With Integrity
- Honor Commitments
- Strive For Excellence
- Have Fun Through Work

AES has always been a values-driven company. Our stated values are both a reflection of who we are, collectively and as individuals, and aspirational, helping to shape our future. We amended our values in 2005 to capture our increased focus on safety and excellence.

We started seeing the benefits of our reorganization along regional lines as many new projects and platform expansions got underway. In Chile, where AES Gener is the country's second-largest electricity generator, we began construction of a new 120 MW plant that is scheduled to be operational in May. We announced plans to construct a \$320 million, 150 MW hydroelectric power plant in Panama that, when complete in 2010, will make AES the largest producer of electricity there, based on today's market analysis. In the US, we laid the groundwork for a platform expansion of the first AES plant, our 160 MW AES Deepwater petroleum-coke-fired facility in Texas, by purchasing the adjacent site for possible future development. We started the construction of a \$46 million emission reduction project at our AES Greenidge coal-fired plant in New York, which will extend the life of the plant by more than 20 years. And near our AES Shady Point plant in Oklahoma, we're developing a coal mine—our first in the US, but not the world; we have operated large coal mines in Hungary and Kazakhstan.



We continued our long-term trend in performance improvement and achieved some impressive milestones in this area. Our number one priority remains safety—ensuring that our people and contractors return home safe each and every day. This year, 31 of our businesses across all four regions achieved five years without a lost time accident (LTA); and 24 businesses have worked one million man hours without an accident. In the area of plant reliability, AES Warrior Run in Maryland achieved a record of 12 continuous months online. And in customer service, AES Sul was recognized for having the best customer service in Brazil.

These achievements confirm the advantages that result from our global expertise and reach, our diverse portfolio and our knowledgeable local presence. These qualities enable us to grow with discipline and generate value for all our stakeholders, all over the world. At AES, that's the power of being global.

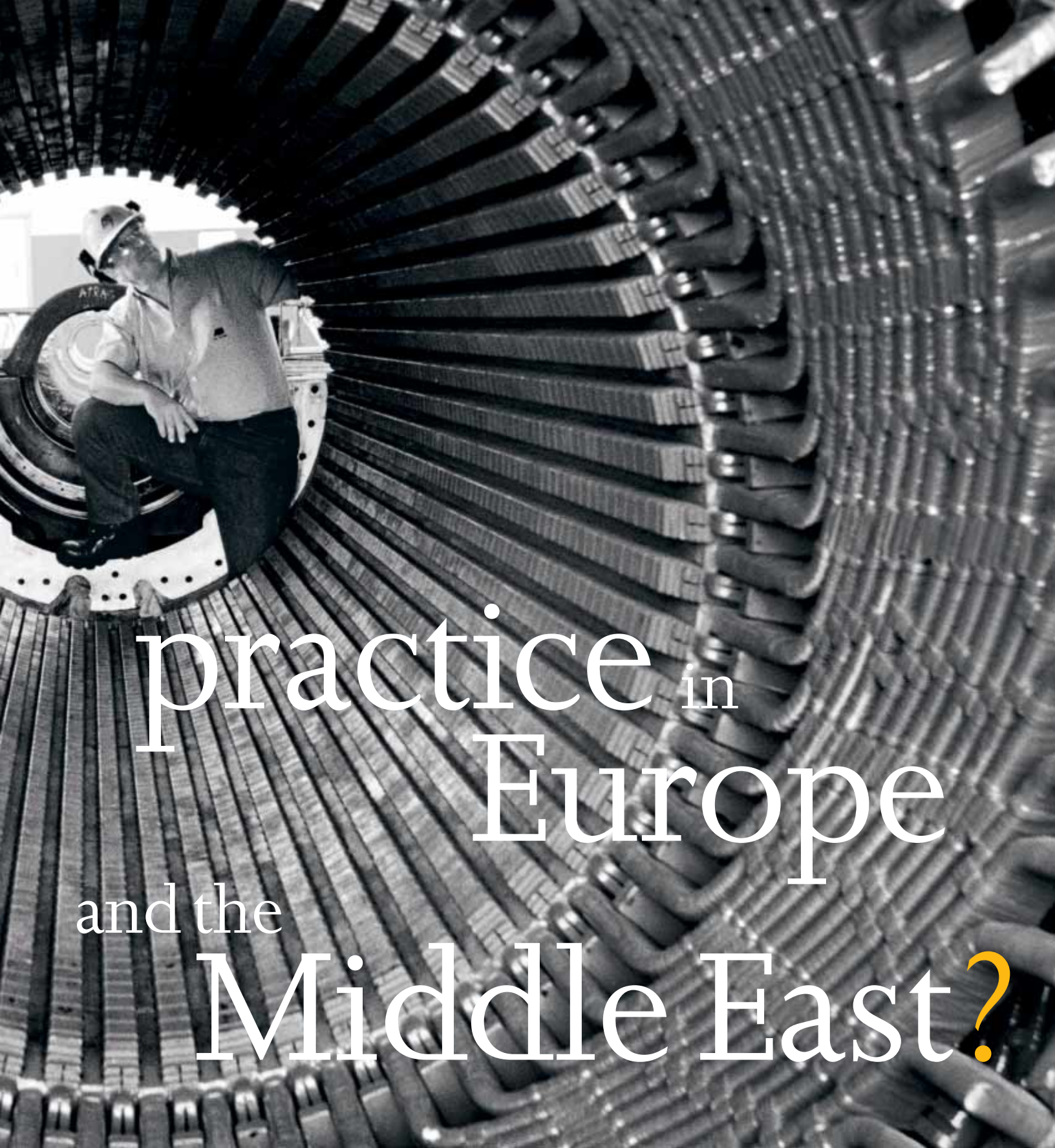
Paul Hanrahan

Paul Hanrahan, President and Chief Executive Officer

April 4, 2006



how
does
life cycle
management
in Africa
become a best



practice ⁱⁿ
Europe
and the
Middle East?



Peer-to-Peer Reviews Generate Best Practices. Inaugurating a peer-to-peer review program in the Europe, Middle East and Africa (EMEA) region, operations group member Chris Hunt took a team of plant managers from the UK, Spain and Hungary to evaluate AES Ebute, our 306 MW power plant in Nigeria. The team expected the intensive review to result in recommendations for improvements at the plant. But what they also found was a better way to operate other plants throughout the region. AES Ebute's Gas Turbine Hot Gas Path (HGP) Life Cycle Management System proved to be a best practice, achieving higher plant availability at optimal costs. And it became a model throughout the region. Best practices spread quickly at AES, so it's no surprise that the peer review initiative itself is being replicated. Bringing into play experiences gained in so many different countries and businesses—drawing on a global team of 30,000—helps us to continually raise performance levels across AES worldwide.

the answer is
knowledge



sharing

Knowledge is power. By that we mean, AES knowledge powers performance and growth all around the world.

Knowledge sharing remains key to the AES business culture. It's how we work, it's how we improve. In a global enterprise such as ours, where each business is deeply rooted in its local economy and customs, knowledge is a sort of currency we share. Our customers and business partners count on the unique insights of our people, benefiting from the collective experience of AES. That's why we deploy networks of experts—circulating ingenuity and best practices throughout our global enterprise. And how a peer review initiative among plant managers from our Europe, Africa and Middle East region could quickly lead to improved processes around the world.

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The proof lives in our people. Like the 80 AES linemen, team leaders, dispatch operators and contractors from eight different countries brought together in an AES Safety Action Forum to achieve one common goal: preventing accidents caused by people coming into contact with energized lines. In countless ways, AES people embody stories of knowledge gained and shared. In moving from challenge to opportunity, from one corner of the globe to the next, the people of AES share what they know. That's how we raise the quality, efficiency and value that each AES business delivers.



是也部也
唐詩清話錄
丙寅子秋

南鄉子 樂山

登樓望遠嘉州三江奔
來龍馬走輕舟逐波
飛一眼花悠大佛引
遠空際 馳過岷江
頭直上凌而不莫回首
竹翠林深於爾繼遊
九峰頂天孤中流

光緒二十八年八月
李又蘭

一尊六佛莊嚴



**Profile: Larry Cantrell, Plant Manager,
AES Warrior Run**



From Oklahoma to Pakistan to Pennsylvania to Oman and back to the States, Larry has shared his knowledge and insights with AES people in vastly different markets and business environments. He helped build and operate AES Lal Pir in Pakistan—bringing innovation and private sector perspective to the local team. Since then, many from the AES Lal Pir team have gone on to share their knowledge and experience at other AES businesses around the world, including our operations in China, California, Cameroon and Qatar, to name just a few. Larry also led the construction and initial operation of AES Barka in Oman, helping AES branch into the business of water desalination in addition to combined cycle power generation. In April 2005, Larry became plant manager of AES Warrior Run in Maryland, USA, where he is continuing to put his experience to work, generating impressive reliability and world-class operational performance.

Larry says he has learned more than he has taught; yet a host of AES people and leaders around the world are proof of his impact throughout the company. That makes Larry, with all of his diverse experience, typical of our seasoned professionals and a good example of how knowledge travels, sometimes quite literally, across AES.

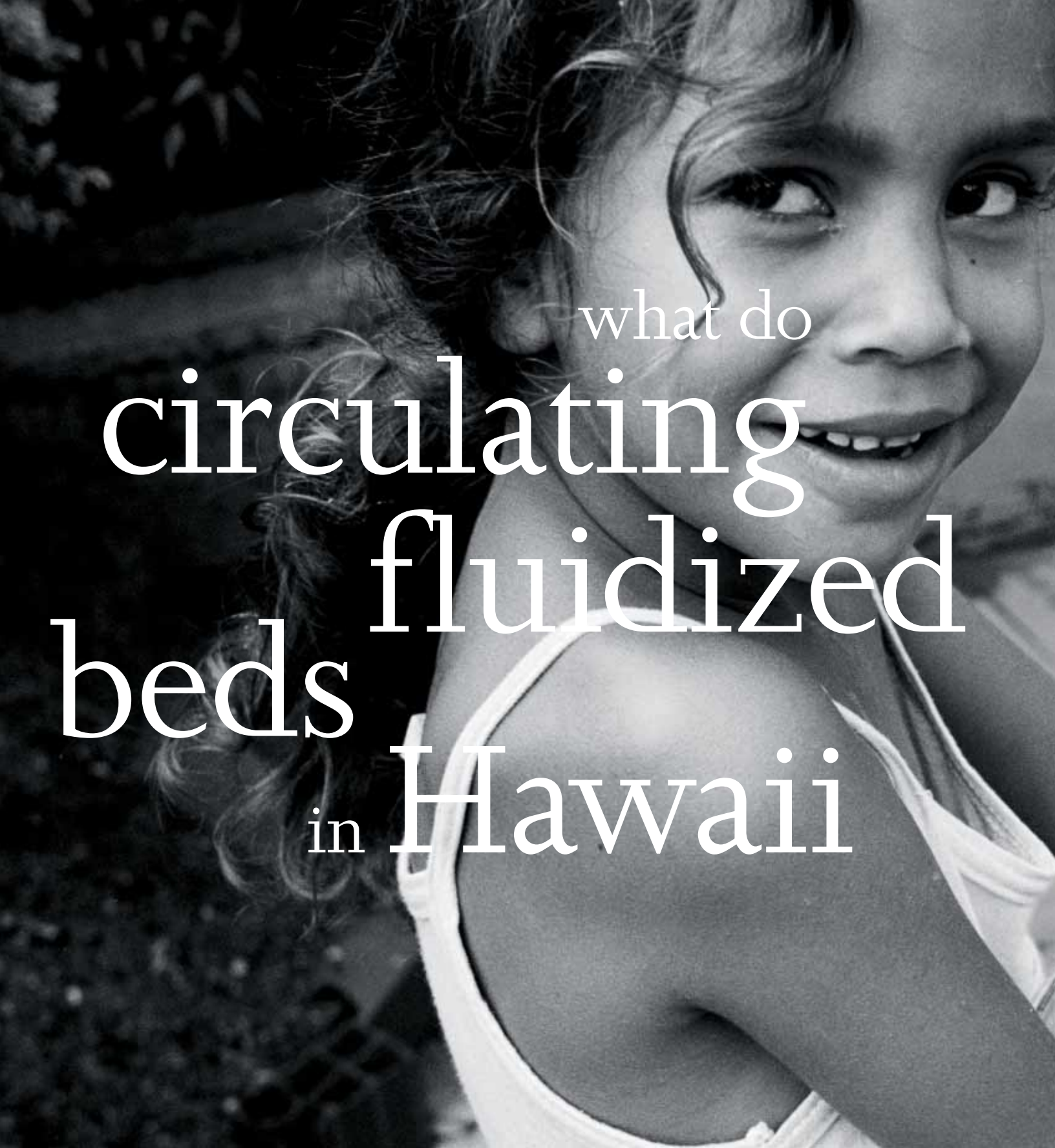
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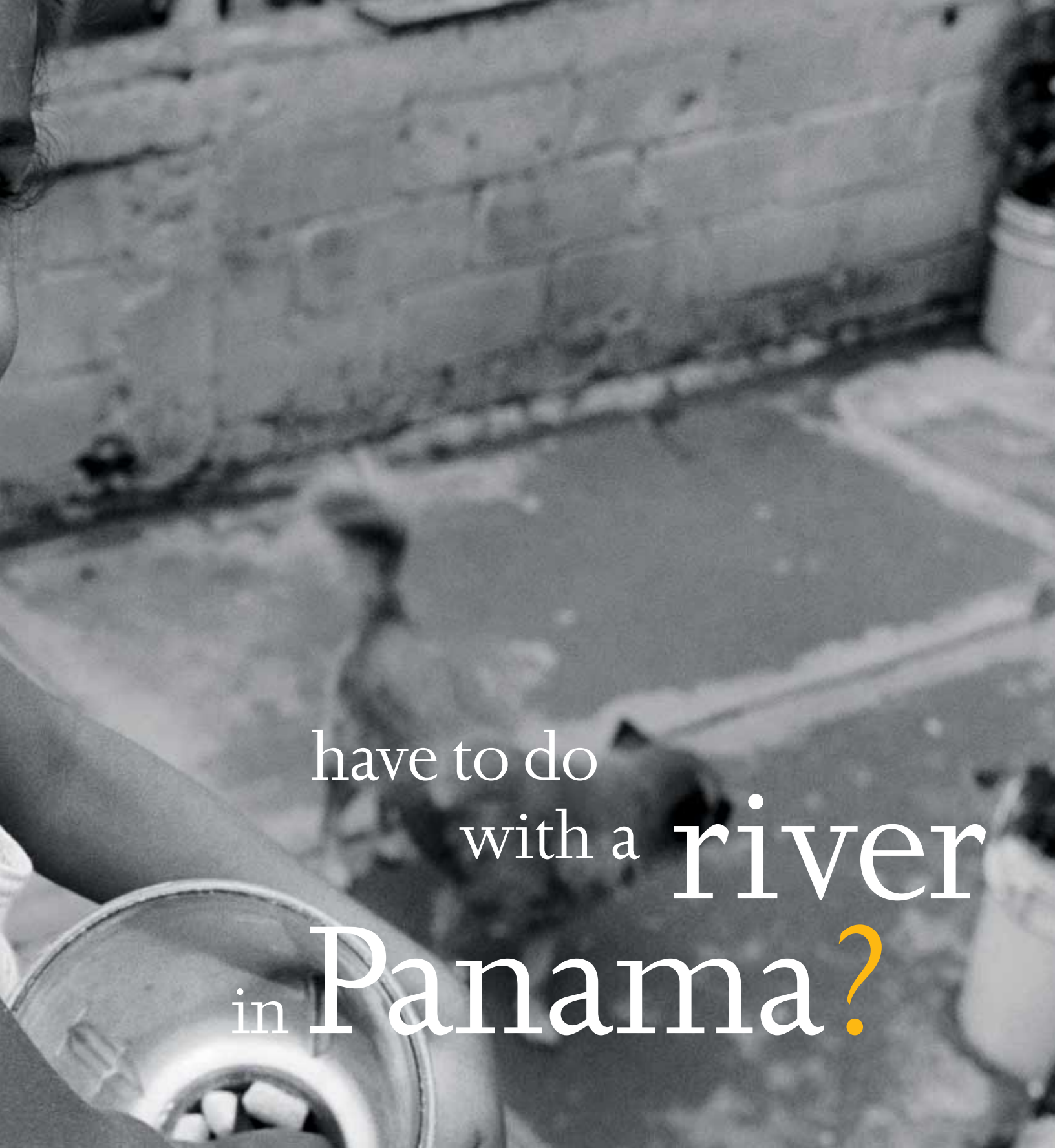
p.16 Top Chinese calligraphy

p.16 Bottom Seeds from an AES environmental project at the AES Tietê power plant in Brazil

p.17 Larry Cantrell with his team leaders at the AES Warrior Run power plant in Maryland, USA



what do
circulating
fluidized
beds
in Hawaii



have to do
with a **river**
in **Panama?**

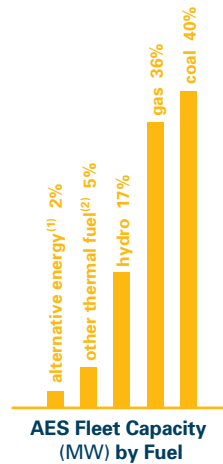




• the answer is •
diversity



Diversity Powers AES Worldwide



- ⁽¹⁾ Alternative energy includes wind and biomass
⁽²⁾ Other thermal fuel includes oil, diesel and petroleum coke

Oil prices were spiking in 1992 when we built our plant in Hawaii, USA, so our team determined that coal would be the best fuel option to help stabilize electricity rates. Environmental impact was also a primary concern, so our team found a solution that was both cost effective and more environmentally friendly: circulating fluidized bed (CFB) technology, a clean-burning coal-fired process. AES Hawaii was our third CFB facility at the time. We now have six such plants in our fleet worldwide and lead the US in megawatt capacity generated by this technology.

In Panama, where we are moving forward with the development of a new 150 MW hydro plant, the abundant water supplies dictated our approach. Whether utilizing clean-burning coal-fired technology in Hawaii, or tapping available hydrology in Panama, AES identifies the appropriate fuel technology for each particular market. We can do this because AES operates and has expertise in almost every form of generation and fuel type—including biomass, coal, natural gas, oil, water and, more recently, wind.

Rather than being tied to a single type of technology or force-fitting a rigid solution, we identify what each particular market and environment can best support. This brings numerous benefits, including increased generation capacity and reliability, lower costs to consumers and power to advance burgeoning economies.

In the energy business, diversity levels risk. By diversifying the markets we are in, and the types of fuel and technology our various businesses employ, we increase our long-term prospects to build and enhance value. Given the diversity of our portfolio and global footprint, AES is uniquely positioned to grasp and build upon power sector opportunities worldwide. Our robust portfolio is balanced between mature, stable markets and growth markets open to private development. Emerging markets can bring higher risks, but the rewards can be even greater. For example, expanding into Southeast Europe, which includes countries with growth rates nearly double the average growth rate in European Union countries, makes good business sense—especially when balanced with the stability of our investments in Western Europe, the US and elsewhere.

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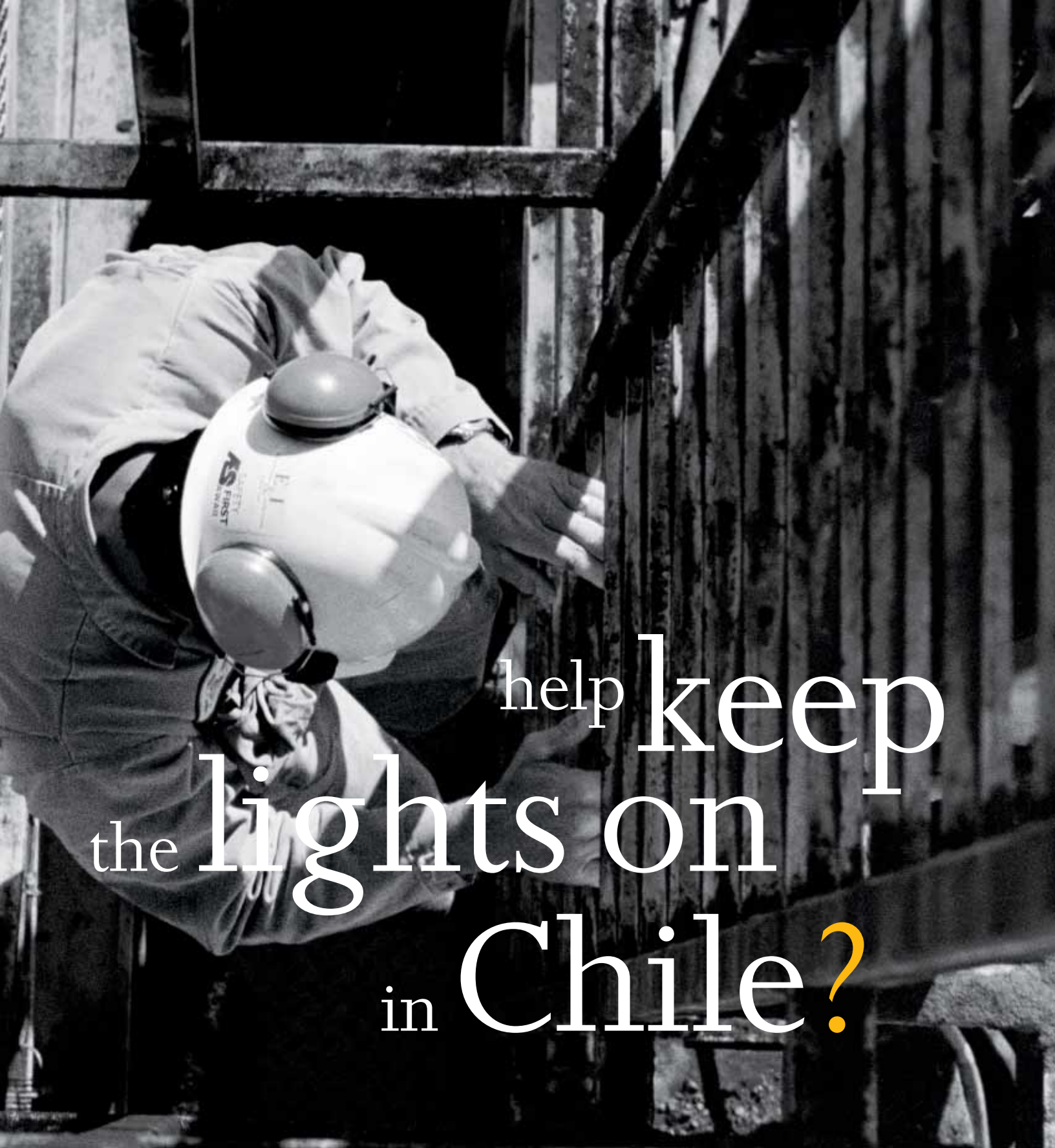
Untethered to the ups and downs of any one market, geography or type of power generation, we enjoy both flexibility and balance. And we are able to anticipate and go where the growth is.

Our recent venture into wind reflects our balanced growth strategy. When we determined the time was right for us to enter the wind market in the US, we also knew that the US wind rush has tended to rise and fall according to the availability of tax credits. So we simultaneously sought wind opportunities in other markets around the world where AES has an established foothold to balance that risk. That's one example of how our presence in 26 countries worldwide helps AES weather potential turbulence while driving growth.





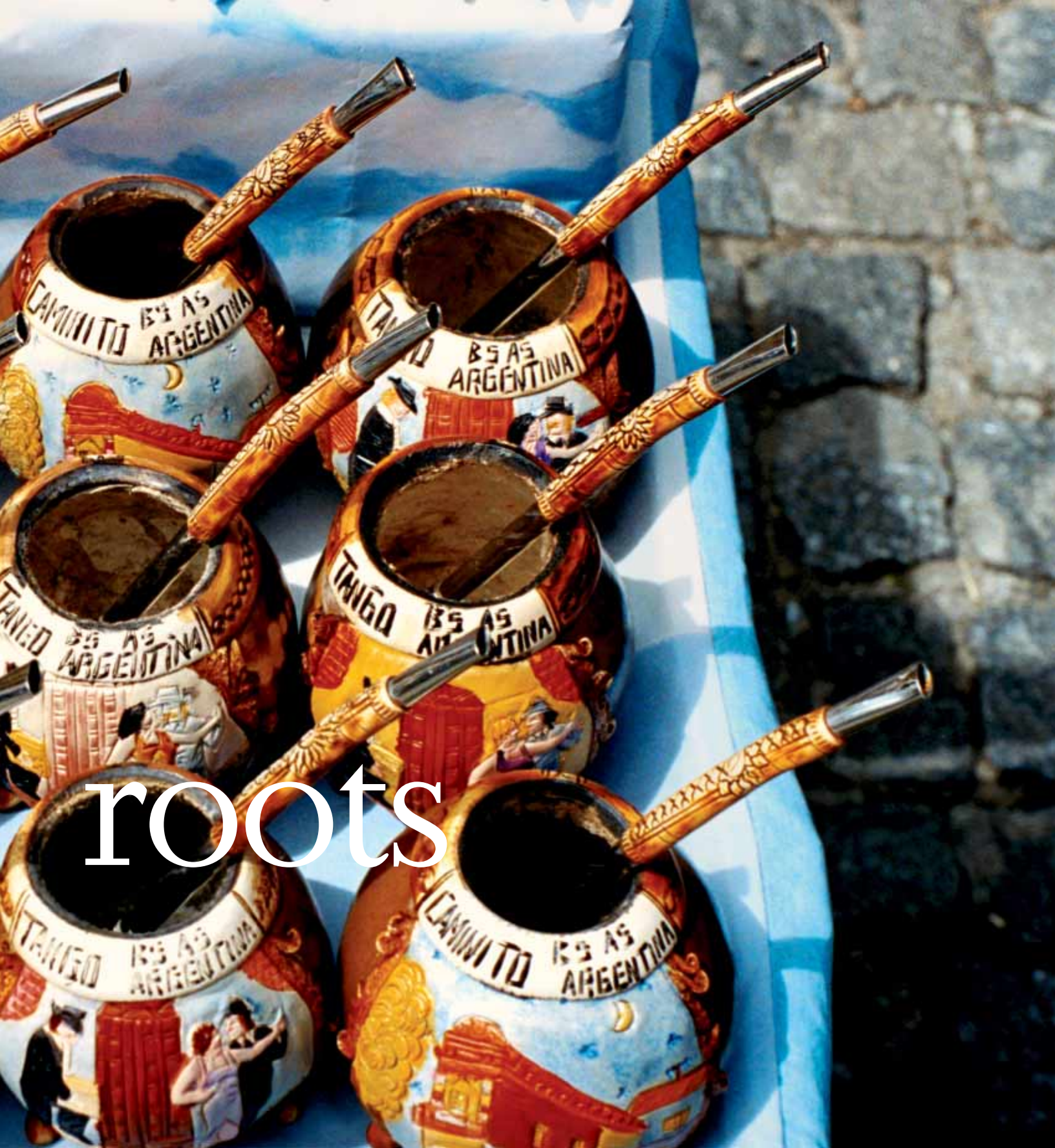
how
does
ingenuity
in
Argentina



help keep
the lights on
in Chile?



the answer is
deep local



roots

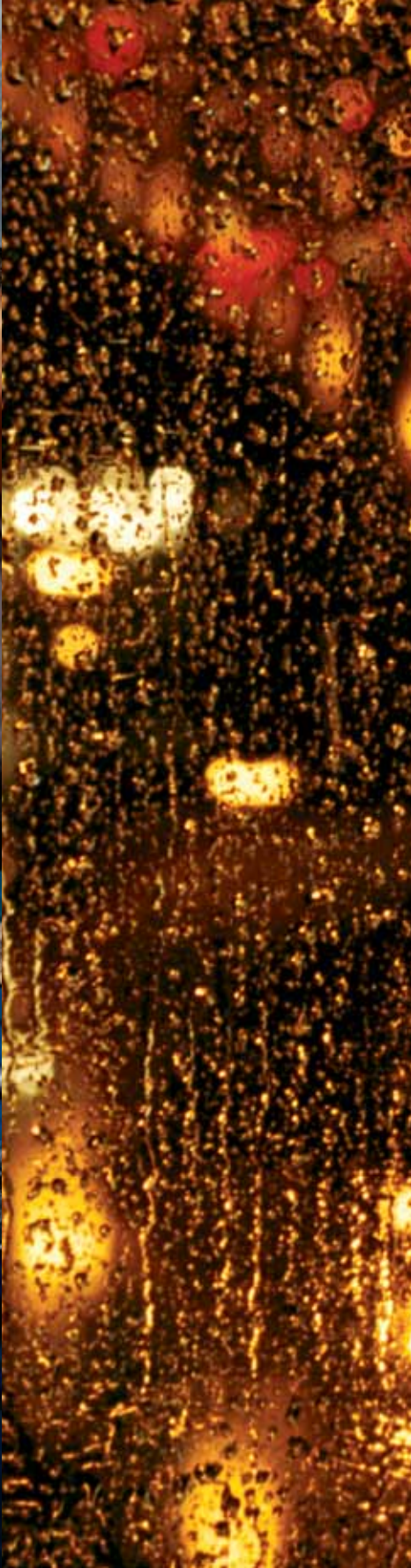
Steering through a Crisis

When Argentina announced it would curtail exports of natural gas in 2004, our operations in Chile faced losing a critical supply of fuel and the possible rationing of electricity. Through our broad network across the Southern Cone, our people in Argentina and Chile responded with local and cross-border initiatives to mitigate the impacts of this fuel crisis.

With a regular allotment of gas to keep its plants running, our operations in Argentina had its fuel needs met. But we knew that our facilities in Chile didn't—so both teams started working toward a broader solution. Knowing that our CTSN power plant in Argentina had the flexibility to burn gas, fuel oil or coal—the only plant in Argentina with such capabilities—they saw an opportunity. First, the team in Argentina sought and received permission from the Argentine government to burn coal in lieu of gas at CTSN. With the plant's entire gas allotment freed up, teams in both countries worked with government authorities to develop a plan to implement a trade in fuels. When gas exporters were unwilling to apply such a mechanism available under the Argentine regulatory framework, our teams worked to design an innovative fuel swap arrangement. Through this creative thinking, our Chilean facilities received natural gas from our plant in Argentina to maintain operations. They were also able to mitigate financial losses caused by the cost increase in power generation as a result of the gas shortage. When others in the industry followed our lead to implement fuel swaps, our collective efforts helped Chile avoid the rationing of electricity altogether.

Drawing on diverse technologies, local know-how and relationships to generate positive change—that's AES.



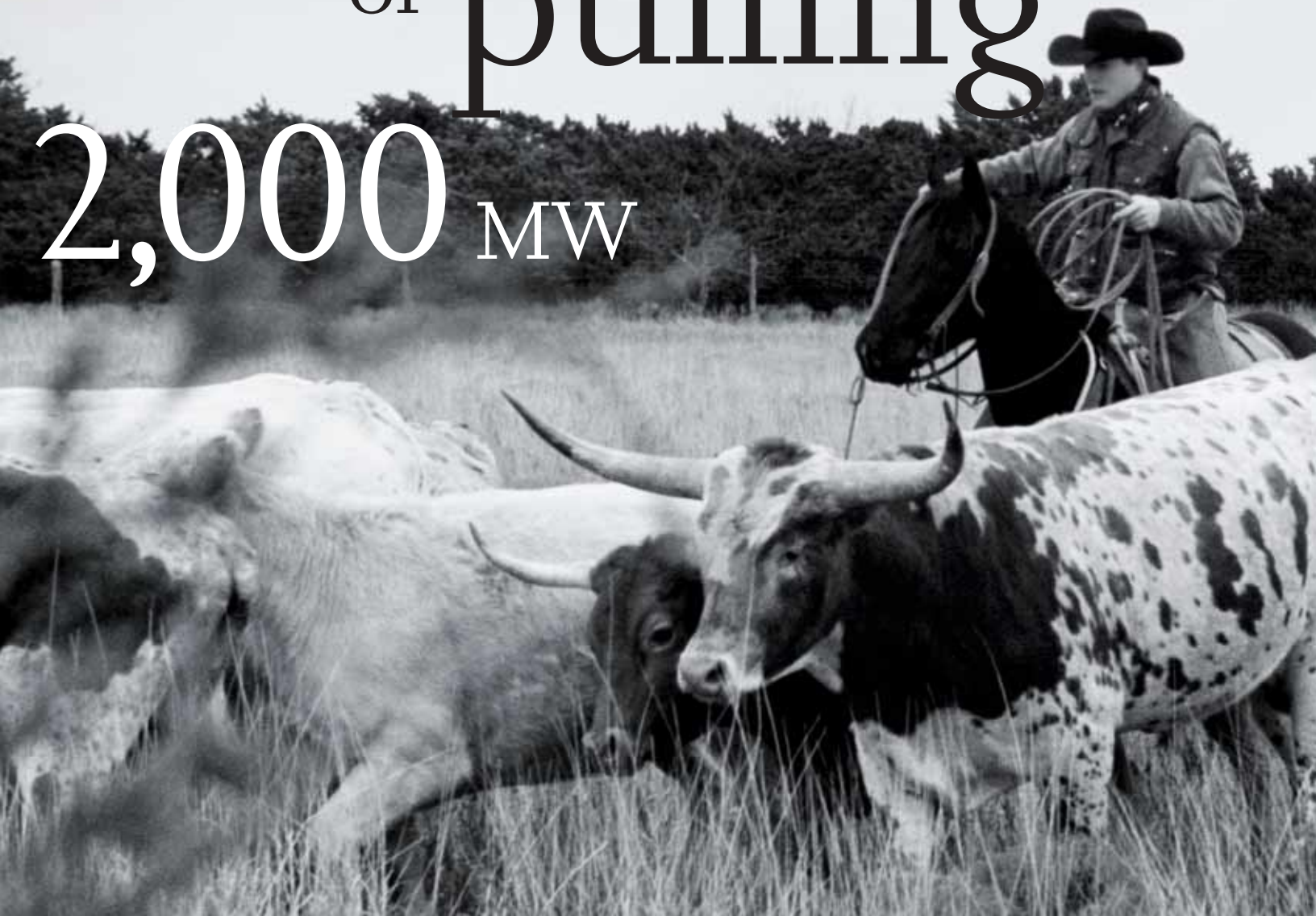


Deep local roots and expertise drive innovation and positive change wherever AES does business. With local eyes and ears, we find opportunities that others might miss. It might be knowing how to help alleviate the effects of the Argentine gas crisis in Chile. Or finding an innovative way to expand a business, as our team at the coal-fired AES Shady Point power plant in Oklahoma did when they identified and successfully pursued an opportunity to develop a nearby coal mine. Such innovation arises locally at AES operations all over the world, because our people are part of the fabric of each country's culture and ways of doing business.

For example, some 12 years ago, we began looking at opportunities in Vietnam. Today, the country's electricity demand is forecasted to grow at 15 percent a year until 2010. With our experience in the region and knowledge of the market, we were able to move quickly when the time was right to help meet this growing demand through a proposed 1,000 MW coal-fired plant. Our recently signed Memorandum of Understanding with the Vietnamese government provides AES with exclusive rights for two years to develop this plant. This facility would be the largest US investment in Vietnam, and the largest foreign investment in that country's power sector, to date.

Underlying AES's global strengths is the power of being local. It's how we get things done—surfacing opportunities to expand the business, improve efficiency and enhance the value we deliver.

what's
the value
of pulling
2,000 MW





out
of the sky?



Wind adds a new element to our global portfolio. Wind generation is a market ripe for growth with global installed capacity expected to more than double over the next five years to more than 152,000 MW by 2011. AES has quickly become a significant player in the US wind sector. We currently operate 600 MW of wind facilities and are pursuing another 2,000 MW of wind projects in development, primarily in the US. Buffalo Gap, our new 120 MW wind farm in Abilene, Texas, began commercial operation in 2006. Its entire output for 15 years is already contracted for by a major utility. We also are exploring possibilities in wind power markets from Europe to China to India to Central and South America. That's one way AES grows—by leveraging credibility and particular expertise gained in one country's market, and bringing it to the world.

the answer is •
strategic gro



wth



Vital new investments in Bulgaria, El Salvador and Panama.
Coal mining in Kazakhstan and Oklahoma.
Producing gypsum from SO₂ reduction processes in Indiana for recycling by the wallboard industry.
Expanding capacity in Cameroon and Cartagena.

Building new capacity, expanding platforms and venturing into new markets and new types of business, AES seeks growth deliberately and strategically. Right now, in almost any given time zone, AES people are pursuing opportunities—in highly competitive markets, such as the US, as well as in rising economies from Central America to Southeast Europe to Africa to Asia.

Our growth strategy takes two tracks: global and local. Our global corporate Business Development and Strategy group focuses on large-scale projects, like mergers and acquisitions, and pursues strategic initiatives, like market-located liquified natural gas regasification terminals, opportunities in the climate change business and, more generally, the promising renewables and alternative energy marketplace. Our recent expansion into wind, which leverages our proven capabilities in large-scale construction and financing projects, is an example of these efforts.

On a local level, our people surface opportunities to expand the value we deliver through strategic platform expansions, such as our 120 MW expansion project in Chile. With innovative, on-the-ground market insights in countries worldwide, AES people identify and pursue creative yet strategic opportunities to grow the business.

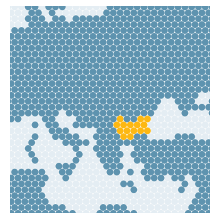
Powering Growth in Bulgaria and Beyond

The largest single foreign investment in Bulgaria's power sector. The largest greenfield investment in Southeast Europe. And our single largest greenfield project investment to date.

AES Maritza East I, a 670 MW lignite-fired power plant, will help supply Bulgaria's electricity needs and maintain the nation's position as an energy hub for neighboring countries. It will be the most efficient and cleanest fossil fuel power plant in Bulgaria, meeting World Bank and EU environmental standards. Construction financing agreements were signed at the end of 2005. The plant is supported by a 15-year power purchase agreement with the Bulgarian national utility and a 15-year lignite supply agreement with a state-owned mining company.

Bulgaria is exactly the kind of country in which AES looks to do business—a country which is experiencing growth and burgeoning demand, with developing infrastructure, fair market rules and an energy sector that we can help vitalize. The country has a growth rate nearly double that of the average European Union country, and hopes to join the EU within the next two years. The Maritza project is helping to lay the groundwork to give the local energy sector the power to transform.

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AES Maritza East I will help maintain Bulgaria's position as an energy hub for neighboring countries





North America

In the region since **1985**
Number of AES people: **3,171**
Total generation: **13,441 MW**
Total distribution: **16,278 GWh**

Latin America

In the region since **1993**
Number of AES people: **11,978**
Total generation: **13,823 MW**
Total distribution: **59,615 GWh**

The Power of Being Global



EMEA

In the region since 1992
 Number of AES people: **8,540**
 Total generation: **5,710 MW**
 Total distribution: **8,485 GWh**

Asia

In the region since 1994
 Number of AES people: **8,028**
 Total generation: **10,388 MW**
 Total distribution: **2,832 GWh**

● **AES Operations, including:**
 Distribution Businesses
 Generation Facilities
 Plants Under Construction

● **Facilities AES operates through
 Management or O & M Agreements**

North America: A Region Marked by Firsts

Many of AES's firsts occurred in North America—we developed our first power plant in Deepwater, Texas. We helped pioneer circulating fluidized bed (CFB) technology in the US in the early 1990s, a clean burning alternative for coal-fired plants. Today, we operate five such plants in North America, including AES Puerto Rico, which has one of the lowest rates of sulfur dioxide emissions of any coal-fired plant in the US. Our regulated utility, Indianapolis Power & Light Company (IPL), is first rate in customer service. It maintains some of the lowest electricity rates and the highest customer satisfaction levels in the country.

With operations in: Canada, Mexico, United States (California, Colorado, Connecticut, Hawaii, Indiana, Maryland, New Hampshire, New Jersey, New York, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Texas, Wyoming)



SPOTLIGHT ON INDIANAPOLIS

The Indy cars hurtle around the Brickyard at 200 mph and more, and the whole city pulses with excitement, knowing that on this and every Memorial Day weekend, people across the US and the world are watching the most storied racing event in the country. And just like every day of the year, the city stays humming thanks to IPL, "The Power Behind Indianapolis."

IPL customers enjoy some of the lowest residential electric rates in the US. Burning local coal helps keep rates low, and investing millions of dollars in environmental initiatives will allow the continued use of this economical and

abundant fuel source for years to come. The upcoming completion of a 10-year, \$600 million multi-pollutant reduction initiative will help IPL lessen the impact of its coal-fired plants on the environment while maintaining competitive rates. Installing selective catalytic reduction (SCR) systems and other technologies helped reduce total nitrogen oxide (NOx) emissions since 2000 by almost 55 percent system-wide during the summer ozone season. Scheduled upgrades in scrubbers and other technologies will help further reduce sulfur dioxide (SO₂) and mercury emissions.

IPL typically ranks among the top 10 percent of all US utilities in reliability, with an overall customer satisfaction level of 91.7 percent. It was the recipient of PA Consulting Group's ReliabilityOne™ Award for the central regions of the US and Canada in 2005 for excelling in delivering reliable electricity to its customers. The utility also contributes millions of dollars each year to its communities, furthering education, enhancing local culture and supporting the preservation of parkland to help raise the quality of life in and around Indianapolis.

Left Hawaiian musician with a ukulele
Center IPL headquarters at night in Indianapolis, Indiana, USA
Right Farmers market in Maryland, USA

Latin America: A Region Defined by Deep Local Roots

When AES expanded into Latin America in 1993, Argentina was our first landing point. Today, combining all of our assets in the region would make AES the second largest privately-owned electricity company—and the 25th largest company—in the region. Some of our businesses, including EDC in Venezuela and AES Eletropaulo in Brazil, have over 100 years of service behind them. And this type of historic presence pays dividends: in 2005, we were the first company in the Argentine power sector to successfully start the renegotiation of our concession contract with the Argentine government and receive a tariff increase.

With operations in: Argentina, Brazil, Chile, Colombia, Dominican Republic, El Salvador, Panama, Venezuela



SPOTLIGHT ON EL SALVADOR

This is the kind of country AES thrives in—a country striving to become a leader in its region, with a stable regulatory infrastructure, that is rife with opportunities. Ready for great things, AES El Salvador has consolidated and integrated four distribution companies into one business that serves almost 80 percent of the country. Our people enjoy productive relationships with the government and media, while actively participating in private sector associations to promote energy conservation and responsible growth. Committed to improving the lives of all Salvadorians, the

company instituted rural electrification programs that have helped more than 17,000 families gain access to electricity.

AES El Salvador has formed an Advisory Board that includes some of the country's most notable opinion makers. The Board offers a deep understanding of the local and regional economy, leading to more effective decision making. The success of this initiative has led other AES businesses in nearby countries to begin development of similar Advisory Boards.

Allying itself with government initiatives to promote the country as an investment destination, AES El Salvador has proposed the construction of a 250 MW coal-fired generation plant. Through this greenfield project, AES seeks to ensure sustainability for our local distribution companies, while creating the possibility of becoming a power exporter to neighboring countries. The plant will further diversify the power generation sources in the country, helping to stabilize prices and to produce the energy needed to catalyze growth in El Salvador.

Left A Venezuelan boy in Maracaibo
Center Left Chilean cowboys practicing for a rodeo
Center Right A bird in El Salvador
Right A man with panpipes at the Purmarca market in JuJuy, Argentina

Europe, Middle East and Africa (EMEA): A Region Defined by Diversity

From the green hills of Ireland to the sands of Qatar, the range of countries and types of business in the EMEA region are quite rich. As the leading company in biomass conversion in Hungary, we generated more than a third of the nation's total renewable energy in 2004, which is the most recently available data. We provide power, steam and drinking water to communities in the Czech Republic. In Qatar, we convert up to 40 million gallons of seawater into fresh water on a daily basis and produce more than 25% of the country's current generation capacity. And we have dedicated teams exploring possibilities for wind farm development across Europe.

With operations in: Cameroon, Czech Republic, Hungary, Netherlands, Nigeria, Oman, Pakistan, Qatar, Spain, Ukraine, United Kingdom



SPOTLIGHT ON UKRAINE

Like the historical changes taking place in Ukraine, AES's two local electricity distribution companies have experienced an impressive metamorphosis: by effectively collecting current and past due payments, collections are over 100 percent of billings, electricity losses have been reduced by 32 percent and customer service—an often foreign concept in the energy sector pre-privatization—has been revolutionized. Since 2001, AES has made significant improvements to the network capacity of the companies, and we already are among the best performing electric utilities in Ukraine.

We also contribute to the economic development of the country in other ways. Our team has gone to great lengths to make our global knowledge available to the Ukraine government and regulatory bodies and development banks. Few companies can bring the breadth of experience and insight we do, and even fewer global companies understand the local challenges as well.

Our understanding of how to get things done in Ukraine extends to international financing. Our Ukraine team successfully secured \$45 million in non-recourse, long-term financing—the

largest transaction of its kind to date in the country's energy sector—from the International Finance Corporation (IFC), the private sector financing arm of the World Bank. Having worked with AES in El Salvador and Venezuela, the IFC knew our dedication to high standards of service and performance first hand. The financing will help our companies further reduce electricity losses, refurbish the network, increase capacity in high-growth areas and improve overall management efficiency through investing in modern communication systems and information technology.

Left A bullfight in Murcia, Spain
Center Left An old military fort in the north of Qatar
Center Right Local children playing in Kribi, Cameroon
Right House of Parliament in Budapest, Hungary

Asia: A Region Brimming with Growth Opportunities

Our Asia region comprises a variety of markets stretching from the shores of Sri Lanka to the northern reaches of Kazakhstan, all with one thing in common: dramatic growth potential. In China, we are one of the few strong and persevering foreign players in the power market, with a combined 2,842 MW gross installed capacity. And every one of our local business leaders is a native of China. In India, we are helping to shape the country's rapidly expanding market through active participation in the US-India CEO Forum, a group of 10 CEOs from India's leading companies and 10 CEOs from the US, including our CEO, Paul Hanrahan.

With operations in: China, India, Kazakhstan, Sri Lanka



SPOTLIGHT ON KAZAKHSTAN

A cartful of chickens. A truckload of boiler tubes. A warehouse of toilet paper. In 1996, that's how electric bills got paid. With little cash in the economy, we bartered power for anything we could use or exchange. Our barter team, headed by a fast-thinking, hardnosed local manager, Lidia Filimonova, even set up stores to sell or retrade what came in.

AES entered Kazakhstan in the middle of an economic crisis. Ten years later, the country is on the cusp of great growth, and our local businesses receive 100 percent payment—with no barter—for the power we sell to customers in Kazakhstan and Russia.

AES operates five power plants in Kazakhstan, accounting for almost 30 percent of the country's installed generation capacity, a coal mine and manages three distribution businesses in the country.

We have 6,500 people in Kazakhstan, of which only seven are expatriates. And we develop our local people to continually improve their skills. Lidia subsequently spent three years applying her resourcefulness in our distribution business in Ukraine. Now she is back in Kazakhstan, managing the Semipalatinsk distribution company.

Our local leaders have become important contributors to industry associations and government working groups on regional market formation. Preparing the next generation of leaders, AES launched in September 2005 a Leadership Learning Center in Ust-Kamenogorsk, in partnership with the Eurasia Foundation, the University of Virginia's Darden Graduate School of Business Administration, Kazakhstan Institute of Management, Economics and Strategic Research and Kazakhstan American Free University.

Left Schoolchildren in Almaty, Kazakhstan

Center A man transporting goods in Jin Tang, China

Right A young girl with flowers at a Buddhist festival outside of Colombo, Sri Lanka



About our Business

Spanning 25 countries on five continents, AES is one of the largest global power companies. Our 128 power plants and 14 distribution companies have the capacity to serve 100 million people worldwide. But our reach doesn't stop there.

Beyond power, we convert as much as 60 million gallons of seawater into fresh water each day in the deserts of Oman and Qatar. We not only burn coal, we also mine it—in Kazakhstan and soon in the US. We recover CO₂ as a byproduct of our coal-fired plants for use in various products, like carbonated beverages. We manage steam distribution facilities to heat homes in Kazakhstan and bring similar management services to other power-related markets. Building on our heritage of environmental stewardship and our portfolio in wind generation and other renewables, we are seeking ways to expand our alternative energy business, for example, by establishing carbon offset programs in the agriculture and forestry industries. We are also actively seeking opportunities to expand our activities in developing and operating liquified natural gas (LNG) regasification terminals.

Across this broad spectrum, we report our businesses under three segments in our financial statements: Contract Generation, Competitive Supply and Regulated Utilities.

Our **Contract Generation** businesses, which span 17 countries and utilize a wide range of fuels, including gas, coal, water, oil, wind and biomass, generate and sell electricity and related products to utilities or other wholesale customers under long-term contracts. Through these purchase agreements, we help ensure a predictable recovery of the costs associated with building and operating our plants, like our planned AES Maritza East I plant in Bulgaria, or the Buffalo Gap wind farm in Texas, USA. These contracts also may enable us to acquire fuel at more competitive terms or prices. Relatively stable and predictable earnings and cash flow characterize these businesses.

Our **Competitive Supply** businesses sell power to wholesale customers in competitive markets in seven countries, typically under short-term contracts or into daily spot markets. We utilize coal, gas, water, oil, petroleum coke and biomass to fuel these plants. Weather, electricity transmission constraints, fuel prices and competition can affect demand. This line of business,

while offering more varied earnings and cash flow, also offers opportunities for higher profitability for low-cost production facilities in strong demand markets.

Our **Regulated Utilities** in seven countries sell electricity to residential, business and government customers through integrated transmission and distribution systems under exclusive concession contracts. Reliability of service, changing demand for electricity, working capital management, and, in developing countries, reduction of commercial and technical losses, are important influences on earnings and cash flow. Our utilities in emerging markets, like Ukraine and El Salvador, offer good growth potential as they experience increasing demands for additional and more reliable sources of electricity.

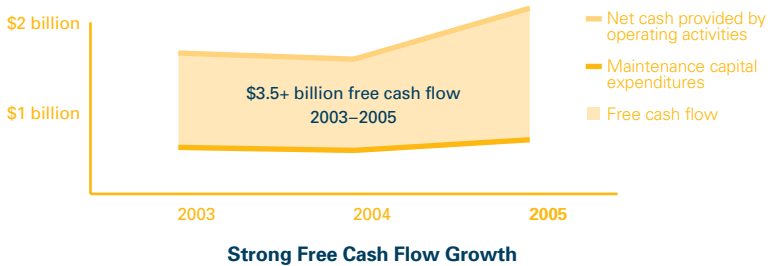
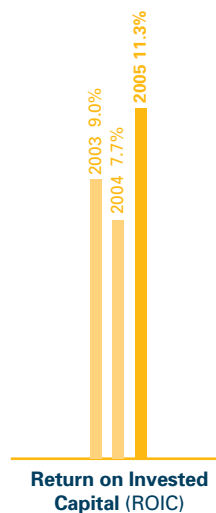
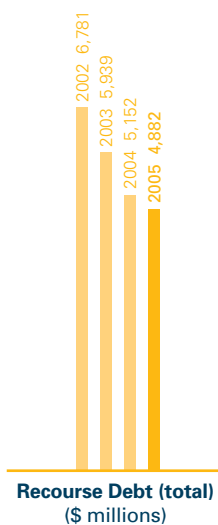
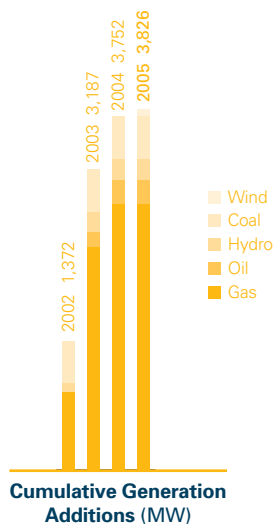
Note: As of March 2006, AES sold its direct interest in Kingston Cogeneration Limited Partnership, a 110 MW cogeneration power plant.

Selected Five Year Financial Data

(\$ millions, except per share amounts)

Years Ended December 31st,

	2001	2002	2003	2004	2005
Results of Operations Data					
Revenues	\$ 6,299	\$ 7,377	\$ 8,413	\$ 9,463	\$ 11,086
Gross margin	\$ 2,038	\$ 1,968	\$ 2,459	\$ 2,782	\$ 3,178
Income (loss) before income taxes and minority interest	\$ 709	\$ (1,678)	\$ 644	\$ 822	\$ 1,458
Income (loss) from continuing operations	\$ 323	\$ (2,064)	\$ 294	\$ 264	\$ 632
Per Share Data					
Weighted average diluted shares outstanding	538	539	598	648	665
Diluted earnings (loss) per share from continuing operations	\$ 0.60	\$ (3.83)	\$ 0.49	\$ 0.41	\$ 0.95
Balance Sheet Data					
Total assets	\$36,636	\$34,550	\$29,137	\$28,923	\$29,432
Recourse debt (long-term)	\$ 5,891	\$ 6,755	\$ 5,862	\$ 5,010	\$ 4,682
Non-recourse debt (long-term)	\$10,787	\$10,044	\$10,930	\$11,817	\$11,226
Total stockholders' equity (deficit)	\$ 5,154	\$ (855)	\$ (102)	\$ 956	\$ 1,649
Cash Flow Data					
Net cash provided by operating activities	\$ 1,691	\$ 1,535	\$ 1,642	\$ 1,571	\$ 2,165



Quarterly Stock Price Range

The following table shows the high and low reported prices⁽¹⁾ of AES common stock for each quarterly period in 2004 and 2005 (in dollars per share):

Quarter	2004		2005	
	High	Low	High	Low
1	10.71	8.02	17.65	12.84
2	10.15	7.69	17.36	13.72
3	10.65	9.20	16.67	14.67
4	13.67	10.15	17.10	14.94

⁽¹⁾The high and low prices are based on intraday composite trading

Condensed Consolidated Statements of Operations

(\$ millions, except per share data)

Years Ended December 31st,

	2003	2004	2005
Revenues	\$8,413	\$9,463	\$11,086
Cost of sales	(5,954)	(6,681)	(7,908)
Gross margin	2,459	2,782	3,178
General and administrative expenses	(157)	(182)	(221)
Interest expense, net	(1,704)	(1,650)	(1,505)
Other income, net	65	12	19
Loss on sale of investments and asset and goodwill impairment expense	(212)	(45)	—
Foreign currency transaction gains (losses) on net monetary position	99	(165)	(89)
Equity in earnings of affiliates	94	70	76
Income before income taxes and minority interest	644	822	1,458
Income tax expense	(211)	(359)	(465)
Minority interest expense	(139)	(199)	(361)
Income from continuing operations	\$ 294	\$ 264	\$ 632
Weighted average diluted shares outstanding	598	648	665
Diluted earnings per share from continuing operations	\$ 0.49	\$ 0.41	\$ 0.95

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Condensed Consolidated Balance Sheets

(\$ millions, except share data)

As of December 31st,

Assets	2003	2004	2005
Current assets			
Cash and cash equivalents	\$ 1,663	\$ 1,281	\$ 1,390
Restricted cash	288	395	420
Short term investments	264	268	203
Accounts receivable, net of reserves of \$291, \$303 and \$279 in 2003, 2004 and 2005, respectively	1,361	1,530	1,615
Inventory	376	418	460
Deferred income taxes—current	198	218	267
Prepaid expenses and other current assets	787	876	877
Total current assets	4,937	4,986	5,232
Property, plant and equipment, net of accumulated depreciation of \$4,462, \$5,259 and \$6,087 in 2003, 2004 and 2005, respectively	17,770	18,177	18,654
Deferred financing costs, net	302	343	294
Investment in and advances to affiliates	648	655	670
Debt service reserves and other deposits	617	737	611
Goodwill, net	1,421	1,419	1,428
Deferred income taxes—noncurrent	809	774	807
Other assets	2,633	1,832	1,736
Total assets	\$29,137	\$28,923	\$29,432

Condensed Consolidated Balance Sheets

(\$ millions, except share data)

As of December 31st,

Liabilities and Stockholders' Equity	2003	2004	2005
Current liabilities			
Accounts payable and accrued and other liabilities	\$ 3,157	\$ 2,788	\$ 3,226
Accrued interest	561	335	382
Recourse debt—current portion	77	142	200
Non-recourse debt—current portion	2,769	1,619	1,598
Total current liabilities	6,564	4,884	5,406
Long-term liabilities			
Non-recourse debt	10,930	11,817	11,226
Recourse debt	5,862	5,010	4,682
Deferred income taxes—noncurrent	670	678	721
Pension liabilities and other post-retirement liabilities	1,032	891	857
Other long-term liabilities	3,186	3,382	3,280
Total long-term liabilities	21,680	21,778	20,766
Minority interest	995	1,305	1,611
Stockholders' equity			
Common stock, \$.01 par value, 1,200,000,000 shares authorized; 625,590,867; 650,093,402 and 655,882,836 shares issued and outstanding at December 31, 2003, 2004 and 2005, respectively	6	7	7
Additional paid-in capital	5,739	6,434	6,517
Accumulated deficit	(2,142)	(1,844)	(1,214)
Accumulated other comprehensive loss	(3,705)	(3,641)	(3,661)
Total stockholders' (deficit) equity	(102)	956	1,649
Total Liabilities and Stockholders' Equity	\$29,137	\$28,923	\$29,432

Condensed Consolidated Statements of Cash Flows

(\$ millions)

Years Ended December 31st,

Operating Activities	2003	2004	2005
Net (loss) income	\$ (452)	\$ 298	\$ 630
Adjustments to net (loss) income			
Depreciation and amortization of intangible assets	755	799	889
Loss from sale of investments and goodwill and asset impairment expense	215	45	43
Loss (gain) on disposal and impairment write-down associated with discontinued operations	686	(98)	—
Provision for deferred taxes	(89)	190	100
Minority interest expense	139	199	361
Other	(123)	322	92
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	(101)	(128)	26
Increase in inventory	(2)	(33)	(73)
Decrease in prepaid expenses and other current assets	180	7	41
Increase (decrease) in accounts payable and accrued liabilities	576	78	(79)
Other assets and liabilities	(142)	(108)	135
Net cash provided by operating activities	1,642	1,571	2,165
Investing Activities			
Property additions	(1,228)	(892)	(1,143)
Acquisitions—net of cash acquired	—	—	(85)
Proceeds from the sales of assets	1,086	63	26
Sale of short-term investments	1,970	1,387	1,496
Purchase of short-term investments	(1,972)	(1,371)	(1,344)
(Increase) decrease in restricted cash	(214)	(32)	58
Proceeds from the sale of emission allowances	—	—	41
(Increase) decrease in debt service reserves and other assets	(28)	(151)	68
Other investing	(14)	(29)	10
Net cash used in investing activities	(400)	(1,025)	(873)

Condensed Consolidated Statements of Cash Flows

(\$ millions)

Years Ended December 31st,

Financing Activities	2003	2004	2005
(Repayments) borrowings under the revolving credit facilities, net	(228)	–	53
Issuance (repayments) of non-recourse debt and other coupon-bearing securities, net	72	(85)	(798)
(Repayments) issuance of recourse debt, net	(374)	(649)	(254)
Payments for deferred financing costs	(146)	(109)	(21)
Distributions to minority interests	(50)	(139)	(186)
Contributions from minority interests	38	28	1
Issuance of common stock	337	16	26
Other financing	(2)	2	(16)
Net cash used in financing activities	(353)	(936)	(1,195)
Effect of exchange rate changes on cash	34	8	12
Total increase (decrease) in cash and cash equivalents	923	(382)	109
Cash and cash equivalents, beginning	740	1,663	1,281
Cash and cash equivalents, ending	\$1,663	\$1,281	\$1,390
Supplemental Disclosures			
Cash payments for interest, net of amounts capitalized	\$1,827	\$1,759	\$1,674
Cash payments for income taxes, net of refunds	177	197	268

Non-GAAP Financial Measures

Management uses certain non-GAAP measures to assess the Company's current and expected future financial performance. The non-GAAP measures complement, but do not replace, the presentation of AES's financial results by providing supplemental information to better understand AES's financial position and results of operations. AES provides this information to help investors better understand trends and evaluate past, current and future operating results.

Free cash flow highlights consolidated cash flow available for debt retirement or growth investments, and is an element of discounted cash flow valuation. It is defined as net cash flow from operating activities less maintenance capital expenditures. Maintenance capital expenditures reflect property additions less growth capital expenditures. Free cash flow yield, which is

the free cash flow divided by the sum of AES's market capitalization of the stock plus minority interest, is a measure of the cash flow available to the owners and is often used to compare valuations.

Adjusted earnings per share is defined as diluted earnings per share from continuing operations excluding gains or losses associated with (a) mark-to-market amounts related to FAS 133 derivative transactions, (b) foreign currency transaction impacts on the net monetary position related to Brazil, Venezuela and Argentina, (c) significant asset gains or losses due to disposition transactions and impairments, and (d) costs related to the early retirement of recourse debt. AES believes that adjusted earnings per share better reflects the underlying business performance of the Company, and is considered in

the Company's internal evaluation of financial performance.

Return on invested capital (ROIC) is an important measure of value creation. Improving ROIC highlights the increased after tax operating earnings on capital invested in the business. It is defined as net operating profit after tax (NOPAT) divided by average capital. NOPAT is defined as income before tax and minority expense plus interest expense less income taxes less tax benefit on interest expense at effective tax rate. Average capital is defined as the average of beginning and ending total debt plus minority interest plus stockholders' equity less debt service reserves and other deposits.

Reconciliation of these financial measures is presented below.

Years Ended December 31st,	(\$ millions)		
Reconciliation of Free Cash Flow	2003	2004	2005
Net cash provided by operating activities	\$1,642	\$1,571	\$2,165
Maintenance capital expenditures	(542)	(507)	(631)
Free cash flow	\$1,100	\$1,064	\$1,534

Years Ended December 31st,	(\$ per share)	
Reconciliation of Adjusted Earnings Per Share	2004	2005
Diluted earnings per share from continuing operations	\$0.41	\$0.95
Excluded factors, net	0.18	(0.04)
Adjusted earnings per share	\$0.59	\$0.91

Years Ended December 31st,

(\$ millions, except percent)

Reconciliation of ROIC	2003	2004	2005
Income before income taxes and minority interest (IBT & MI)	\$ 644	\$ 822	\$ 1,458
Plus interest expense	1,984	1,932	1,896
Less income tax expense ⁽¹⁾	(861)	(1,203)	(1,070)
Net operating profit after tax	\$ 1,767	\$ 1,551	\$ 2,284
Beginning capital	\$19,486	\$19,915	\$20,112
Ending capital	\$19,915	\$20,112	\$20,335
Average capital	\$19,701	\$20,014	\$20,234
ROIC	9.0%	7.7%	11.3%

⁽¹⁾ Income tax expense calculated by multiplying the sum of IBT & MI and reported interest expense for the period by the effective tax rate for the period. The effective tax rate is calculated by dividing reported income tax for the period by IBT & MI for the period.

Forward-Looking Statements

The financial information in this report is in summary form. The complete financial statements and notes are filed in the Company's Form 10-K for the year ended December 31, 2005, as well as our other Securities and Exchange Commission (SEC) filings, and should be read in conjunction with this summary annual report. Copies of these filings can be obtained from our website at www.aes.com,

or from the SEC's website at www.sec.gov. Also, certain statements in this report may constitute "forward-looking statements" as defined by the SEC. Such statements are not historical facts, but are predictions about the future that inherently involve risks and uncertainties, and these risks and uncertainties could cause our actual results to differ from those contained in the forward-looking

statements. In addition, AES disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date hereof. We urge investors to read our descriptions and discussions of these risks that are contained under the section "Risk Factors" in the Company's most recent Form 10-K as noted above.

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SEC and NYSE Certifications

The Company included in Exhibits 32.1 and 32.2 to its Annual Report on Form 10-K for fiscal year 2005 filed with the Securities and Exchange Commission a certificate of the Chief Executive Officer and Chief Financial

Officer of the Company certifying the quality of the Company's public disclosure, and the Company submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company

certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.



AES Leaders

Paul Hanrahan
President and CEO

Victoria Harker
Executive Vice President and CFO

David Gee
President, North America

Andrés Gluski
President, Latin America

Haresh Jaisinghani
President, Asia

Shahzad Qasim
President, EMEA

Robert Hemphill
Executive Vice President

Jay Kloosterboer
Executive Vice President,
Business Excellence

William Luraschi
Executive Vice President,
Business Development
and Strategy

Brian Miller
Executive Vice President,
General Counsel and
Corporate Secretary

Scott Cunningham
Vice President, Investor Relations

Catherine Freeman
Vice President, Corporate Controller

Chip Hoagland
Vice President, Treasurer

Leith Mann
Assistant Corporate Secretary

Robin Pence
Vice President, Communications

The Board of Directors

Richard Darman (Chairman)
Partner and Managing Director,
The Carlyle Group; former Director,
US Office of Management and Budget

Paul Hanrahan
President and CEO,
The AES Corporation

Kristina M. Johnson
Dean, the Edmund T. Pratt, Jr. School
of Engineering, Duke University

John A. Koskinen
President, the US Soccer Foundation;
former Deputy Mayor and City
Administrator, the District of
Columbia; former President and
CEO, The Palmieri Company

Philip Lader
Chairman, WPP Group plc;
Senior Advisor, Morgan Stanley;
former US Ambassador to the
Court of St. James's

John H. McArthur
Dean Emeritus, Harvard University
Graduate School of Business
Administration; Chairman, Asia Pacific
Foundation of Canada; former Senior
Advisor to the President,
The World Bank

Sandra O. Moose
President, Strategic Advisory Services
LLC; Chairperson of the Board of
Trustees, IXIS Advisor Funds and
Loomis Sayles Funds; former Senior
Vice President and Director,
The Boston Consulting Group

Philip A. Odeen
Non-executive Chairman, Reynolds
and Reynolds Company; former
Chairman, TRW Inc.; former President
and CEO, BDM

Charles O. Rossotti
Senior Advisor, The Carlyle Group;
former Commissioner, the IRS;
former Founder and Chairman,
American Management Systems, Inc.

Sven Sandstrom
Director and Treasurer, the International
Union for the Conservation of Nature;
Advisor, African Development Bank and
the Global Fund to Fight AIDS, TB and
Malaria; former Managing Director,
The World Bank

Roger W. Sant
Co-founder and Chairman Emeritus,
The AES Corporation; Chairman,
The Summit Foundation; Regent and
Chairman, Executive Committee of
the Smithsonian Institution

Corporate Office

AES Corporation
4300 Wilson Boulevard
Arlington, VA 22203
USA
703-522-1315

Website

www.aes.com

Stock Information

Common stock of the AES Corporation is traded on the New York Stock Exchange under the symbol AES.



Number of Shareholders

As of December 31, 2005 there were approximately 9,378 AES shareholders of record and 655,882,836 shares of AES common stock outstanding.

Transfer Agent

AES Corporation has designated Computershare (formerly EquiServe) to be its transfer agent for AES common stock.

Please contact Computershare if you need assistance with lost or stolen AES stock certificates directly held by you, address changes, name changes and stock transfers.

Computershare
P.O. Box 43010
Providence, RI 02940-3069
Calls inside the US:
781-575-2879
Calls outside the US:
781-575-2726
www.computershare.com

Independent Auditors

Deloitte & Touche LLP

Investor Relations Information

Please visit the Investor Relations section of the AES website at www.aes.com, or you may contact a member of the AES Investor Relations team:

General: 703-682-6399 or
invest@aes.com

Scott Cunningham, Vice President,
Investor Relations: 703-682-6336
Kelly Huntington, Director,
Investor Relations: 703-682-6383

General and Media Inquiries

Please contact Robin Pence,
Vice President, Communications at
703-682-6552 or media@aes.com.

AES Code of Conduct

AES is committed to demonstrating the highest standards of business ethics in all that we do. To that end, AES has adopted a Code of Business Conduct and Ethics.



the
answer
is AES.

The power of being global.