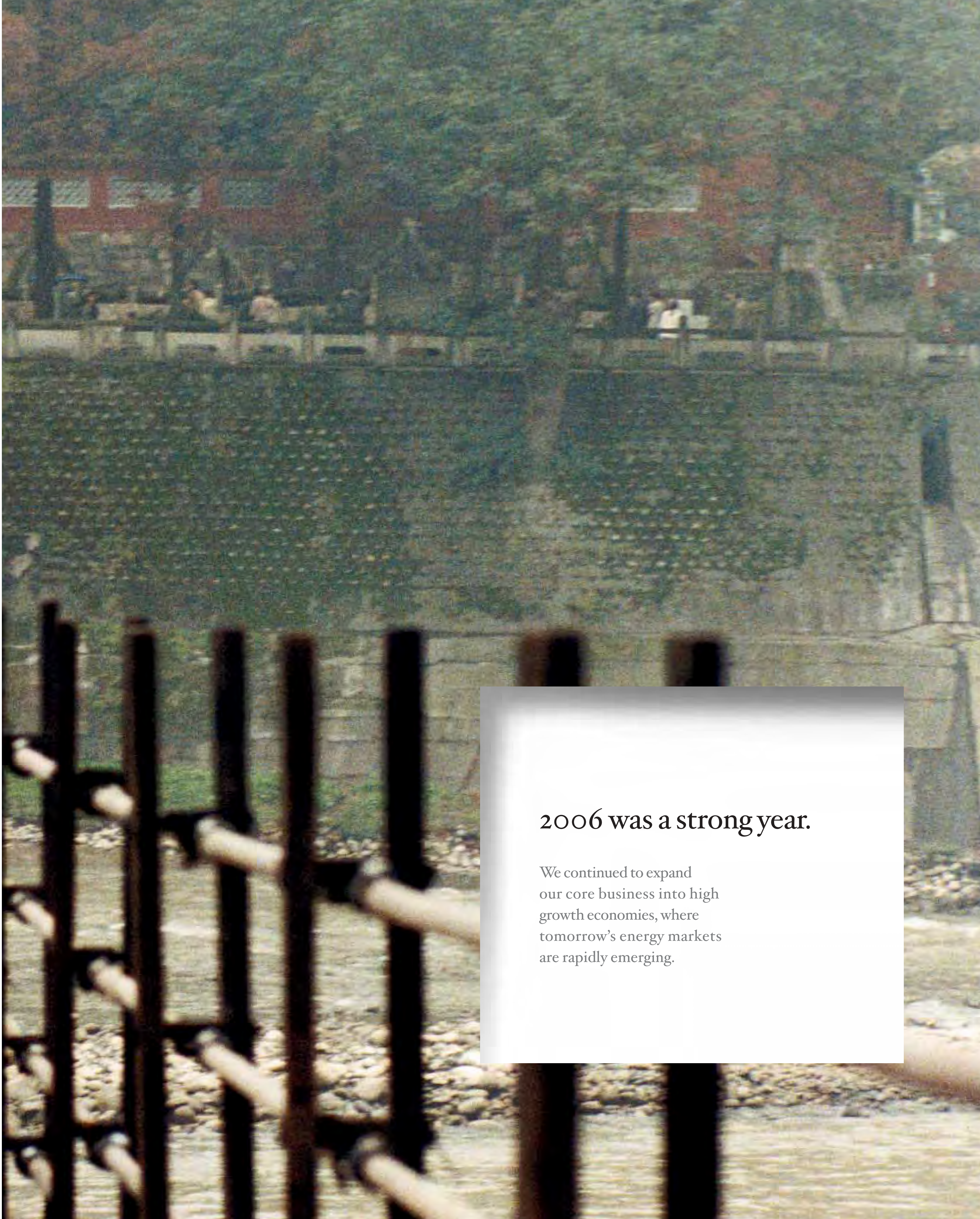
the power of being global

AES Corporation
2006 Annual Report

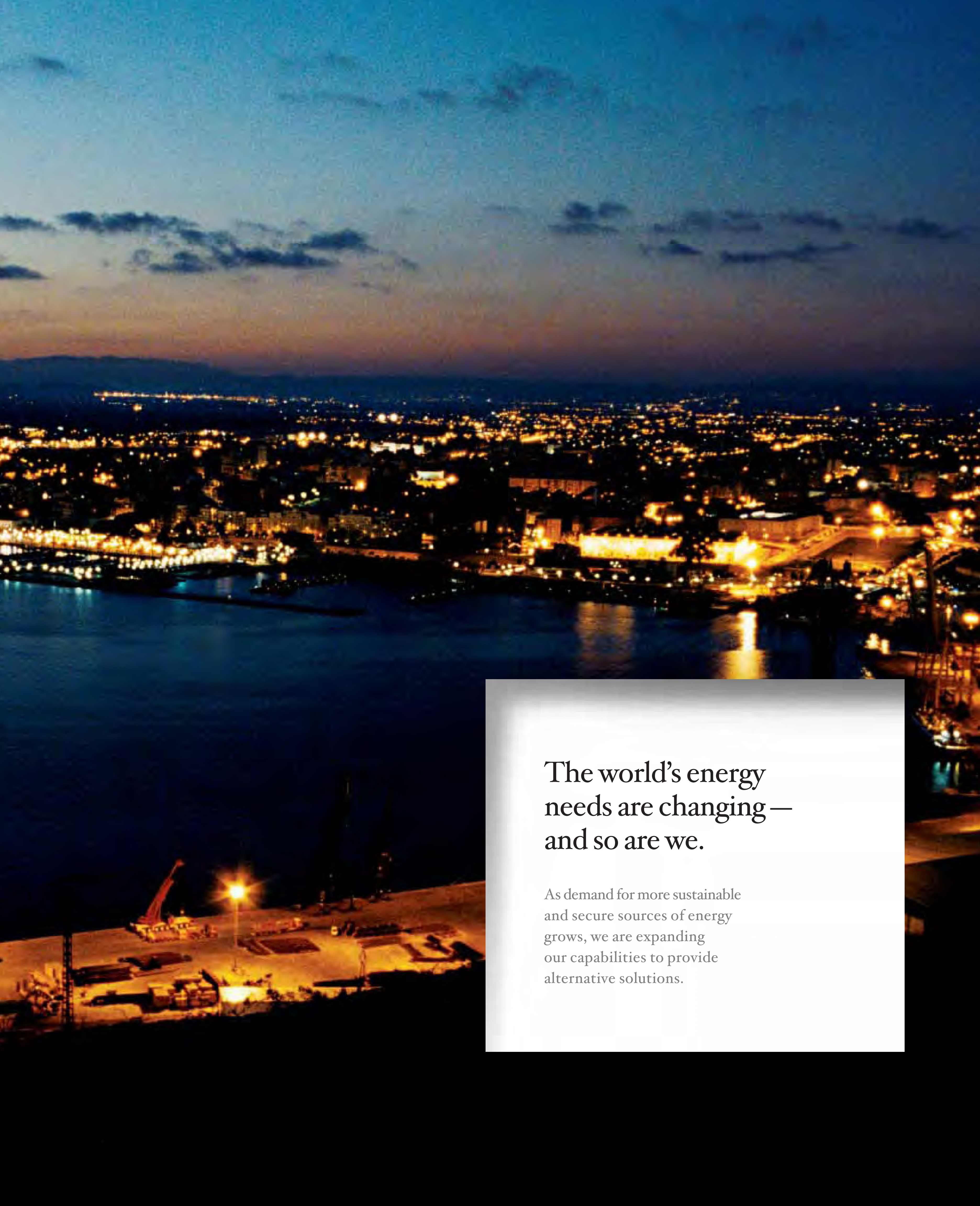
Today. **Tomorrow.** Making it happen.

AES Corporation 2006 Annual Report



2006 was a strong year.

We continued to expand our core business into high growth economies, where tomorrow's energy markets are rapidly emerging.



The world's energy needs are changing — and so are we.

As demand for more sustainable and secure sources of energy grows, we are expanding our capabilities to provide alternative solutions.

Building upon our global footprint, market insights and skills, we will continue to seize new opportunities, including those beyond power, to serve all of our stakeholders better.

Our actions today pave the way for greater growth tomorrow.

Today. Tomorrow.
Making it Happen.

AES is meeting energy needs in some of today's fastest-growing economies. And in select markets worldwide, we have begun to pursue promising opportunities beyond our traditional lines of business.

Global demand for energy is expected to increase 50 percent by 2020. With our proven ability to serve diverse markets, we are able to grow our core business successfully in countries that will dominate tomorrow's global energy sector. In 2006, our people brought online, acquired, began to construct or signed agreements to build power plants ranging in size from under a hundred to over a thousand megawatts in countries new to AES, like Spain and Vietnam, as well as countries in which we've operated for years, like Chile and India.

In response to the world's changing energy needs, we continued our expansion into alternative energy, while seizing new opportunities in related markets. We grew our wind generation business in the United States and made our first investments in the European wind market.

COVER: A lake and mountains near AES Chivor in Colombia
INSIDE FRONT COVER – PAGE 1: Crossing a bridge leading to a 2,000-year-old irrigation site in Sichuan Province, China
PAGES 2 – 3: The harbor in Cartagena, Spain
PAGES 4 – 5: Students at an AES-sponsored school in Galabovo, Bulgaria

We established a climate change business and set aggressive targets to produce greenhouse gas emissions offset credits. The market for these credits is expected to grow significantly as a result of increasingly stringent environmental regulations and a growing political consensus on the problems of global warming. We continued to develop liquefied natural gas (LNG) projects and are focusing on supplying high demand markets for natural gas in the US.

Since its inception, AES has successfully identified and benefited from new opportunities in power markets worldwide. And that is how we will continue to grow—in familiar and new directions—by staying on the leading edge of global market trends. As we continue to expand and look to the future, our commitment remains: to serve all of our stakeholders through disciplined, sustained, responsible growth.

Chairman's Letter
to AES Shareholders.

2006 WAS YET ANOTHER SUCCESSFUL YEAR FOR AES. IN OUR TRADITIONAL LINES OF BUSINESS, WE DEMONSTRATED A CAPACITY TO BUILD ON EXISTING STRENGTHS; WHILE IN NEW AREAS OF PROMISING DEVELOPMENT, WE CONTINUED TO ADVANCE OUR STRATEGY FOR GROWTH.

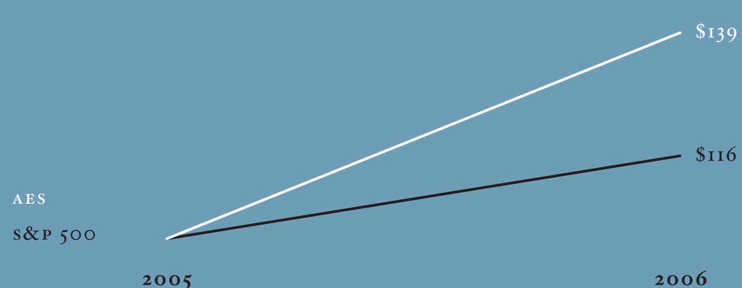
Each year since assuming the Chairmanship of AES, I have used this letter to highlight our commitment to the creation of underlying economic value that, over time, produces stock price appreciation. Our obligation, as I see it, is to outperform the Standard & Poor's 500 Index over the medium and long term. This year, we have again met that test. For 2006, the S&P 500 Index gained 16 percent, while the AES stock price increased by 39 percent. From 2002 through 2006, the record is especially impressive: The S&P Index has gained 73 percent, while AES's stock price has gained 630 percent.

But AES has long stood for other important values in addition to economic return. We have taken great satisfaction from being able to produce an essential like electric power that contributes fundamentally to the quality of life – and from delivering it not only to large numbers of people in developed countries, but also to millions of people in parts of the world where challenges can be more demanding. As we have turned toward new areas of growth, we have been especially pleased to find that many of our most exciting prospects also involve opportunities to make substantial contributions to the general well-being.

Such opportunities include using our proven development capabilities and global reach to accelerate the production of energy from wind, reduce harmful greenhouse gas emissions, and advance alternative energy initiatives that address the problems of energy security and climate change. We have publicly stated that we see the potential to invest $10 billion in these areas. Given their importance and promise, we would hope that investment would be just a beginning.

On the way toward a brighter future, there have, as always, been risks to address. The most notable in this past year has been the decision by the government of Venezuela to nationalize key economic sectors, which has led us to sell our Venezuelan assets. This transaction, which successfully closed during the second quarter of 2007, leads me to comment on the management of risk in general.

Comparison of Cumulative
One-Year Total Shareholder Returns
Years Ended December 31st,
$100 Initial Investment



Of course, all of life involves risk; and in one way or another we are all risk managers. There is risk when a one-year-old tries to walk; yet we know intuitively that the reward justifies the endeavor. Other risks may be less clear. And the associated rewards may neither be so sure, nor so well addressed by intuition. Investors know this problem well. The challenge is to assure that the overall balance of risks and rewards produces the results that we want. On the whole, we believe we are doing that.

At AES, we do not have some types of risk that other companies have – for example, high technology risk, or the risk that a fad or fashion might suddenly lose favor. Of the risks we do have, some can be controlled directly: like contractual terms, site selection, construction management, and the structure of financing. Some can be mitigated through insurance, the participation of multilateral agencies, or investment by local business partners and public stockholders. Other risks require indirect treatment: like hedging for commodity price risk, interest rate risk, or foreign exchange risk. And still others require self-imposed rules to balance our exposure: like limits on the percentage of investment or cash flow associated with one set of countries or another and one kind of market or another.

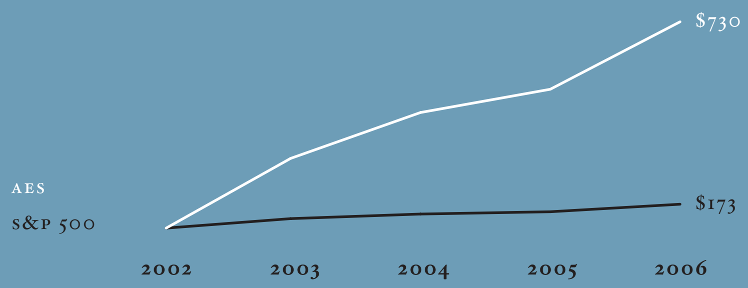
Quite obviously, the management of such risks – and the means to mitigate them – requires much more than intuition. While risk management sometimes involves a degree of creativity, it must always be subject to systematic analysis, continuous monitoring, high-level oversight, timely action, and rigorous discipline. At AES, we believe that is what we provide – in order to strike the balance that will produce the returns our investors expect.

We are fortunate to have both strong core businesses and complementary new opportunities through which to grow. As we manage our investment in these, we look forward to your continuing support.

Dick Darman

Richard Darman, Chairman of the Board
May 21, 2007

Comparison of Cumulative
Four-Year Total Shareholder Returns
Years Ended December 31st,
$100 Initial Investment



CEO's Letter
to AES Shareholders.

2006 WAS A STRONG YEAR FOR AES. OUR EFFORTS TO EXPAND THE BUSINESS AND IMPROVE OUR OPERATIONAL AND FINANCIAL PERFORMANCE WILL ENABLE US TO MAINTAIN CONTINUOUS GROWTH AND IMPROVEMENT INTO THE FUTURE.

Throughout the year, we took deliberate steps to expand our core business in today's fastest-growing economies, while continuing to meet energy needs in markets where we already have a presence. We made a strategic shift to build a business to meet the world's changing energy needs and preferences. To that end, we accelerated our expansion into energy alternatives, aligning AES with evolving needs for a more secure and sustainable energy future. We moved into new areas, like the production of greenhouse gas emissions offsets, investing early in a promising market whose products also contribute to mitigating global climate change. We took firm steps to strengthen our global finance team in an effort to improve the accuracy, timeliness and transparency of our financial reporting worldwide. We continued to improve our operational performance and launched a number of companywide initiatives to develop our people.

These efforts are paving the way for our success in the years to come. Our potential is not limited to power generation and distribution alone but, more broadly, we have the capability of providing other essential, energy-related services. We believe this is a natural expansion for us, and one that utilizes our unique global footprint and operational and development expertise.

FINANCIAL PERFORMANCE

We generated record revenues of $12.3 billion, free cash flow of $1.5 billion and increased our gross margin by 13 percent to $3.6 billion. Our credit quality continued to improve, consistent with what we committed to do several years ago. Globally, our subsidiaries refinanced the US dollar equivalent of $2.4 billion in debt with more favorable terms and, where possible, utilized local currency debt to limit our foreign currency exposure. Approximately $1.6 billion of this refinancing was completed at our businesses in Latin America. At the corporate level, we reduced the leverage in our capital structure, as we have been doing for several years.

In an effort to improve our global finance organization, we streamlined reporting relationships and enhanced communication among our finance teams worldwide. We implemented a number of technical and leadership training programs, including initiatives focused on US Generally Accepted Accounting Principles (US GAAP), compliance with Sarbanes-Oxley requirements and tax compliance. As part of this process, we identified errors in our financial statements that required us to revise previously filed statements. The adjustments resulted from errors that occurred primarily in past years and, in many instances, involved complex areas of accounting. Our continued efforts to teach and train our people, strengthen our internal controls and reporting and build a world-class financial organization have helped us find and correct these past mistakes. However, our work is not yet done. There is additional hiring and development to do within our global finance team, and we are continuing to move forward with our efforts to improve our financial reporting worldwide.

Revenues
Dollars in Millions

We have had a long-standing goal to better balance our portfolio by avoiding excessive concentrations in any one country or region. We made good progress in this area in 2006. We sold a part of our equity interest in our São Paulo utility, AES Eletropaulo, as well as an interest in our Chilean generation company, AES Gener. Combining these actions with the sale of our Caracas utility, La Electricidad de Caracas (EDC), we now have a much more balanced portfolio.

EXPANDING OUR CORE BUSINESS

We made good progress expanding our existing power business to meet growing energy demands across the globe. Our new 1,200 MW gas-fired plant in Spain came online. In Bulgaria, we began construction of our largest greenfield investment to date, the 670 MW AES Maritza East 1 plant. We won a bid to construct a new 370 MW power plant in Jordan. In early 2007, we acquired two power plants in Mexico that nearly doubled our capacity there, and we have more than 600 MW of new generation projects under construction in Chile and Panama. In other attractive markets like India, Indonesia and Vietnam, we have several significant projects in early stages of development.

NEW LINES OF BUSINESS

To grow our company more aggressively and create long-term value, we need to look beyond our core business into new and adjacent markets. We launched our alternative energy business and see opportunities to invest in high growth areas such as wind generation, liquefied natural gas (LNG) facilities, climate change and other forms of renewable energy.

We continued to grow our wind generation business in the US and expanded it into Europe, making significant inroads into a global market expected to more than triple by 2015. And we continued to pursue opportunities in the US LNG market, where increasing demand for natural gas and declining domestic supplies create needs for terminals to provide this clean form of energy.

There also are exciting growth opportunities in projects and technologies to reduce or offset greenhouse gas (GHG) emissions. We intend to take a leadership role in this growing market for offset credits, which is estimated to be as large as $10 billion a year when the first phase of the Kyoto Protocol goes into effect in 2008. To that end, in 2006 we formed a joint venture with AgCert International to develop emissions offset projects in selected countries in Asia, Europe and North Africa. In early 2007, we announced plans to form a partnership with GE Energy Financial Services, focusing on the growing US market for voluntary emissions offset credits, but with an eye toward possible future mandatory emissions limits. Through these and other initiatives, we plan to be one of the largest producers of GHG emissions offsets in the world.

SAFETY

We operate in a dangerous business — and we have no higher obligation to AES people and their families than to ensure a safe working environment. This has been a major focus at AES and one of the areas where we place the highest degree of emphasis. We saw continuing improvements in the number of lost time accidents at our businesses in 2006. We put into place a number of additional processes to tackle some of the biggest safety challenges we face, such as working safely with energized lines. And we are beginning to see positive results. We also have set a goal of zero fatalities among AES people and contractors, and we are working aggressively to achieve this.

OPERATIONS

Our plants and businesses ran well, on the whole, with outstanding performances in many locations. We launched a new quality improvement program — called AES Performance Excellence, or APEX — which relies on problem-solving methods already proven in other industries and companies. Efforts are under way to train our people in these new methodologies to ensure continuous improvement across the business.

THE PATH FORWARD

We feel good about what we are accomplishing today and excited about the foundation we are building for tomorrow. As part of our look to the future, in early 2007, we launched our new corporate logo and tagline. These new symbols represent AES's position as a dynamic global leader and our path forward in a world where providing energy on a sustainable basis is critically important.

AES was founded to create and deliver value by capitalizing on opportunities and trends in power markets worldwide. Our plans for the future are no different. With our expansive global footprint and expertise in markets across the globe, we are able to move quickly — and broadly — into high growth markets to become leaders early on. Our actions, while they take place on many fronts, are, to the best of our ability, deliberate and thoughtful. We believe they reflect our enduring goal of creating value for the people we serve.

Paul Hanrahan

Paul Hanrahan, President and Chief Executive Officer
May 21, 2007

Gross Margin
Dollars in Millions

Expansion.

AES is realizing opportunities in markets from France to Malaysia to Chile, in projects that range from constructing wind farms to capturing greenhouse gases to building power plants that keep neighborhoods lit and the wheels of commerce turning.

Expansion.

MAKING INROADS
INTO HIGH GROWTH MARKETS

AES continues to expand its global footprint, entering and establishing operations in countries new to AES where demand for power is growing. 2006 saw significant accomplishments at every stage of the development cycle.

VIETNAM AND INDONESIA

We have generation projects in early stages of development in Indonesia and Vietnam. These are prime growth markets — demand for electricity in Vietnam is forecast to grow by 15 percent per year through 2010 and Indonesia plans to add 10,000 MW of new generation capacity by 2010. While these projects are still in early stages of development, they bode well for our future in the burgeoning Asian marketplace.

JORDAN

We won the bid for a 370 MW power plant in Jordan, and laid the foundation for construction to begin in early 2007. This project will build on our strong presence in the Middle East, and should help open doors to further opportunities.

BULGARIA

In Bulgaria, we began construction of the $1.4 billion AES Maritza East 1 project, the largest foreign investment in the country's power sector and one of the largest greenfield investments in Southeast Europe to date. We also acquired a minority interest in a Bulgarian wind development project in this fast-growing market for wind generation.

SPAIN

The 1,200 MW combined cycle gas turbine generation facility we built in Cartagena, Spain began commercial operation at the end of 2006. Spain has one of the most rapidly expanding economies in Europe, and AES Cartagena will be instrumental in fueling that expansion. The gas-fired facility will also help diversify Spain's power supply, helping to improve reliability within the country's energy sector.

BUILDING ON OUR PRESENCE
IN MARKETS WORLDWIDE

We have grown our traditional lines of business in countries where we already have a critical presence and where people continue to count on us to meet their energy needs.

CAMEROON

AES SONEL, the primary electric utility in Cameroon, is upgrading its existing transmission, distribution and generation facilities and extending its network. AES SONEL expects to add approximately 50,000 new electricity connections each year over the next 15 years, more than doubling the number of people it currently serves. As part of this expansion, thousands of individuals who never had electricity before will now get it. This expansion is supported by a $340 million financing package — one of the largest ever provided to a privatized utility in Sub-Saharan Africa.

MEXICO

Nearly doubling our megawatts in Mexico, we acquired two 230 MW petroleum coke-fired power plants in early 2007 that use circulating fluidized bed (CFB) technology — providing a cleaner way to burn petroleum coke compared to other technologies. These assets fit well with AES given our expertise in operating CFB plants.

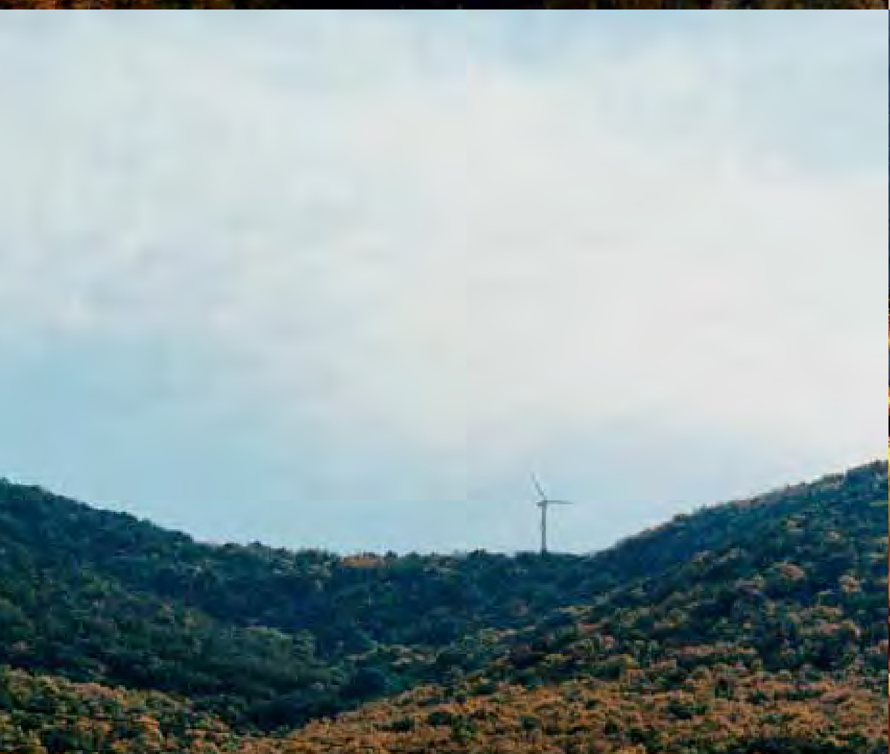
CHILE

AES Gener finished construction of the 125 MW Los Vientos diesel-fired power plant, which came online in early 2007. This plant brings our generating capacity in Chile to more than 2,500 MW— roughly 20 percent of the total generation capacity in the country. It will help diversify the Chilean energy sector while meeting increasing needs for electricity. Two additional plants are also under construction in Chile, which, when complete, will add more than 400 MW to the AES Gener portfolio.

PAGES 12 – 13: Sunrise in the mountains near Kandy, Sri Lanka
PAGE 15, UPPER LEFT: Wildflowers at the base of Mounts 20 de Febrero in Salta, Argentina
PAGE 15, UPPER RIGHT: Spices in a market in Qatar
PAGE 15, LOWER LEFT: Practicing Tai Chi in Nanjing, China
PAGE 15, LOWER RIGHT: Middleburg, Netherlands




Expansion.



HARNESSING THE WIND TO HELP MEET GROWING DEMAND FOR RENEWABLES

We greatly expanded our wind generation business in 2006, pursuing a global market that is expected to more than triple in size — from 73 to over 230 gigawatts — by 2015. In separate transactions, we entered Scotland, France and Bulgaria — some of the most attractive markets for wind generation in Europe. The Bulgarian investment includes one of the largest wind development projects in Southeast Europe to date. With these transactions, AES went from having no wind projects outside of the US to having more than 1,300 MW of projects in Europe in active development today.

California and Texas have some of the most aggressive growth targets for renewable energy in the US. During the year, we added 73 MW of wind generation capacity in California. In Texas, we brought our 121 MW wind farm, Buffalo Gap, into commercial operation and began construction of Buffalo Gap 2, a 233 MW wind farm.

Our current global pipeline of wind projects in active development exceeds 3,000 MW. We continue to evaluate opportunities worldwide, including potential projects in Asia, Eastern Europe and Latin America.

MOVING INTO ENERGY ALTERNATIVES

The world's increasing demands for power are creating new opportunities for alternative forms of energy — a global market expected to grow by 20 percent over the next 10 years and 40 percent over the next 20 years. As our actions in 2006 indicate, AES intends to play a vital role in this sector.

Over the next decade, we see an opportunity to invest up to $10 billion in our newly launched alternative energy business, adding to the significant investments already made to build our presence in wind generation, LNG and climate change.

We are well positioned for a leadership role in the market for carbon emissions offsets. As emissions reduction targets go into effect in 2008 under the Kyoto Protocol, many businesses in participating countries will need emissions offset credits to comply with new environmental regulations. There also is growing interest in the voluntary market for emissions offsets in the US, along with a potential for mandatory emissions limits. We see a significant business opportunity — one that is also good for the environment — and we are aggressively pursuing the development of projects that create such credits. Through a joint venture with AgCert International, a planned partnership with GE Energy Financial Services and other AES initiatives, we are finding ways to offset a range of greenhouse gas emissions that will qualify for credits. These include projects to capture and destroy methane — a greenhouse gas that is 21 times more harmful than CO_2 — located at coal mines and agricultural and landfill waste sites. These projects also promise significant health benefits, such as cleaner drinking water and soil, as well as reduced exposure to mosquito-borne diseases.

With demand for clean-burning natural gas rising and supply constrained, we also are pursuing opportunities in LNG. In 2006, we neared final approval to develop an LNG receiving terminal project in the Bahamas, which will serve Florida via a 95-mile pipeline. We also filed an application for our proposed terminal in Baltimore, Maryland in early 2007. Both projects are consistent with our strategy to site LNG projects close to the markets they would serve, eliminating substantial transportation charges and resulting in lower costs for consumers.

PAGE 16, UPPER LEFT: Veliko Tarnovo, one of the oldest settlements in Bulgaria
PAGE 16, UPPER RIGHT: Students at a school sponsored by AES Itabo in the Dominican Republic
PAGE 16, LOWER LEFT: A wind turbine in Kavarna, Bulgaria
PAGE 16, LOWER RIGHT: A ship at dock in Cartagena, Spain

Expansion.

DEVELOPING CAPABILITIES IN ADJACENT MARKETS

Beyond traditional power, we are active in related and adjacent markets. While not significant contributors to our financials today, these activities suggest the breadth of our capabilities and point to the range of opportunities open to AES.

In late 2006, AES entered the promising electricity transmission business, acquiring the development pipeline and trade name from Trans-Elect, a leading independent transmission developer. From 1998 to 2005, transmission investment in the US more than doubled and is expected to nearly double again by 2010. Through a wholly owned subsidiary, AES will develop projects to extend and improve the electricity grid across the US and Canada. We will eventually look to expand on a global basis our activities in electricity transmission.

We also have established footholds in other types of essential services. Our desalination facilities convert as much as 60 million gallons of seawater into fresh water each day in the deserts of Oman and Qatar. We mine coal and manage steam distribution facilities to heat homes in Kazakhstan and bring similar management services to other power-related markets.

PAGE 19, UPPER LEFT: Fishing in the Qin Huai river in Nanjing, China
PAGE 19, UPPER RIGHT: Camels in Qatar
PAGE 19, LOWER LEFT: A market in Cameroon
PAGE 19, LOWER RIGHT: AES Eletropaulo-sponsored community gardens, São Paulo, Brazil




Driving excellence and continuous
improvement, we intend to stay
at the forefront of our industry.

Performance.

Performance.

ACHIEVING PERFORMANCE EXCELLENCE

In 2006, we sought new ways to improve our performance at all levels of the business — from plant reliability to advancing the practical science of emissions reduction.

At the beginning of the year, we launched a pilot of our performance improvement initiative, APEX, which ensures a common language and approach for problem solving across businesses, countries and cultures. It builds upon the best of the AES culture — a proactive, team approach to meeting challenges, combined with deep industry and technical knowledge. Groups from 17 different businesses across AES piloted this initiative in 2006. The early results are impressive. The team at AES Jiaozuo in China used APEX methodologies to streamline operations for handling pulverized coal, which improved plant reliability and efficiency. AES Sul in Brazil generated savings of more than $470,000 in 2006 through improved business processes, and anticipates saving as much as $1.5 million in 2007. Our distribution businesses in Ukraine improved their annual maintenance activities, saving approximately $600,000 in future related costs. These new processes are replicable and have the potential to generate significant cost savings at our businesses worldwide. Based on such successes, APEX is now being rolled out companywide.

Sharing knowledge is how we work, and how we improve. Other performance improvement efforts have helped set new records for plant reliability in Argentina, Chile, Colombia and the Dominican Republic. We also made significant progress in reducing non-technical losses at almost all of our distribution companies in Latin America. Teams at generation plants across our Europe, CIS and Africa region continue to share best practices through peer-to-peer reviews, focusing on improving plant maintenance, operations and commercial performance. Our operations network in North America has engaged over 100 plant personnel to identify and promote consistent reliability practices across the region, and we already are seeing good results.

PAGES 20 – 21: Honolulu, Hawaii
PAGE 22, UPPER LEFT: A festival in Pushkar, Rajasthan, India
PAGE 22, UPPER RIGHT: AES Deepwater in Texas
PAGE 22, LOWER LEFT: Foliage surrounding the AES Warrior Run power plant in Cumberland, Maryland
PAGE 22, LOWER RIGHT: A market in Muscat, Oman

Performance.

LEADING IN ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

We continue to make major investments in improving the environmental performance of our plants. These included the addition of advanced air pollution controls at five of our US power plants and at power plants in China and Northern Ireland. We also undertook many other operating and maintenance initiatives to raise the bar on our environmental performance companywide.

In 2006, the US Department of Energy selected AES Greenidge, a 161 MW power plant in upstate New York, for a pilot project to test innovative emissions reduction technology for small coal-fired plants. The completed project not only significantly reduced sulfur dioxide (SO_2), sulfur trioxide (SO_3), nitrogen dioxide (NOx) and mercury emissions, it also demonstrates the economic viability of this new pollution control equipment for smaller plants across the US. We began installing similar emissions control upgrades at our nearby AES Westover plant, which will allow the facility's main unit to meet all of the requirements under the Clean Air Act, while continuing to meet increasing demands for energy in New York.

At AES Deepwater in Texas, we began construction of an emissions control upgrade that marks the first time that selective catalytic reduction (SCR) technology will be used in the US on a 100 percent petroleum coke-fired power plant. Scheduled for completion in early 2007, this upgrade is expected to reduce annual NOx emissions by over 90 percent.

In China, Northern Ireland and Indiana, USA, we began installation of flue gas desulfurization (FGD) systems to reduce SO_2 emissions at our plants in those countries. Once completed, the project at AES Jiaozuo in China is expected to reduce SO_2 emissions by at least 90 percent; the project at AES Kilroot in Northern Ireland is expected to reduce SO_2 emissions by approximately 70 percent; and at IPL in Indiana, we expect our FGD projects to reduce SO_2 emissions by over 90 percent at individual units at the Harding Street and Petersburg power plants.

We also initiated implementation of our Environmental Management System (EMS), through which AES businesses worldwide will incorporate internationally recognized environmental management procedures at their facilities. By mid-2007, we anticipate that our businesses will have created more than 800 EMS action plans, which are intended to help our facilities improve their operations and meet or exceed existing environmental requirements.

PAGE 25, UPPER LEFT: Celebrating holiday lights in Bogotá, Colombia
PAGE 25, UPPER RIGHT: Lumber for an AES biomass project in Hungary
PAGE 25, LOWER LEFT: Traditional farming tools in Bulgaria
PAGE 25, LOWER RIGHT: Mexico City, Mexico




People.

We have developed a broad range of programs to help our people grow, and to create an environment that fosters continuous learning and knowledge sharing.

People.

REALIZING THE POWER OF OUR PEOPLE

In 2006, we introduced a number of development programs for our people. The AES Learning Center, developed in partnership with the University of Virginia's Darden School of Business, offers a range of courses on effective leadership, general management and functional skills, such as finance. Courses at the Learning Center are co-taught by AES leaders and Darden professors who work together to develop customized course curricula. Students come from all levels of AES and from AES businesses around the world to attend the classes.

The Learning Center has proved so effective that we are expanding it internationally. Over the past two years, our businesses in Brazil, Cameroon, Kazakhstan, the Middle East and Ukraine all have adapted the Center's Emerging Leader Program to offer the program locally through affiliations with local universities. In 2006, the Center also launched a Financial Leadership Development Program to elevate performance among our financial groups worldwide.

In addition to classroom training, we have added an online AES Learning Center. We now have an inventory of more than 150 technical and managerial courses offered online, making these classes available on a real-time basis.

DEPLOYING A GLOBAL TEAM OF LEADERS WORLDWIDE

To facilitate and catalyze growth, AES continues to cultivate a global management team of leaders who can be deployed worldwide as needed. These top performers — experts at developing, permitting, constructing, and operating essential infrastructure — have the experience, skills and drive to seize opportunities and effectively manage business operations, even and especially in difficult contexts involving complex political and regulatory environments. It's intrinsic to our business culture: we move talent around to align skills with the needs of the business and to help our leaders grow. For example, more than 90 percent of our plant managers in Europe moved to new locations in 2006. In Latin America, we rotated seven senior leaders to new positions to bring new perspectives and insights to our businesses in the region.

PAGES 26 – 27: Working at the AES Andres LNG facility in the Dominican Republic
PAGE 29, UPPER LEFT: Flutes in Jujuy, Argentina
PAGE 29, UPPER RIGHT: Women in Almaty, Kazakhstan
PAGE 29, LOWER LEFT: Children at a baseball diamond that was built using funds donated by AES Puerto Rico
PAGE 29, LOWER RIGHT: Food details in Nanjing, China

The Power of Being Global.

• AES operations, including distribution businesses, generation facilities, plants under construction and facilities AES operates under management or O&M agreements

North America

Operating facilities in the region since 1985
More than 3,300 AES people
Total generation: 14,172 MW[1,2]
Total distribution: 16,287 GWh[2]

Latin America

Operating facilities in the region since 1993
More than 13,000 AES people
Total generation: 11,217 MW[2]
Total distribution: 49,684 GWh[2]

1 *Total generation megawatts in North America include wind generation facilities owned by AES and facilities operated by AES under management or O&M agreements*
2 *Figures include facilities AES owns and operates and facilities AES operates under management or O&M agreements*

Europe, CIS and Africa

Operating facilities in the region since 1992
More than 14,000 AES people
Total generation: 11,431 MW[2]
Total distribution: 11,056 GWh[2]

Asia and Middle East

Operating facilities in the region since 1994
More than 700 AES people
Total generation: 5,369 MW[2]

About AES.

AES IS ONE OF THE WORLD'S LARGEST GLOBAL POWER COMPANIES, WITH 2006 REVENUES OF $12.3 BILLION, A GLOBAL FORCE OF 32,000 PEOPLE AND OPERATIONS IN 27 COUNTRIES ON FIVE CONTINENTS. OUR GENERATION AND DISTRIBUTION FACILITIES HAVE THE CAPACITY TO SERVE 100 MILLION PEOPLE WORLDWIDE. OUR POWER PLANTS ENCOMPASS A BROAD RANGE OF TECHNOLOGIES AND FUEL TYPES, FROM COAL TO GAS TO RENEWABLES SUCH AS WIND,

AES Executive Officers

Paul Hanrahan
President and CEO

Andrés Gluski
Executive Vice President and COO

Victoria Harker
Executive Vice President and CFO

David Gee
Executive Vice President and President, North America

Robert Hemphill
Executive Vice President

Jay Kloosterboer
Executive Vice President, Business Excellence

William Luraschi
Executive Vice President and President, Alternative Energy

John McLaren
Executive Vice President and President, Europe, CIS and Africa

Brian Miller
Executive Vice President, General Counsel and Corporate Secretary

Mark Woodruff
Executive Vice President and President, Asia and the Middle East

HYDRO AND BIOMASS. OUR UTILITIES POWER CITIES AS DIVERSE AS SÃO PAULO, INDIANAPOLIS AND DOUALA. WE ARE COMMITTING SIGNIFICANT RESOURCES TO FURTHER EXPAND OUR ACTIVITIES IN ALTERNATIVE ENERGY TO ENSURE A SUSTAINABLE FUTURE. BEYOND POWER, WE ARE IMPLEMENTING PROJECTS TO OFFSET GREENHOUSE GAS EMISSIONS AND ARE HELPING TO PROVIDE SOLUTIONS TO GLOBAL CLIMATE CHANGE.

AES 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, AVAYA Inc.;
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

2006 Financials.

Selected Five Year Financial Data

Years Ended December 31st,

(Dollars in Millions, Except Per Share Amounts)

	2002[1]	2003[1]	2004	2005	2006[2]
Results of Operations Data					
Revenues	$ 7,322	$ 8,352	$ 9,392	$11,021	$12,299
Gross margin	1,968	2,446	2,791	3,199	3,631
(Loss) income before income taxes and minority interest	(1,654)	632	859	1,468	1,299
(Loss) income from continuing operations	(1,922)	289	268	574	286
Per Share Data					
Weighted average diluted shares outstanding	539	598	648	665	672
Diluted (loss) earnings per share from continuing operations	(3.57)	0.48	0.41	0.87	0.43
Balance Sheet Data					
Total assets	34,516	29,130	28,388	28,960	31,163
Recourse debt (long-term)	6,755	5,862	5,010	4,682	4,790
Non-recourse debt (long-term)	5,610	10,538	11,155	10,638	10,102
Total stockholders' (deficit) equity	(823)	(121)	953	1,626	3,036

1 *Certain results above include Indian Queens and Eden in operations, which are immaterial to these financial statements. These businesses were sold in 2006.*
2 *Results above include non-cash after-tax charges totaling $512 million, or $0.76 per diluted share charge related to the Brazil restructuring.*

Quarterly Stock Price Range

(Dollars Per Share)

	Quarter	2005 High	2005 Low	2006 High	2006 Low
This table shows the high and low reported prices[1] of AES common stock for each quarterly period in 2005 and 2006.	1	17.65	12.84	17.71	16.20
	2	17.36	13.72	18.76	16.40
	3	16.67	14.67	21.24	18.25
	4	17.10	14.94	23.72	20.21

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

OUR RENEWABLES PORTFOLIO COMPRISES NEARLY 20 PERCENT OF OUR GENERATION CAPACITY WORLDWIDE.

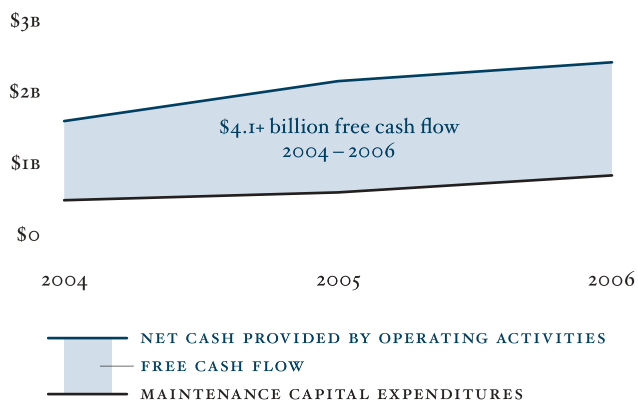
Cumulative Generation Additions

Megawatts

Recourse Debt (total)

Dollars in Millions

Strong Free Cash Flow Growth



AES WAS THE FIRST AMERICAN POWER COMPANY TO ENTER CHINA IN THE EARLY 1990S.

Condensed Consolidated Statements of Operations

Years Ended December 31st, (Dollars in Millions, Except Per Share Data)

	2004	2005	2006[1]
Revenues	$ 9,392	$11,021	$12,299
Cost of sales	(6,601)	(7,822)	(8,668)
Gross margin	2,791	3,199	3,631
General and administrative expenses	(181)	(225)	(305)
Interest expense, net	(1,637)	(1,498)	(1,359)
Other (expense) income, net	34	39	(193)
Gain (loss) on sale of investments/subsidiary stock and asset impairment expense	(75)	(16)	(470)
Foreign currency transaction losses on net monetary position	(136)	(101)	(77)
Equity in earnings of affiliates	63	70	72
Income before income taxes and minority interest	859	1,468	1,299
Income tax expense	(380)	(525)	(403)
Minority interest expense	(211)	(369)	(610)
Income from continuing operations	$ 268	$ 574	$ 286
Weighted average diluted shares outstanding	648	665	672
Diluted earnings per share from continuing operations	$ 0.41	$ 0.87	$ 0.43

1 *Results above include non-cash after-tax charges totaling $512 million, or $0.76 per diluted share charge related to the Brazil restructuring.*

Condensed Consolidated Balance Sheets

As of December 31st, (Dollars in Millions, Except Per Share Data)

Assets	2004	2005	2006
Current assets			
Cash and cash equivalents	$ 1,154	$ 1,321	$ 1,575
Restricted cash	484	477	548
Short-term investments	270	199	640
Accounts receivable, net of reserves of $300, $276 and $239 in 2004, 2005 and 2006, respectively	1,513	1,648	1,903
Inventory	416	457	518
Deferred income taxes — current	224	270	213
Prepaid expenses and other current assets	875	915	1,168
Total current assets	4,936	5,287	6,565
Noncurrent assets			
Property, plant and equipment, net of accumulated depreciation of $5,229, $5,975 and $6,979 in 2004, 2005 and 2006, respectively	17,636	18,033	19,074
Deferred financing costs, net	321	275	285
Investment in and advances to affiliates	743	665	596
Debt service reserves and other deposits	515	546	524
Goodwill and other intangible assets, net	1,629	1,697	1,724
Deferred income taxes — noncurrent	783	783	663
Other assets	1,825	1,674	1,732
Total assets	**$28,388**	**$28,960**	**$ 31,163**

AES SONEL IS THE PRIMARY ELECTRIC UTILITY FOR THE ENTIRE COUNTRY OF CAMEROON.

Condensed Consolidated Balance Sheets

As of December 31st,

(Dollars in Millions, Except Per Share Data)

Liabilities and Stockholders' Equity	2004	2005	2006
Current liabilities			
Accounts payable and accrued and other liabilities	$ 2,732	$ 3,249	$ 3,164
Accrued interest	334	380	412
Recourse debt — current portion	142	200	–
Non-recourse debt — current portion	1,608	1,447	1,453
Total current liabilities	4,816	5,276	5,029
Long-term liabilities			
Non-recourse debt	11,155	10,638	10,102
Recourse debt	5,010	4,682	4,790
Deferred income taxes — noncurrent	717	777	790
Pension liabilities and other post-retirement liabilities	881	865	883
Other long-term liabilities	3,549	3,470	3,433
Total long-term liabilities	21,312	20,432	19,998
Minority interest	1,307	1,626	3,100
Stockholders' equity			
Common stock, $0.01 par value, 1,200,000,000 shares authorized; 650,093,402; 655,882,836 and 665,126,309 shares issued and outstanding at December 31, 2004, 2005 and 2006, respectively	7	7	7
Additional paid-in capital	6,478	6,561	6,654
Accumulated deficit	(1,891)	(1,286)	(1,025)
Accumulated other comprehensive loss	(3,641)	(3,656)	(2,600)
Total stockholders' equity	953	1,626	3,036
Total Liabilities and Stockholders' Equity	**$28,388**	**$28,960**	**$31,163**

AES'S DISTRIBUTION COMPANIES IN EL SALVADOR SERVE MORE THAN 80 PERCENT OF THE COUNTRY'S ELECTRICITY CUSTOMERS.

Condensed Consolidated Statements of Cash Flows

Years Ended December 31st,

(Dollars in Millions)

Operating Activities	2004	2005	2006
Net income	$ 300	$ 605	$ 261
Adjustments to net income			
Depreciation and amortization of intangible assets	777	864	933
Loss from sale of investments and goodwill and asset impairment expense	74	49	491
(Gain) loss on disposal and impairment write-down associated with discontinued operations	(98)	–	62
Provision for deferred taxes	208	135	(37)
Minority interest expense	211	373	611
Other	266	123	379
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	(124)	(29)	84
Increase in inventory	(32)	(70)	(24)
Decrease in prepaid expenses and other current assets	51	94	8
Increase (decrease) in accounts payable and accrued liabilities	64	(119)	(400)
Other assets and liabilities	(89)	129	43
Net cash provided by operating activities	1,608	2,154	2,411

Investing Activities			
Capital expenditures	(706)	(826)	(1,460)
Acquisitions — net of cash acquired	(20)	(85)	(19)
Proceeds from the sales of businesses	35	22	898
Proceeds from the sales of assets	28	26	24
Sale of short-term investments	1,402	1,499	2,011
Purchase of short-term investments	(1,388)	(1,345)	(2,359)
(Increase) decrease in restricted cash	(43)	94	(8)
Proceeds from the sale of emission allowances, net	(2)	23	5
(Increase) decrease in debt service reserves and other assets	(63)	(100)	46
Other investing	14	31	(40)
Net cash used in investing activities	(743)	(661)	(902)

AES ELETROPAULO IS THE LARGEST ELECTRICITY DISTRIBUTION COMPANY IN BRAZIL IN TERMS OF REVENUES AND ELECTRICITY DISTRIBUTED.

Condensed Consolidated Statements of Cash Flows

Years Ended December 31st,

(Dollars in Millions)

Financing Activities	2004	2005	2006
Borrowings under the revolving credit facilities, net	–	53	72
(Repayments) issuance of non-recourse debt, net	(424)	(941)	(962)
(Repayments) issuance of recourse debt, net	(649)	(254)	(150)
Payments for deferred financing costs	(109)	(21)	(86)
Distributions to minority interests	(139)	(186)	(335)
Contributions from minority interests	24	1	125
Issuance of common stock	16	26	78
Financed capital expenditures	(6)	(1)	(52)
Other financing	2	(16)	(7)
Net cash used in financing activities	(1,285)	(1,339)	(1,317)
Effect of exchange rate changes on cash	6	13	62
Total (decrease) increase in cash and cash equivalents	(414)	167	254
Cash and cash equivalents, beginning	1,568	1,154	1,321
Cash and cash equivalents, ending	$1,154	$1,321	$1,575
Supplemental Disclosures			
Cash payments for interest, net of amounts capitalized	$1,759	$1,674	$1,718
Cash payments for income taxes, net of refunds	197	268	479

AES GENER IS THE SECOND LARGEST ELECTRICITY GENERATION COMPANY IN CHILE BASED ON GENERATION CAPACITY.

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.

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 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, (Dollars in Millions)

Reconciliation of Free Cash Flow	2004	2005	2006
Net cash provided by operating activities	$1, 608	$2,154	$2,411
Maintenance capital expenditures	(528)	(635)	(867)
Free cash flow	$1,080	$1,519	$1,544

Years Ended December 31st, (Dollars Per Share)

Reconciliation of Adjusted Earnings Per Share	2004	2005	2006[1]
Diluted earnings per share from continuing operations	$0.41	$0.87	$0.43
Excluded factors, net	0.19	(0.03)	0.71
Adjusted earnings per share	$0.60	$0.84	$ 1.14

1 *Results above include non-cash after-tax charges totaling $512 million, or $0.76 per diluted share charge related to the Brazil restructuring.*

AES DEVELOPED AND OPERATES THE FIRST INDEPENDENT POWER AND WATER DESALINATION PLANTS IN OMAN AND QATAR.

Years Ended December 31st, (Dollars in Millions, Except Percent)

Reconciliation of ROIC	2005	2006[1]
Income before income taxes and minority interest (IBT & MI)	$ 1,468	$ 1,299
Plus interest expense	1,893	1,802
Less income tax expense[2]	(1,202)	(962)
Net operating profit after tax	$ 2,159	$ 2,139
Beginning capital	$19,661	$19,673
Ending capital	$19,673	$21,957
Average capital	$19,667	$20,815
ROIC	11.0%	10.3%

1 *Results above include non-cash after-tax charges totaling $512 million, or $0.76 per diluted share charge related to the Brazil restructuring. Excluding these impacts, ROIC is 12.6% for 2006.*
2 *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

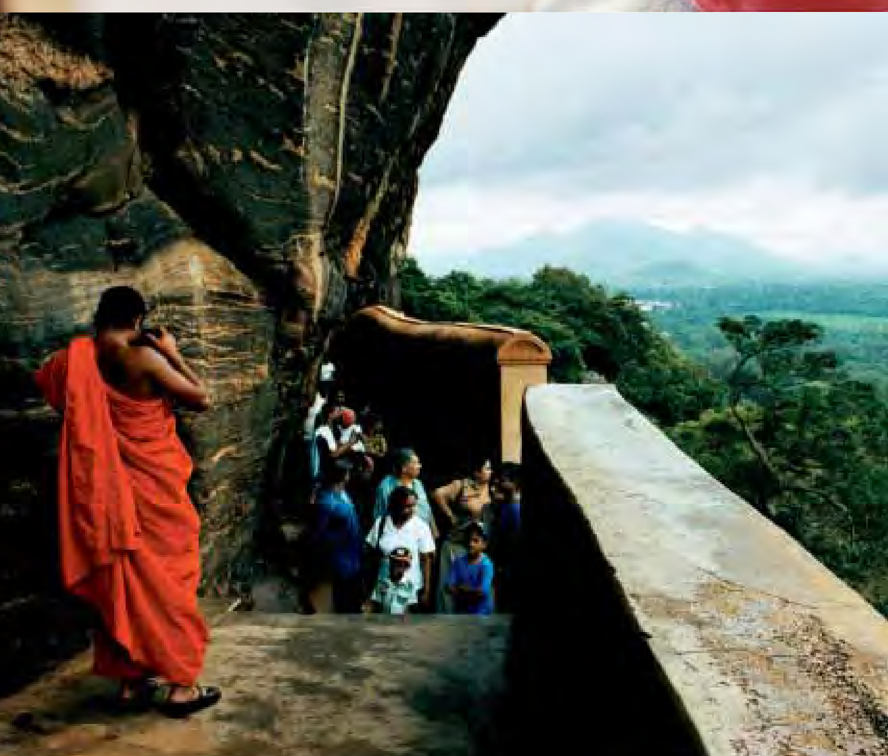
The financial information in this report is in summary form. The complete financial statements and notes are filed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as well as our other Securities and Exchange Commission (SEC) filings, and should be read in conjunction 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.

SEC AND NYSE CERTIFICATIONS

The Company included in Exhibits 31 and 32 to its Annual Report on Form 10-K for fiscal year 2006 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 HAWAII IS OAHU'S SINGLE LARGEST GENERATOR, PROVIDING APPROXIMATELY 20% OF THE ISLAND'S ELECTRICAL ENERGY NEEDS.

Corporate Information.



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.

AES LISTED NYSE

Number of Shareholders
As of December 31, 2006 there were approximately 7,117 AES shareholders of record and 665,126,309 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
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 AES Investor Relations at 703-682-6399 or invest@aes.com.

General and Media Inquiries
Please visit the Newsroom section of the AES website at www.aes.com, or you may 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.

PAGE 42, UPPER LEFT: A girl at an AES SONEL sponsored school and daycare center in Douala, Cameroon
PAGE 42, UPPER RIGHT: Powdered dye in India
PAGE 42, LOWER LEFT: Tourists at Sigiriya, an archeological site in Sri Lanka
PAGE 42, LOWER RIGHT: Veliko Tarnovo, Bulgaria

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AES
the power of being global