AES CORP
Form 10-Q/A
April 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2005

or

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

Commission file number 0-19281

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**54-1163725** (I.R.S. Employer Identification No.)
4300 Wilson Boulevard, Suite 1100, Arlington, Virginia (Address of Principal Executive Offices)	**22203** (Zip Code)

(703) 522-1315

(Registrant s Telephone Number, Including Area Code)

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, at January 6, 2006, was 655,986,313.

THE AES CORPORATION
FORM 10-Q/A Amendment No. 1
EXPLANATORY NOTE

This Form 10-Q/A Amendment No. 1 (the Amendment) is being filed for the purpose of amending Items 1, 2 and 4 of Part I and Item 6 of Part II of Form 10-Q for the quarterly period ended September 30, 2005, that was originally filed with the Securities and Exchange Commission on January 19, 2006. This Amendment is being filed to correct accounting errors in the condensed consolidated financial statements in our previously filed Form 10-Q as of September 30, 2005 and December 31, 2004, and for the three months and nine months ended September 30, 2004.

Subsequent to filing its restated annual report on Form 10-K/A for the year ended December 31, 2004 with the Securities Exchange Commission on January 19, 2006, the Company discovered its previously issued restated condensed consolidated financial statements included certain errors in accounting for derivative instruments and hedging activities, minority interest expense and income taxes. The errors in accounting for derivative instruments and hedging activities resulted in differences in previously issued condensed consolidated interim financial statements for certain quarterly periods in 2004 sufficient to require restatement of prior period interim results. The errors in accounting for income taxes and minority interest expense required restatement of previously issued consolidated annual financial statements.

As a result of evaluating these adjustments, the Company reduced its stockholders equity by $12 million as of January 1, 2003 as the cumulative effect of the correction of errors for all periods proceeding January 1, 2003, and restated its condensed consolidated statements of operations and cash flows for the years ended December 31, 2004 and 2003 and its consolidated balance sheet as of December 31, 2004.

The restatement adjustments resulted in a decrease to previously reported net income of $20 million for the three months ended September 30, 2004 and in an increase to previously reported net income of $14 million for the nine months ended September 30, 2004. There was no impact on gross margin or net cash flow from operating activities of the Company for any periods presented. Based upon management s review it has been determined that these errors were inadvertent and unintentional. The condensed consolidated balance sheet as of September 30, 2005 has been restated to correct the effects of the adjustments to 2004 discussed below. The errors relate to the following areas:

1. Accounting for Derivative Instruments and Hedging Activities

The Company determined that it failed to perform adequate on-going effectiveness testing for three interest rate cash flow hedges and one foreign currency cash flow hedge during 2004 as required by SFAS No. 133. As a result, the Company should have discontinued hedge accounting and recognized changes in the fair value of the derivative instruments in earnings prospectively from the last valid effectiveness assessment until the earlier of either (1) the expiration of the derivative instrument or (2) the re-designation of the derivative instrument as a hedging activity.

The net impact related to the correction of these errors to previously reported net income resulted in a decrease of $23 million for the three months ended September 30, 2004 and an increase of $7 million for the nine months ended September 30, 2004.

2. *Income Tax and Minority Interest Adjustments*

As a result of the Company s year end closing review process, the Company discovered certain other errors related to the recording of income tax liabilities and minority interest expense. The adjustments primarily include:

- An increase in income tax expense related to the recording of certain historical withholding tax liabilities at one of our El Salvador subsidiaries;

- An increase in minority interest expense related to a correction of the allocation of income tax expense to minority shareholders. This allocation pertained to certain deferred tax adjustments recorded in the original restatement at one of our Brazilian generating companies. In addition, minority interest expense was also corrected at this subsidiary as a result of identifying differences arising from a more comprehensive reconciliation of prior year statutory financial records to U.S. GAAP financial statements;

- A reduction of 2004 income tax expense related to adjustments derived from 2004 income tax returns filed in 2005.

The net impact related to the correction of these errors to previously reported net income resulted in an increase of $3 million for the three months ended September 30, 2004 and $7 million for the nine months ended September 30, 2004. In addition, the Company restated stockholders equity as of January 1, 2003 by $12 million as a correction for these errors in all periods preceding January 1, 2003.

3. *Other Balance Sheet Reclassifications*

Certain other balance sheet reclassifications were recorded at December 31, 2004 including a $45 million reclassification which reduced Accounts Receivables and increased Other Current Assets (regulatory assets).

This Form 10-Q/A Amendment No. 1 should be read in conjunction with the Company s Form 10-K for the year ended December 31, 2005 filed with the U.S. Securities and Exchange Commission on April 4, 2006. Refer to Note 1 of the condensed consolidated financial statements in Item 1 of this Form 10-Q/A Amendment No. 1 for a discussion of the nature of the errors and the impact of the errors on the restated condensed consolidated financial statements.

We included as exhibits to this Amendment new certifications of our principal executive officer and principal financial and accounting officer.

Except for errors and interim period adjustments disclosed in Note 1, no attempt has been made in this Amendment to amend or update other disclosures presented in this Form 10-Q/A Amendment No. 1 except for Item 4. Controls and Procedures. This Amendment does not reflect events occurring after the filing of Form 10-Q on January 19, 2006, or amend or update those disclosures, including exhibits to the Form 10-Q affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-Q, including any amendments to those filings.

THE AES CORPORATION
FORM 10-Q/A (Amendement No. 1)
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS

PART I: Financial Information (unaudited)	
Item 1. Financial Statements	
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2005 and the Three and Nine Months Ended September 30, 2004 (as restated)	5
Condensed Consolidated Balance Sheets as of September 30, 2005 (as restated) and December 31, 2004 (as restated)	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2005 (as restated) and 2004 (as restated)	7
Notes to Condensed Consolidated Financial Statements (as restated)	8
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (as restated)	31
Item 3. Quantitative and Qualitative Disclosures about Market Risk	50
Item 4. Controls and Procedures	50
PART II: Other Information	
Item 1. Legal Proceedings	56
Item 2. Unregistered Sales of Securities and Use of Proceeds	63
Item 3. Defaults Upon Senior Securities	63
Item 4. Submissions of Matters to a Vote of Security Holders	63
Item 5. Other Information	63
Item 6. Exhibits	63
Signatures	64

PART I: FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

THE AES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30, 2005	2004 (Restated)*	Nine Months Ended September 30, 2005	2004 (Restated)*
Revenues				
Regulated	$ 1,406	$ 1,251	$ 4,200	$ 3,542
Non-regulated	1,376	1,171	3,913	3,398
Total revenues	2,782	2,422	8,113	6,940
Cost of sales				
Regulated	(1,066)	(950)	(3,379)	(2,701)
Non-regulated	(817)	(736)	(2,485)	(2,163)
Total cost of sales	(1,883)	(1,686)	(5,864)	(4,864)
Gross margin	899	736	2,249	2,076
General and administrative expenses	(49)	(40)	(143)	(130)
Interest expense	(450)	(500)	(1,392)	(1,439)
Interest income	97	52	280	191
Other (expense) income, net	(11)	(11)	41	(24)
Loss on sale of investments, asset and goodwill impairment expense		(4)		(5)
Foreign currency transaction losses, net	(22)	(26)	(54)	(107)
Equity in earnings of affiliates	20	18	66	57
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	484	225	1,047	619
Income tax expense	(143)	(123)	(372)	(211)
Minority interest expense	(97)	(36)	(222)	(163)
INCOME FROM CONTINUING OPERATIONS	244	66	453	245
Income (loss) from operations of discontinued businesses (net of income tax benefit of $, $4, $ and $8, respectively)		7		(48)
NET INCOME	$ 244	$ 73	$ 453	$ 197
Basic Earnings Per Share:				
Income from continuing operations	$ 0.38	$ 0.10	$ 0.69	$ 0.38
Discontinued operations		0.01		(0.07)
BASIC EARNINGS PER SHARE	$ 0.38	$ 0.11	$ 0.69	$ 0.31
Diluted Earnings Per Share:				
Income from continuing operations	$ 0.37	$ 0.10	$ 0.68	$ 0.38
Discontinued operations		0.01		(0.07)
DILUTED EARNINGS PER SHARE	$ 0.37	$ 0.11	$ 0.68	$ 0.31

* See Note 1 related to the restated condensed consolidated financial statements.

THE AES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Millions, Except Shares and Par Value)
(Unaudited)

	September 30, 2005 (Restated)*	December 31, 2004 (Restated)*
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,164	$ 1,281
Restricted cash	373	395
Short-term investments	271	268
Accounts receivable, net of allowances ($320 and $303, respectively)	1,725	1,530
Inventory	479	418
Receivable from affiliate	5	8
Deferred income taxes current	350	218
Prepaid expenses	148	87
Other current assets	891	781
Total current assets	5,406	4,986
Property, Plant and Equipment:		
Land	880	788
Electric generation and distribution assets	22,665	21,729
Accumulated depreciation and amortization	(6,041)	(5,259)
Construction in progress	1,262	919
Property, plant, and equipment net	18,766	18,177
Other Assets:		
Deferred financing costs net	318	343
Investments in and advances to affiliates	707	655
Debt service reserves and other deposits	653	737
Goodwill net	1,449	1,419
Deferred income taxes noncurrent	761	774
Other assets	1,588	1,832
Total other assets	5,476	5,760
Total	$ 29,648	$ 28,923
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,002	$ 1,081
Accrued interest	498	335
Accrued and other liabilities	2,187	1,707
Recourse debt current portion	1	142
Non-recourse debt current portion	1,606	1,619
Total current liabilities	5,294	4,884
Long-Term Liabilities:		
Non-recourse debt	11,454	11,817
Recourse debt	4,885	5,010
Deferred income taxes	763	678
Pension liabilities and other post-retirement liabilities	929	891
Other long-term liabilities	3,375	3,382
Total long-term liabilities	21,406	21,778
Minority Interest	1,541	1,305
Commitments and contingent liabilties (See Note 7)		
Stockholders Equity:		
Common stock ($.01 par value, 1,200,000,000 shares authorized; 654,729,058 and 650,093,402 shares issued and outstanding, respectively)	7	7
Additional paid-in capital	6,496	6,434
Accumulated deficit	(1,391)	(1,844)
Accumulated other comprehensive loss	(3,705)	(3,641)
Total stockholders equity	1,407	956
Total	$ 29,648	$ 28,923

* See Note 1 related to the restated condensed consolidated financial statements.

THE AES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions)
(Unaudited)

	Nine Months Ended September 30, 2005 (Restated)*	2004 (Restated)*
OPERATING ACTIVITIES:		
Net cash provided by operating activities	$ 1,466	$ 1,117
INVESTING ACTIVITIES:		
Property additions	(801)	(597)
Acquisitions net of cash acquired	(85)	
Proceeds from the sales of assets	21	64
Proceeds from the sales of emission allowances	30	
Sale of short-term investments	1,101	911
Purchase of short-term investments	(1,053)	(970)
Decrease (increase) in restricted cash	17	(19)
Decrease (increase) in debt service reserves and other assets	88	(13)
Other investing	(15)	1
Net cash used in investing activities	(697)	(623)
FINANCING ACTIVITIES:		
Issuance of recourse debt	6	491
Issuance of non-recourse debt and other coupon bearing securities	1,509	1,489
Repayments of recourse debt	(258)	(809)
Repayments of non-recourse debt and other coupon bearing securities	(2,064)	(1,756)
Payments for deferred financing costs	(10)	(81)
Distributions to minority interests	(126)	(82)
Contributions from minority interests	9	3
Issuance of common stock	20	7
Other financing	(4)	(3)
Net cash used in financing activities	(918)	(741)
Effect of exchange rate changes on cash	32	(12)
Total decrease in cash and cash equivalents	(117)	(259)
Cash and cash equivalents, beginning	1,281	1,663
Cash and cash equivalents, ending	$ 1,164	$ 1,404
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest net of amounts capitalized	$ 1,203	$ 1,239
Cash payments for income taxes net of refunds	$ 133	$ 127
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for debt retirement	$	$ 168
Brasiliana Energia debt exchange	$	$ 773

*See Note 1 related to the restated condensed consolidated financial statements.

7

THE AES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. RESTATEMENTS OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Form 10-Q as Originally Filed

In our previously filed Form 10-K, for the year ended December 31, 2004, management reported that a material weakness existed in its internal controls over financial reporting related to accounting for income taxes. Specifically, the Company lacked effective controls for the proper reconciliation of the components of its foreign subsidiaries income tax assets and liabilities to related consolidated balance sheet accounts.

After examining certain historical purchase transactions from 1999 2002 and reviewing the reconciliations of detailed historical income tax return records to reported book/income tax differences, various accounting errors were identified. As a result of these initial findings, on July 27, 2005 the Company announced that it would restate its previously filed financial statements. Management also expanded the scope of the review to include the composition of other material current and deferred income tax related balances including those recorded by or, on behalf of, our domestic subsidiaries and the parent company. As a result of this expanded review, additional non-tax items also were identified and corrected. A discussion of both income tax and non-tax adjustments follows.

The errors identified from the income tax review can be categorized into three types of deferred tax issues. Details regarding material findings associated with each issue are provided below:

1. Deferred income tax adjustments associated with foreign acquisitions and restructurings

La Electricidad de Caracas (EDC)

The most significant deferred income tax restatement adjustment related to the purchase of a majority interest in EDC, a private integrated utility in Venezuela in June, 2000. At that time, a deferred income tax liability was recorded representing the difference between the non-inflation indexed income tax basis and the resulting adjusted purchase basis (assigned carrying value) of fixed assets. However, Venezuelan income tax provisions allow for the indexing of EDC s non-monetary assets and equity, as a result of inflation. This indexing created an additional layer of tax basis that should have been included as part of the acquisition income tax basis at the time of the acquisition.

In addition, several other purchase accounting adjustments were recorded to correctly account for the treatment of deferred charges and the fair value applied to an equity investment held by EDC at the time of acquisition. The recording of the deferred income tax asset related to indexation and the other noted adjustments affected the allocation of the excess fair value over cost (commonly referred to as negative goodwill) to non-monetary assets.

Eletropaulo Metropolitana Electricidade de Sao Paulo S.A. (Eletropaulo)

At the time of the acquisition of Eletropaulo, a regulated utility located in Brazil, the Company did not record certain deferred income taxes on the difference between the tax basis of land and the related book basis which was adjusted to fair value under acquisition accounting guidelines. The correction of this error resulted in the recording of additional deferred income tax liabilities at the initial date of consolidation in February 2002. This increase in deferred income tax liability increased the original goodwill calculated as the excess purchase price over the fair value of assets and liabilities. As a further result, this adjustment also increased goodwill impairment expense subsequently recognized in 2002.

Brasiliana Energia, S.A. (Brasiliana   )

In January, 2004 the Company entered into a debt restructuring transaction with the Brazilian National Bank for Economic and Social Development (BNDES   ), whereby BNDES received a 54% economic interest in our Brazil distribution business and two generating facilities in exchange for the cancellation of $863 million of debt and accrued interest owed by AES Elpa and AES Transgas, holding companies for the Brazilian operations. After the Company made a cash payment of $90 million, the remaining indebtedness of $510 million, was re-profiled at a 9% stated interest rate with extended maturities. This exchange was accounted for as a modification of debt. The terms of the agreement state that penalty interest as of December 31, 2004 of $194 million would be cancelled in the future ratably as the principal of the new $510 million debentures are paid within the stated timeframes. This treatment gave rise to a deferred income tax liability. As a result of the income tax review, it was determined that a deferred income tax liability should have been recorded for $194 million of penalty interest anticipated to be forgiven in the future. To correct this error, the additional deferred income tax liability was recorded as part of the   stock issued for debt   restructuring transaction, with the following impacts:

- A deferred income tax liability at Brasiliana (the new parent company of the restructured entities), was recorded as of January, 2004. This deferred liability is also subject to foreign currency remeasurement in each subsequent reporting period.

- Debt modification calculations were adjusted to include the fair value of the increased income tax expense due to the forgiveness of debt compared to the book value of debt remaining. The resulting impact reduced the debt discount and decreased the effective interest rate. This adjustment did not change our conclusion regarding the accounting treatment of the transaction as a modification of debt.

These adjustments also impacted the amounts recorded to reflect the BNDES debt restructuring described above. This impact is described below in the   Other Non Income Tax Adjustments   section.

Other Acquisition Related Income Tax Adjustments

As a result of the comprehensive review of income tax accounting, certain other adjustments were made to correct errors identified at other subsidiaries, primarily related to recording of deferred income taxes arising from the step up of acquired assets to fair value and/or from other purchase accounting items. These adjustments increased or decreased fixed assets or concession assets and as a result impacted depreciation or amortization charges recorded within the Company   s statements of operations.

2. Foreign currency remeasurement of deferred income tax balances where the U.S. dollar is the functional currency at certain subsidiaries

The functional currency for certain of the Company   s foreign subsidiaries is the U.S. dollar. After reviewing the income tax balances for certain of the Company   s U.S. dollar entities in Venezuela, Brazil, Chile, Colombia, Dominican Republic, Argentina and Mexico, the Company discovered that deferred income taxes were remeasured from local currency to the U.S. dollar using the historical exchange rate versus the current exchange rate as prescribed by Statement of Financial Accounting Standard (SFAS   ) No. 52,   Foreign Currency Translation   and SFAS No. 109,   Accounting for Income Taxes,   starting in the year of acquisition or formation. In addition, as noted above, certain additional deferred tax amounts were recorded in these entities, which also required remeasurement   the largest of which was the additional deferred tax asset related to the EDC purchase accounting indexation adjustment described above.

3. Reconciliation of income tax returns to U.S. GAAP income tax balances

The remediation plan involved a detailed review of current and temporary differences identified through an analysis of local income tax return filings. The completion of this review also required the

9

Company to fully evaluate adjustments which had been previously recorded in consolidation, but which should have been recorded at a subsidiary level where the appropriate analysis of the tax jurisdiction could be made. This process led to the identification of errors that accounted for the remainder of the deferred income tax entries.

Establishment of Deferred Tax Liability for Brazilian Unrealized Foreign Currency Gains *Certain* of the Company s Brazilian subsidiaries have designated the U.S. dollar as the functional currency for accounting purposes. For Brazilian tax purposes, these companies have elected to treat these exchange gains or losses as taxable or deductible only when cash payments are made. The Company did not record deferred assets or liabilities related to the unrealized gains and losses that occur on an interim basis related to its U.S. dollar denominated debt. Under U.S. GAAP, these increases/decreases in deferred liabilities/assets are permanent differences that are recorded as an adjustment to tax expense.

Establishment of a U.S. Liability Related to Brazilian Deferred Tax Assets *One* of the Company s Brazilian subsidiaries, Sul, which has designated its functional currency as the Brazilian real, has generated deferred tax assets mainly related to net operating losses, unrealized tax losses on foreign currency transactions and certain other taxable temporary differences. A restructuring transaction was undertaken in relation to this subsidiary in July 2002. At the time of this restructuring, the Company should have recorded a reduction to the deferred tax assets for the U.S. income tax liability associated with the future projected Brazilian taxable income.

Establishment of Other Valuation Allowances *The* Company determined that certain valuation allowances should have been provided at various subsidiaries in Chile, Colombia, Brazil and Argentina related to deferred tax assets recorded primarily related to net operating loss carryforwards. Under U.S. GAAP, the Company is required to assess its ability to utilize deferred tax assets under a more likely than not standard and provide a valuation allowance to the extent the asset or any part of it does not meet this test. As part of the deferred tax review, the Company determined that these deferred tax assets were unlikely to be utilized in full or in part, based on information available in these historical periods and consequently did not meet the more likely than not standard.

Other Tax Expense Items *The* Company undertook a detailed comparison of the tax returns filed to accounting records in a majority of the countries in which we operate and identified certain other adjustments related to this reconciliation. Most significantly, these adjustments included the following:

- non-deductibility of certain holding company interest and goodwill;
- capitalized interest on tax holiday projects;
- treatment of certain foreign investment tax credits;
- reconciliation of other deferred tax balances; and
- changes in pre-tax book income related to other non-tax restatement adjustments.

4. Other Non-Income Tax Adjustments

Other non-income tax accounting errors were also identified as part of the Company s review of certain other historical transactions. The Company has concluded that the reasons for these errors primarily related to the lack of sufficient control and documentation procedures in 2002 and prior years related to certain consolidation and foreign currency translation processes. Significant non-income tax errors are described below:

AES SONEL

AES acquired 56% of SONEL located in Cameroon in July, 2001. Since that time, AES SONEL experienced a high degree of turnover of its senior accounting personnel. SONEL s accounting systems

10

required a significant degree of manual intervention including the conversion of local GAAP financial statements into U.S. GAAP.

During the Company s 2004 year-end process, the Company discovered errors in minority interest calculations that were corrected in the Company s restated financial statements as of and for the years ended December 31, 2003 and 2002 as filed with the Securities and Exchange Commission on Form 10-K on March 30, 2005. Subsequently, as part of the Corporate process to ensure the correct communication and documentation of the correction of the initial error at the subsidiary level, a comprehensive additional review of the preparation of the U.S. GAAP financial statements was performed and the following errors were identified:

- translation errors from local currency to U.S. dollar financial statements;
- the omission of certain purchase accounting adjustments related to the final valuation of our concession assets and recording of severance provisions from the U.S. GAAP financial statements; and
- incorrect treatment related to the accounting for dividends.

AES Elpa

As a result of the income tax review performed at AES Elpa, one of the Company s Brazilian holding companies, the Company identified a long-term liability which had been recorded for Brazilian GAAP but which had been omitted from U.S. GAAP financial statements at the acquisition date. The proper recording of this liability at the acquisition date would have increased the opening balance of goodwill, which was subsequently impaired and thereby written off as of the end of December, 2002. The impact of this adjustment as of December 31, 2002, increased long term liabilities and increased goodwill impairment expense and prior retained earnings by the same combined amount. This long-term liability is accreted by an interest expense component on a monthly basis.

AES Tiete

The Company determined that an error had been made in the initial accounting for a debt instrument which had been assumed at the date of purchase of Tiete, a generation company in Brazil, in 1999. The debt requires an annual adjustment to principal based on changes in the local rate of inflation. The Company accounted for this by using estimates of future inflation over the life of the debt and amortizing these adjustments as a component of interest expense over the term of the loan. These future inflation estimates were recorded on the balance sheet as a deferred financing cost within long-term assets. Periodically, adjustments were made to these estimates when the actual annual inflation calculations were charged to the principal balance. Subsequently, it was determined that inflation changes should be calculated and adjusted on a monthly basis through interest expense based on the rate of inflation in that month, regardless of how the actual cash payment would finally be determined.

SUL and Eletropaulo

The Company determined that an error had been made regarding the timing of the recognition of certain revenues recorded by its Brazilian utilities Eletropaulo and Sul. The tariff rates, as set by the Brazilian regulatory authority (ANEEL) provide that a percentage of a distributor s revenue is added to the consumer tariff rate in return for the Company s future spending of these amounts on capital or operating expense projects approved by ANEEL for the express purpose of improving the efficiency of the electrical system. Eletropaulo and Sul had previously recognized the revenue related to this portion of the tariff when billed, and recorded the future operating expense and capital project expenditures when incurred, since the expenditures were not considered pass through costs for purpose of a future tariff reset. However, under the guidance of SFAS 71 Accounting for the Effects of Certain Types of Regulation , Eletropaulo and Sul should have deferred this portion of revenue until such time that the related expenditures were incurred.

Brasiliana Energia

The correction of the error related to AES Elpa described above and other adjustments prior to January 2004 which impacted the net assets of Eletropaulo, Tiete and Uruguaiana, also impacted the recording of the Brazilian debt restructuring transaction with our lender, BNDES, as described earlier. The impact on the 2004 restated financials decreased the minority interest share allocated to BNDES and increased additional paid-in capital, a component of stockholders equity. The adjustment to additional paid-in capital was recorded in accordance with the Company s previously established accounting policy pertaining to gains or losses resulting from subsidiary sales of stock as permitted under SEC Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary.

Corporate Consolidation Accounting

During the restatement period, the Company undertook additional reviews of the consolidation process, including a review of consolidation journal entries to ascertain that appropriate supporting documentation existed and that current personnel who were performing the consolidation understood the basis for these entries. Several historical consolidation elimination adjustments were identified as errors which primarily affected deferred income taxes and other accumulated comprehensive income balances. The errors originated in years prior to 2002 and generally resulted from an inadequately controlled consolidation process including the elimination of investment accounts against subsidiary equity balances, general balancing controls related to the income statements and balance sheets submitted by our subsidiaries, and inadequate balance sheet reconciliations of consolidated deferred income tax accounts. The correcting entries resulted primarily in a decrease in deferred income tax liabilities and an increase in foreign currency translation, a component of other comprehensive income.

Cash Classifications

As part of an ongoing balance sheet review process, it came to the Company s attention that several of its subsidiaries incorrectly included certain short-term investments as cash and cash equivalents in the balance sheet.

Cash Flow Reclassification

The Company includes components of the cash flows for its discontinued operations within the Consolidated Statements of Cash Flows (Cash Flow Statement) in operating, investing and financing activities. A separate line entitled Decrease in cash and cash equivalents of discontinued operations and businesses held for sale was previously presented on the face of Cash Flow Statement to reconcile back to the Company s cash balance on the face of the Consolidated Balance Sheets, which excludes cash from discontinued operations. As part of the restatement, the Company has changed its presentation to include the net change in cash balances for discontinued operations as a component of net cash from operating activities.

Other Immaterial Errors

Certain other immaterial errors were identified and corrected in the appropriate periods.

Amendment No. 1

Subsequent to filing its restated annual report on Form 10-K/A for the year ended December 31, 2004, file with the Securities Exchange Commission on January 19, 2006, the Company discovered its previously issued restated consolidated financial statements included certain errors in accounting for derivative instruments and hedging activities, minority interest expense and income taxes. The errors in accounting for derivative instruments and hedging activities resulted in differences in previously issued condensed consolidated interim financial statements for certain quarterly periods in 2004 sufficient to require restatement of prior period interim results. The errors in accounting for income taxes and minority interest expense required restatement of previously issued consolidated annual financial statements.

As a result of evaluating these adjustments, the Company reduced its stockholders equity by $12 million as of January 1, 2003 as the cumulative effect of the correction of errors for all periods proceeding January 1, 2003, and restated its consolidated statements of operations and cash flows for the years ended December 31, 2004 and 2003 and its consolidated balance sheet as of December 31, 2004.

The restatement adjustments resulted in a decrease to previously reported net income of $20 million for the three months ended September 30, 2004 and in an increase to previously reported net income of $14 million for the nine months ended September 30, 2004. There was no impact on gross margin or net cash flow from operating activities of the Company for any periods presented. Based upon management s review it has been determined that these errors were inadvertent and unintentional. The condensed consolidated balance sheet as of September 30, 2005 has been restated to correct the effects of the adjustments to 2004 discussed below. The errors relate to the following areas:

1. Accounting for Derivative Instruments and Hedging Activities

The Company determined that it failed to perform adequate on-going effectiveness testing for three interest rate cash flow hedges and one foreign currency cash flow hedge during 2004 as required by SFAS No. 133. As a result, the Company should have discontinued hedge accounting and recognized changes in the fair value of the derivative instruments in earnings prospectively from the last valid effectiveness assessment until the earlier of either (1) the expiration of the derivative instrument or (2) the re-designation of the derivative instrument as a hedging activity.

The net impact related to the correction of these errors to previously reported net income resulted in a decrease of $23 million for the three months ended September 30, 2004 and an increase of $7 million for the nine months ended September 30, 2004.

2. Income Tax and Minority Interest Adjustments

As a result of the Company s year end closing review process, the Company discovered certain other errors related to the recording of income tax liabilities and minority interest expense. The adjustments primarily include:

- An increase in income tax expense related to the recording of certain historical withholding tax liabilities at one of our El Salvador subsidiaries;

- An increase in minority interest expense related to a correction of the allocation of income tax expense to minority shareholders. This allocation pertained to certain deferred tax adjustments recorded in the original restatement at one of our Brazilian generating companies. In addition, minority interest expense was also corrected at this subsidiary as a result of identifying differences arising from a more comprehensive reconciliation of prior year statutory financial records to U.S. GAAP financial statements;

- A reduction of 2004 income tax expense related to adjustments derived from 2004 income tax returns filed in 2005.

The net impact related to the correction of these errors to previously reported net income resulted in an increase of $3 million for the three months ended September 30, 2004 and $7 million for the nine months ended September 30, 2004. In addition, the Company restated stockholders equity as of January 1, 2003 by $12 million as a correction for these errors in all periods preceding January 1, 2003.

3. Other Balance Sheet Reclassifications

Certain other balance sheet reclassifications were recorded at December 31, 2004 including a $45 million reclassification which reduced Accounts Receivables and increased Other Current Assets (regulatory assets).

The following tables set forth the previously reported and restated amounts (in millions) of selected items within the condensed consolidated balance sheets as of September 30, 2005 and December 31, 2004, and the condensed consolidated statements of operations and comprehensive income for the three months and nine months ended September 30, 2004.

Selected Consolidated Balance Sheet Data:
(in millions)

	September 30, 2005 As Originally Reported	As Restated	December 31, 2004 As Originally Reported	As Restated
Assets				
Accounts receivable, net of allowances	$ 1,770	$ 1,725	$ 1,575	$ 1,530
Other current assets	$ 846	$ 891	$ 736	$ 781
Liabilities and Stockholders Equity				
Accounts payable	$ 1,063	$ 1,002	$ 1,142	$ 1,081
Accrued and other liabilities	$ 2,136	$ 2,187	$ 1,656	$ 1,707
Total current liabilities	$ 5,304	$ 5,294	$ 4,894	$ 4,884
Deferred income taxes	$ 770	$ 763	$ 685	$ 678
Other long-term liabilities	$ 3,368	$ 3,375	$ 3,375	$ 3,382
Minority Interest	$ 1,517	$ 1,541	$ 1,279	$ 1,305
Additional Paid-in capital	$ 6,484	$ 6,496	$ 6,423	$ 6,434
Accumulated deficit	$ 1,362	$ 1,391	$ 1,815	$ 1,844
Accumulated other comprehensive loss	$ 3,708	$ 3,705	$ 3,643	$ 3,641
Total stockholders equity	$ 1,421	$ 1,407	$ 972	$ 956

Selected Statements of Operations and Comprehensive Income Data:
(in millions, except per share amounts)

	For the three months ended September 30, 2004 As Originally Reported	As Restated	For the nine months ended September 30, 2004 As Originally Reported	As Restated
Regulated revenues	$ 1,252	$ 1,251	$ 3,545	$ 3,542
Regulated cost of sales	$ 957	$ 950	$ 2,724	$ 2,701
Non-regulated cost of sales	$ 735	$ 736	$ 2,160	$ 2,163
Total cost of sales	$ 1,692	$ 1,686	$ 4,884	$ 4,864
Gross margin	$ 731	$ 736	$ 2,059	$ 2,076
Interest expense	$ 470	$ 500	$ 1,423	$ 1,439
Foreign currency transaction losses, net	$ 16	$ 26	$ 79	$ 107
Income before income taxes and minority interest	$ 263	$ 225	$ 649	$ 619
Income tax expense	$ 78	$ 123	$ 201	$ 211
Minority interest expense	$ 52	$ 36	$ 174	$ 163
Income from continuing operations	$ 133	$ 66	$ 274	$ 245
Net Income	$ 140	$ 73	$ 226	$ 197
Unrealized currency translation gains	$ 89	$ 48	$ 18	$ 14
Change in fair value of derivatives in comprehensive (loss) income	$ (5)	$ 19	$ (76)	$ (84)
Comprehensive income	$ 224	$ 140	$ 170	$ 129
BASIC EARNINGS PER SHARE:				
Income from continuing operations	$ 0.21	$ 0.10	$ 0.43	$ 0.38
Discontinued operations	0.01	0.01	(0.08)	(0.07)
Cumulative effect of accounting change				
BASIC EARNINGS PER SHARE:	$ 0.22	$ 0.11	$ 0.35	$ 0.31
DILUTED EARNINGS PER SHARE:				
Income from continuing operations	$ 0.20	$ 0.10	$ 0.42	$ 0.38
Discontinued operations	0.01	0.01	(0.07)	(0.07)
Cumulative effect of accounting change				
DILUTED EARNINGS PER SHARE:	$ 0.21	$ 0.11	$ 0.35	$ 0.31

Selected Statement of Cash Flow Data:
($ in millions)

	September 30, 2004 As Originally Reported	As Restated
Net cash provided by operating activities	$ 1,109	$ 1,117
Net cash used in investing activities	$ 522	$ 623
Net cash used in financing activities	$ 741	$ 741
Cash and cash equivalents, beginning	$ 1,737	$ 1,663
Cash and cash equivalents, ending	$ 1,582	$ 1,404

2. FINANCIAL STATEMENT PRESENTATION

Consolidation

The condensed consolidated financial statements include the accounts of The AES Corporation, its subsidiaries and controlled affiliates (Company or AES). Furthermore, variable interest entities in which the Company has an interest have been consolidated where the Company is identified as the primary beneficiary. In all cases, AES holds a majority ownership interest in those variable interest entities that have been consolidated. All intercompany transactions and balances have been eliminated in consolidation. Investments in which the Company has the ability to exercise significant influence but not control are accounted for using the equity method.

Interim Financial Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States of America for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods. The results of operations for the three and nine months ended September 30, 2005, are not necessarily indicative of results that may be expected for the year ending December 31, 2005. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2004 consolidated financial statements and notes thereto, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC on April 4, 2006.

New Accounting Standards

Share-Based Payment. In December 2004, the Financial Accounting Standards Board (FASB) issued a revised Statement of Financial Accounting Standard (SFAS) No. 123, Share-Based Payment. SFAS 123R eliminates the intrinsic value method as an alternative method of accounting for stock-based awards under Accounting Principles Board (APB) No. 25 by requiring that all share-based payments to employees, including grants of stock options for all outstanding years, be recognized in the financial statements based on their fair values. It also revises the fair-value based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies the guidance under SFAS No. 123 related to measurement of fair value, classifying an award as equity or as a liability and attributing compensation to reporting periods. In addition, SFAS No. 123R amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash flow rather than as an operating cash flow.

Management is currently evaluating the effect of the adoption of SFAS No. 123R under the modified prospective application transition method, but does not expect the adoption to have a material effect on the Company s financial condition, results of operations or cash flows, because the Company had previously adopted income statement treatment for compensation related to share-based payments under SFAS No. 123. On April 14, 2005, the SEC deferred the effective date of SFAS No. 123R until the beginning of 2006 for calendar year companies.

Implicit Variable Interest Entities. In March 2005, the FASB issued Staff Position (FSP) No. FIN 46(R)-5, Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. This FSP clarifies that when applying the variable interest consolidation model, a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity (VIE) or potential VIE. FSP No. FIN 46(R)-5 is effective as of April 1, 2005. Upon the adoption of FSP No. FIN 46(R)-5, the Company did not identify any potential or implicit VIEs.

Asset Retirement Obligations. In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, which clarifies the term conditional asset retirement obligation as used in SFAS No. 143 Accounting for Asset Retirement Obligations. Specifically, FIN 47 provides that an asset retirement obligation is conditional when the timing and/or method of settling the obligation is conditioned on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for fiscal years ending after December 15, 2005. Management is currently evaluating the effect that adoption of FIN 47 will have on the Company s financial position and results of operations.

3. INVENTORY

Inventory consists of the following (in millions):

	September 30, 2005	December 31, 2004
Coal, fuel oil and other raw materials	$ 215	$ 193
Spare parts and supplies	264	225
Total	$ 479	$ 418

4. LONG-TERM DEBT

Non-Recourse Debt

Debt Defaults

Subsidiary non-recourse debt in default as of September 30, 2005 is as follows (in millions):

Subsidiary	Primary Nature of Covenant Default	September 30, 2005 Default	Net Assets
Eden/Edes	Payment	$ 98	$ (55)
Parana	Payment	33	(67)
Hefei	Payment	4	
Los Mina	Payment	24	130
Andres	Payment	112	297
Indian Queens	Other	31	43
		$ 302	$ 348

Andres and Los Mina, both electricity generation companies which are wholly owned subsidiaries of the Company located in the Dominican Republic, entered into forbearance agreements with their respective lenders in December 2004. Pursuant to the forbearance agreements, the lenders agreed not to exercise any remedies under the respective credit agreements. The forbearance agreements for Andres and Los Mina expired on July 29, 2005 and June 10, 2005, respectively. Subsequently, in December 2005, AES Dominicana Energia Finance, S.A., a wholly owned subsidiary of the Company, issued a $160 million Senior Secured Corporate Bond in the international capital markets under Rule 144A/Regulation S. The 10-year notes, with final maturity in December 2015, were priced to yield 11%. The net proceeds of the

issuance were used to retire the current bank debt at both Andres and Los Mina of $112 million and $24 million, respectively. As of September 30, 2005, the debt for both of these subsidiaries is reported as current in the accompanying condensed consolidated balance sheet.

In September 2005, Indian Queens Power Ltd. (Indian Queens), an electricity generation company which is a wholly owned subsidiary of the Company located in the United Kingdom, was not able to meet the debt service coverage ratio as required pursuant to its term loan agreement. As a result, the debt is currently in default. The lenders have not issued a waiver for the default at this time. As of September 30, 2005, the outstanding debt balance of Indian Queens is reported as current in the accompanying condensed consolidated balance sheet.

Recourse Debt

Recourse debt obligations are direct borrowings of the parent corporation.

On June 1, 2005, the Company redeemed all outstanding 8.5% Senior Subordinated Notes due 2007, at a redemption price of 101.417% and an aggregate principal amount of approximately $112 million, including unamortized transaction costs.

On June 23, 2005, the Company amended its $650 million Senior Secured Bank Facilities. The interest rate on the $450 million Revolving Bank Loan was reduced to the London Interbank Offered Rate (LIBOR) plus 175 basis points. Previously, the rate was LIBOR plus 250 basis points. In addition, the Revolving Bank Loan maturity was extended from 2007 to 2010. The interest rate on the Senior Secured Term Loan also was reduced to LIBOR plus 175 basis points, from LIBOR plus 225 basis points, while its maturity in 2011 remains unchanged. On September 30, 2005, the Company upsized the Revolving Bank Loan to a total commitment amount of $650 million from $450 million.

On August 15, 2005, the Company repaid at maturity all outstanding 4.5% Convertible Junior Subordinated Debentures (the Debentures) at par for an aggregate principal amount of $142 million.

5. EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period, after giving effect to stock splits, as applicable. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive stock options, warrants, deferred compensation arrangements, and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable.

The following tables present a reconciliation (in millions) of the numerators and denominators of the basic and diluted earnings per share computations for income from continuing operations. In the table below, income represents the numerator and shares represent the denominator:

	Three Months Ended September 30,					
	2005			**2004**		
	Income	**Shares**	**$ per Share**	**Income**	**Shares**	**$ per Share**
BASIC EARNINGS PER SHARE:						
Income from continuing operations	$ 244	651	$ 0.38	$ 66	646	$ 0.10
EFFECT OF DILUTIVE SECURITIES:						
Stock options and warrants		9			7	
Restricted stock units		2				
Convertible debt	5	15	(0.01)			
DILUTED EARNINGS PER SHARE	$ 249	677	$ 0.37	$ 66	653	$ 0.10

There were 8,543,108 and 26,794,081 options outstanding at September 30, 2005 and 2004, respectively, that were omitted from the earnings per share calculation because they were anti-dilutive. For the three months ended September 30, 2005, all term convertible preferred securities (TECON s) were omitted from the earnings per share calculation because they were anti-dilutive. For the three months ended September 30, 2004, all convertible securities were omitted from the earnings per share calculation because they were anti-dilutive.

	Nine Months Ended September 30, 2005			2004		
	Income	Shares	$ per Share	Income	Shares	$ per Share
BASIC EARNINGS PER SHARE:						
Income from continuing operations	$ 453	653	$ 0.69	$ 245	638	$ 0.38
EFFECT OF DILUTIVE SECURITIES:						
Stock options and warrants		10	(0.01)		7	
Restricted stock units		1				
Convertible debt						
DILUTED EARNINGS PER SHARE	$ 453	664	$ 0.68	$ 245	645	$ 0.38

There were 8,543,108 and 26,812,757 options outstanding at September 30, 2005 and 2004, respectively, that were omitted from the earnings per share calculation because they were anti-dilutive. For the nine months ended September 30, 2005 and 2004, all convertible securities were omitted from the earnings per share calculation because they were anti-dilutive.

6. SUMMARIZED INCOME STATEMENT INFORMATION OF AFFILIATES

The following table summarizes financial information (in millions) of the entities in which the Company has the ability to exercise significant influence but does not control, and therefore are accounted for using the equity method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 278	$ 246	$ 810	$ 714
Gross Margin	$ 95	$ 87	$ 250	$ 246
Net Income	$ 48	$ 40	$ 147	$ 129

The Company discontinues the application of the equity method when an investment is reduced to zero and does not provide for additional losses when the Company does not guarantee the obligations of the investee, or is not otherwise committed to provide further financial support for the investee. The above table excludes income statement information for the Company s investments in which the Company has discontinued the application of the equity method. Furthermore, the Company s policy is to resume the application of the equity method if the investee subsequently reports net income only after the Company s share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

7. CONTINGENCIES

Environmental

The Company reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of September 30, 2005, the Company recorded liabilities of $12 million for projected environmental remediation costs. Because of the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Based on currently available information and analysis, the Company believes that it is possible that costs associated with such liabilities or as yet unknown liabilities may exceed current reserves in amounts that could be material but cannot be estimated as of September 30, 2005.

Financial Commitments

At September 30, 2005, AES provided outstanding financial and performance related guarantees or other credit support commitments for the benefit of its subsidiaries, which were limited by the terms of the agreements to an aggregate of approximately $444 million (excluding those collateralized by letter of credit and surety bond obligations discussed below).

At September 30, 2005, the Company had $369 million in letters of credit outstanding under the Revolving Bank Loan that operate to guarantee performance relating to certain project development activities and subsidiary operations. The Company pays a letter of credit fee ranging from 0.50% to 1.95% per annum on the outstanding amounts. In addition, the Company had $4 million in surety bonds outstanding at September 30, 2005.

Litigation

The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company has accrued for litigation and claims where it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company s financial statements. It is possible, however, that some matters could be decided unfavorably to the Company, and could require the Company to pay damages or to make expenditures in amounts that could have a material adverse effect on the Company s financial position and results of operations.

In September 1999, a Brazilian appellate state court of Minas Gerais granted a temporary injunction suspending the effectiveness of a shareholders agreement between Southern Electric Brasil Participacoes, Ltda. (SEB) and the state of Minas Gerais concerning CEMIG. AES s investment in CEMIG is through SEB. This shareholders agreement granted SEB certain rights and powers in respect of CEMIG (Special Rights). In March 2000, a lower state court in Minas Gerais held the shareholders agreement invalid where the agreement purported to grant SEB the Special Rights and the lower state court enjoined the exercise of Special Rights. In August 2001, a state appellate court denied an appeal of the decision, and extended the injunction. In October 2001, SEB filed two appeals against the decision on the merits of the state appellate court, one appeal to the Federal Superior Court and the other appeal to the Supreme Court of Justice. The state appellate court denied access of these two appeals to the higher courts, and in August 2002, SEB filed two interlocutory appeals against the state appellate court s decision, one directed to the Federal Superior Court and the other to the Supreme Court of Justice. In December 2004, the Federal Superior Court denied SEB s appeal. In June 2005, the Supreme Court of Justice formally accepted SEB s appeal. SEB intends to vigorously pursue a restoration of the value of its investment in CEMIG; however, there can be no assurances that it will be successful in its efforts. Failure to prevail in this matter may limit SEB s influence on the daily operation of CEMIG.

In November 2000, the Company was named in a purported class action suit along with six other defendants, alleging unlawful manipulation of the California wholesale electricity market, resulting in inflated wholesale electricity prices throughout California. The alleged causes of action include violation of the Cartwright Act, the California Unfair Trade Practices Act and the California Consumers Legal Remedies Act. In December 2000, the case was removed from the San Diego County Superior Court to the U.S. District Court for the Southern District of California. On July 30, 2001, the Court remanded the case to San Diego Superior Court. The case was consolidated with five other lawsuits alleging similar claims against other defendants. In March 2002, the plaintiffs filed a new master complaint in the consolidated action, which reasserted the claims raised in the earlier action and names the Company, AES Redondo Beach, L.L.C., AES Alamitos, L.L.C., and AES Huntington Beach, L.L.C. as defendants. In May 2002, the case was removed by certain cross-defendants from the San Diego County Superior Court to the United States District Court for the Southern District of California. The plaintiffs filed a motion to remand the case to state court, which was granted on December 13, 2002. Certain defendants appealed aspects of that decision to the United States Court of Appeals for the Ninth Circuit. On December 8, 2004, a panel of the Ninth Circuit issued an opinion affirming in part and reversing in part the decision of the District Court, and remanding the case to state court. On July 8, 2005, defendants filed a demurrer in state court seeking dismissal of the case in its entirety. In October 2005, the state court dismissed the case. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In August 2000, the Federal Energy Regulatory Commission (FERC) announced an investigation into the organized California wholesale power markets in order to determine whether rates were just and reasonable. Further investigations involved alleged market manipulation. The FERC requested documents from each of the AES Southland plants and AES Placerita. AES Southland and AES Placerita have cooperated fully with the FERC investigation. AES Southland is not subject to refund liability because it did not sell into the organized spot markets due to the nature of its tolling agreement. The Ninth Circuit heard oral arguments on the time scope of the refunds. The Ninth Circuit Court of Appeals also addressed the appeal of the FERC s decision not to impose refunds for the alleged failure to file rates including transaction specific data for sales to the California Independent System Operator (ISO) for 2000 and 2001. See *State of California ex rel. Bill Lockyer*. Although in its order issued on September 9, 2004 the Ninth Circuit did not order refunds, the Ninth Circuit remanded the case to the FERC for a refund proceeding to consider remedial options. That remand order is pending rehearing at the Ninth Circuit. Placerita made sales during the referenced time period. Depending on the method of calculating refunds and the time period to which the method is applied, the alleged refunds sought from AES Placerita could approximate $23 million.

In August 2001, a petition was filed against CESCO, an affiliate of the Company, by the Grid Corporation of Orissa, India (Gridco), with the Orissa Electricity Regulatory Commission (OERC), alleging that CESCO had defaulted on its obligations as an OERC-licensed distribution company, that CESCO management abandoned the management of CESCO, and asking for interim measures of protection, including the appointment of an administrator to manage CESCO. Gridco, a state-owned entity, is the sole wholesale energy provider to CESCO. Pursuant to the OERC s August 2001 order, the management of CESCO was replaced with a government administrator who was appointed by the OERC. The OERC later held that the Company and other CESCO shareholders were not necessary or proper parties to the OERC proceeding. In August 2004, the OERC issued a notice to CESCO, the Company and others giving the recipients of the notice until November 2004 to show cause why CESCO s distribution license should not be revoked. In response, CESCO submitted a business plan to the OERC. In February 2005, the OERC issued an order rejecting the proposed business plan. The order also stated that the CESCO distribution license would be revoked if an acceptable business plan for CESCO was not submitted to, and approved by, the OERC prior to March 31, 2005. In its April 2, 2005 order, the OERC revoked the CESCO distribution license. CESCO has filed an appeal against the April 2, 2005 OERC order and that appeal remains pending in the Indian courts. In addition, Gridco asserted that a comfort letter issued by the Company in connection with the Company s indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO s financial obligations to Gridco. In December 2001, Gridco served a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 on the Company, AES Orissa Distribution Private Limited (AES ODPL), and Jyoti Structures (Jyoti) pursuant to the terms of the CESCO Shareholders Agreement between Gridco, the Company, AES ODPL, Jyoti and CESCO (the CESCO arbitration). In the arbitration, Gridco appears to seek approximately $188.5 million in damages plus undisclosed penalties and interest, but a detailed alleged damages analysis has yet to be filed by Gridco. The Company has counter-claimed against Gridco for damages. A arbitration hearing with respect to liability was conducted on August 3 - 9, 2005 in India. Final written arguments regarding liability were submitted by the parties to the arbitral tribunal in late October 2005. A decision on liability may be issued in the first quarter of 2006. A petition remains pending before the Indian Supreme Court concerning fees of the third neutral arbitrator and the venue of future hearings with respect to the CESCO arbitration. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In December 2001, a petition was filed by Gridco in the local Indian courts seeking an injunction to prohibit the Company and its subsidiaries from selling their shares in Orissa Power Generation Company Pvt. Ltd. (OPGC) pending the outcome of the above discussed CESCO arbitration. OPGC, located in Orissa, is a 420 MW coal-based electricity generation business from which Gridco is the sole off-taker of electricity. Gridco obtained a temporary injunction, but the District Court eventually dismissed Gridco s petition for an injunction in March 2002. Gridco appealed to the Orissa High Court, which in January 2005 allowed the appeal and granted the injunction. The Company has appealed the High Court s decision to the Supreme Court of India. In May 2005, the Supreme Court adjourned this matter until August 2005. In August 2005 the Supreme Court adjourned the matter again to await the award of the arbitral tribunal in the CESCO arbitration. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In early 2002 GRIDCO made an application to the OERC requesting that the OERC initiate proceedings regarding the terms of OPGC s existing power purchase agreement (PPA) with Gridco. In response, OPGC filed a petition in the India courts to block any such OERC proceedings. In early 2005 the Orissa High Court upheld the OERC s jurisdiction to initiate such proceedings as requested by Gridco. OPGC appealed that High Court s decision to the Supreme Court and sought stays of both the High Court s decision and the underlying OERC proceedings regarding the PPA terms. In April 2005, the Supreme Court granted OPGC s requests and ordered stays of the High Court s decision and the OERC proceedings with respect to the PPA terms. The matter is awaiting further hearing. Unless the Supreme Court finds in favor of OPGC s appeal or otherwise prevents the OERC s proceedings regarding the PPA terms, the OERC will likely lower the tariff payable to OPGC under the PPA, which would have an adverse impact on OPGC s financials. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In July 2002, the Company, Dennis W. Bakke, Roger W. Sant, and Barry J. Sharp were named as defendants in a purported class action filed in the United States District Court for the Southern District of Indiana. In September 2002, two virtually identical complaints were filed against the same defendants in the same court. All three lawsuits purport to be filed on behalf of a class of all persons who exchanged their shares of IPALCO common stock for shares of AES common stock issued pursuant to a registration statement dated and filed with the SEC on August 16, 2000, (the   Share Exchange). The complaints purport to allege violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 based on statements in or omissions from the registration statement concerning, among other things, an alleged breach by AES of obligations AES owed to Williams Energy Services Co. (Williams) under an agreement between the two companies in connection with the California energy market. On September 26, 2003, defendants filed a motion to dismiss the complaint. By Order dated November 17, 2004, the Court dismissed all of the claims asserted in the amended and consolidated complaint against all defendants except for the claim alleging that the registration statement and prospectus disseminated to the IPALCO stockholders for purposes of the Share Exchange failed to disclose AES s purported temporary default on its contract with Williams. On December 15, 2004, the AES Defendants filed a motion for judgment on the pleadings dismissing the remaining claims. On July 7, 2005, the district court granted defendants   motion for judgment on the pleadings and entered an order dismissing all claims and thereby terminating this action in the district court. The time to file an appeal to the action has expired without the filing of an appeal.

Commencing on May 2, 2003, the Indiana Securities Commissioner of Indiana s Office of the Secretary of State, Securities Division, pursuant to Indiana Code 23-2-1, served subpoenas on 30 former officers and directors of IPALCO Enterprises, Inc. (IPALCO), AES, and others, requesting the production of documents in connection with the March 27, 2001 share exchange between the Company and IPALCO pursuant to which stockholders exchanged shares of IPALCO common stock for shares of the Company s common stock and IPALCO became a wholly-owned subsidiary of the Company. IPALCO and the Company have produced documents pursuant to the subpoenas served on them. In addition, the Indiana Securities Commissioner s office has taken testimony from various individuals. On January 27, 2004, Indiana s Secretary of State issued a statement which provided that the investigative staff had determined that there did not appear to be a justifiable reason to focus further specific attention upon six non-employee former members of IPALCO s Board of Directors. In October 2005, the Secretary of State issued a press release announcing that the investigation had been concluded and that no charges would be sought.

In April 2002, IPALCO and certain former officers and directors of IPALCO were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of Indiana. On May 28, 2002, an amended complaint was filed in the lawsuit. The amended complaint asserts that IPALCO and former members of the pension committee for the Indianapolis Power & Light Company thrift plan breached their fiduciary duties to the plaintiffs under the Employees Retirement Income Security Act by investing assets of the thrift plan in the common stock of IPALCO prior to the acquisition of IPALCO by the Company. In December 2002, plaintiffs moved to certify this case as a class action. The Court granted the motion for class certification on September 30, 2003. On October 31, 2003, the parties filed cross-motions for summary judgment on liability. On August 11, 2005, the Court issued an Order denying the summary judgment motions, but striking one defense asserted by defendants. Trial has been scheduled for early February 2006 addressing only the allegations of breach of fiduciary duty. If necessary, one or more trials on reliance and damages issues will be conducted separately. IPALCO believes it has meritorious defenses to the claims asserted against it and intends to defend this lawsuit vigorously.

In November 2002, a lawsuit was filed against AES Wolf Hollow, L.P. (AESWH) and AES Frontier, L.P. (AESF) in the District Court of Hood County, Texas by Stone & Webster, Inc. (S&W). At the time of filing, AESWH and AESF were two indirect subsidiaries of the Company. In December 2004, the Company finalized agreements to transfer the ownership of AESWH and AESF. S&W contracted with AESWH and AESF to perform the engineering, procurement and construction of the Wolf Hollow project, a gas-fired combined cycle power plant in Hood County, Texas. In its initial complaint, S&W requested a declaratory judgment that a fire that took place at the project on June 16, 2002 constituted a force majeure event and that S&W was not required to pay rebates assessed for associated delays. As part of the initial complaint, S&W also sought to enjoin AESWH and AESF from drawing down on letters of credit provided by S&W. The Court refused to issue the injunction. S&W has since amended its complaint five times and joined additional parties, including the Company and Parsons Energy & Chemicals Group, Inc. In addition to the claims already mentioned, the current claims by S&W include claims for breach of contract, breach of warranty, wrongful liquidated damages, foreclosure of lien, fraud and negligent misrepresentation. S&W appears to assert damages against the subsidiaries and the Company in the amount of $114 million in recently filed reports and seeks exemplary damages. S&W has filed a lien against the ownership interests of AESWH and AESF in the property, with each lien allegedly valued, after amendment on March 14, 2005, at approximately $87 million. In January 2004, the Company filed a counterclaim against S&W and its parent, the Shaw Group, Inc. (Shaw). AESWH and AESF filed answers and counterclaims against S&W, which since have been amended. The amount of AESWH and AESF s counterclaims are approximately $215 million, according to calculations of the subsidiaries and of an expert retained in connection with the litigation, minus the Contract balance, currently not earned, in the amount of $45.8 million. In March 2004, S&W and Shaw each filed an answer to the counterclaim. The counterclaim and answers subsequently were amended. In March 2005, the Court rescheduled the trial date for October 24, 2005. In September 2005, the trial date was re-scheduled for June 2006. In November 2005, the Company filed a motion for partial summary judgment. The Company believes that the allegations in S&W s complaint are meritless, and that it has meritorious defenses to the claims asserted by S&W. The Company intends to defend the lawsuit and pursue its claims vigorously.

In March 2003, the office of the Federal Public Prosecutor for the State of Sao Paulo, Brazil (MPF) notified Eletropaulo that it had commenced an inquiry related to the BNDES financings provided to AES Elpa and AES Transgas and the rationing loan provided to Eletropaulo, changes in the control of Eletropaulo, sales of assets by Eletropaulo and the quality of service provided by Eletropaulo to its customers and requested various documents from Eletropaulo relating to these matters. In October 2003 this inquiry was sent to the MPF for continuing investigation. Also in March 2003, the Commission for Public Works and Services of the Sao Paulo Congress requested Eletropaulo to appear at a hearing concerning the default by AES Elpa and AES Transgas on the BNDES financings and the quality of service rendered by Eletropaulo. This hearing was postponed indefinitely. In addition, in April 2003, the office of the MPF notified Eletropaulo that it is conducting an inquiry into possible errors related to the collection by Eletropaulo of customers unpaid past-due debt and requesting the company to justify its procedures. In December 2003, ANEEL answered, as requested by the MPF, that the issue regarding the past-due debts are to be included in the analysis to the revision of the General Conditions for the Electric Energy Supply.

In May 2003, there were press reports of allegations that in April 1998 Light Serviços de Eletricidade S.A. (Light) colluded with Enron in connection with the auction of Eletropaulo. Enron and Light were among three potential bidders for Eletropaulo. At the time of the transaction in 1998, AES owned less than 15% of the stock of Light and shared representation in Light s management and Board with three other shareholders. In June 2003, the Secretariat of Economic Law for the Brazilian Department of Economic Protection and Defense (SDE) issued a notice of preliminary investigation seeking information from a number of entities, including AES Brasil Energia, with respect to certain allegations arising out of the privatization of Eletropaulo. On August 1, 2003, AES Elpa responded on behalf of AES-affiliated companies and denied knowledge of these allegations. The SDE began a follow-up administrative proceeding as reported in a notice published on October 31, 2003. In response to the Secretary of Economic Law s official letters requesting explanations on such accusation, Eletropaulo filed its defense on January 19, 2004. On April 7, 2005 Eletropaulo responded to a SDE request for additional information.

AES Florestal, Ltd., (Florestal), a wooden utility pole manufacturer located in Triunfo, in the state of Rio Grande do Sul, Brazil, has been operated by Sul since October 1997 as part of the original privatization transaction by the Government of the State of Rio Grande do Sul, Brazil, that created Sul. From 1997 to the present, the chemical compound chromated copper arsenate was used by Florestal to chemically treat the poles under an operating license issued by the Brazilian government. Prior to 1997, another chemical, creosote, was used to treat the poles. After becoming the operator of Florestal, Sul discovered approximately 200 barrels of solid creosote waste on the Florestal property. In 2002, a civil inquiry (Civil Inquiry No. 02/02) was initiated and a criminal lawsuit was filed in the city of Triunfo s Judiciary both by the Public Prosecutors office of the city of Triunfo. The civil lawsuit was settled in 2003, and on June 27, 2005, the criminal lawsuit was dismissed. Florestal hired an independent environmental assessment company to perform an environmental audit of the operational cycle at Florestal. Florestal submitted an action plan that was accepted by the environmental authority under which it voluntarily offered to do containment work at the site.

On January 27, 2004, the Company received notice of a Formulation of Charges filed against the Company by the Superintendence of Electricity of the Dominican Republic. In the Formulation of Charges, the Superintendence asserts that the existence of three generation companies (Empresa

Generadora de Electricidad Itabo, S.A., Dominican Power Partners, and AES Andres BV) and one distribution company (Empresa Distribuidora de Electricidad del Este, S.A.) in the Dominican Republic, violates certain cross ownership restrictions contained in the General Electricity law of the Dominican Republic. On February 10, 2004, the Company filed in the First Instance Court of the National District of the Dominican Republic (Court) an action seeking injunctive relief based on several constitutional due process violations contained in the Formulation of Charges (Constitutional Injunction). On or about February 24, 2004, the Court granted the Constitutional Injunction and ordered the immediate cessation of any effects of the Formulation of Charges and the enactment by the Superintendence of Electricity of a special procedure to prosecute alleged antitrust complaints under the General Electricity Law. On March 1, 2004, the Superintendence of Electricity appealed the Court s decision. The appeal is pending.

In late July 2004, the Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE), which is the government entity that currently owns 50% of Empresa Generadora de Electricidad Itabo, S.A. (Itabo), filed separate lawsuits in the Dominican Republic against Ede Este, a former subsidiary of AES, and Itabo, an AES affiliate. Lawsuits against Itabo also name the president of Itabo as a defendant. In one of the lawsuits against Itabo, CDEEE requested a rendering of accountability for the accounts of Itabo with regard to all transactions between Itabo and related parties. On November 29, 2004, the Court dismissed the case. CDEEE appealed the dismissal. A hearing was held on May 12, 2005 and Itabo requested the Court to declare the Courts jurisdictional incompetence to decide the matter, in light of the arbitration clause set forth in the contracts executed between Itabo and CDE under the Capitalization Process. The Court ordered that the claims be heard on the merits and condemned Itabo for not complying with this request. The Court reserved judgment on Itabo´s arguments that the matter should be resolved in an arbitration proceeding. On May 25, 2005, Itabo appealed the May 12 decision and requested a stay of the decision. On October 14, 2005 the Court of Appeals of Santo Domingo upheld Itabo´s request of jurisdictional incompetence and remitted the lawsuit to the ICC for arbitration. On May 26, 2005, Itabo filed a motion with the United States District Court Southern District New York, seeking relief in aid of the ongoing arbitration. The petition was denied on July 18. Itabo appealed said decision on September 6, 2005. In the other Itabo lawsuit, CDEEE also requested that the court order Itabo to deliver its accounting books and records for the period from September 1999 to July 2004 to CDEEE. At a hearing that was held on March 30, 2005, Itabo submitted that the court did not have jurisdiction to hear the case and that the case should be decided in an arbitration proceeding. On October 11, 2005 the Court upheld Itabo´s petition of jurisdictional incompetence and declared that the lawsuit should be decided in an arbitral proceeding. In the Ede Este lawsuit, CDEEE requests a rendering of accountability of the accounts of Itabo of all Ede Este s commercial and financial operations with affiliate companies since August 5, 1999. On February 9, 2005, Itabo filed a lawsuit against CDEEE and the Fondo Patrimonial para el Desarrollo (FONPER) seeking among other relief, to enforce the arbitration/dispute resolution processes set forth in the contracts among the parties. FONPER submitted an answer and asserted a counterclaim on April 21, 2005. CDEEE submitted an answer on April 23, 2005. Itabo answered FONPER´s counterclaim on May 12, 2005. On August 25, Itabo filed an amended lawsuit. The Tribunal has been constituted. The arbitration is ongoing.

On February 18, 2004, AES Gener S.A. (Gener SA), a subsidiary of the Company, filed a lawsuit in the Federal District Court for the Southern District of New York. Gener SA is co-venturer with Coastal Itabo, Ltd. (Coastal) in Itabo, a Dominican Republic electric generation company. The lawsuit sought to enjoin the efforts initiated by Coastal to hire an alleged independent expert, purportedly pursuant to the Shareholder Agreement between the parties, to perform a valuation of Gener SA s aggregate interests in Itabo. Coastal asserts that Gener SA has committed a material breach under the parties Shareholder Agreement, and therefore, Gener is required if requested by Coastal to sell its aggregate interests in Itabo to Coastal at a price equal to 75% of the independent expert s valuation. Coastal claims a breach occurred based on alleged violations by Gener SA of purported antitrust laws of the Dominican Republic. Gener SA disputes that any default has occurred. On March 11, 2004, upon motion by Gener SA, the court enjoined the evaluation being performed by the expert and ordered the parties to arbitration. On March 11, 2004, Gener SA commenced arbitration proceedings. The arbitration tribunal has been appointed and the arbitration is ongoing.

Pursuant to the pesification established by the Public Emergency Law and related decrees in Argentina, since the beginning of 2002, the Company s subsidiary TermoAndes has converted its obligations under its gas supply and gas transportation contracts into pesos. In accordance with the Argentine regulations, payments were made in Argentine pesos at a 1:1 exchange rate. Certain gas suppliers (Tecpetrol, Mobil and Compañía General de Combustibles S.A.) which represented 50% of the gas supply contract have objected to the payment in pesos. On January 30, 2004, such gas suppliers filed for arbitration with the ICC requesting the re-dollarization of the gas price. TermoAndes replied on March 10, 2004 with a counter-lawsuit related to (i) the default of suppliers regarding the most favored nation clause, (ii) the unilateral modification of the point of gas injection by the suppliers, (iii) the obligations to supply the contracted quantities and (iv) the ability of TermoAndes to resell the gas not consumed. On May 12, 2004, the plaintiffs responded to TermoAndes counterclaims. In October 2004, the case was submitted to a court of arbitration for determination of the Terms of Reference. Hearings to show evidence were held in Buenos Aires in June 2005. The arbitration seeks approximately $12 million for past gas supplies plus interests.

On or about October 27, 2004, AES Red Oak LLC (Red Oak) was named as a defendant in a lawsuit filed by Raytheon Company (Raytheon) in the Supreme Court of the State of New York, County of New York. The complaint purports to allege claims for breach of contract, fraud, interference with contractual rights and equitable relief concerning alleged issues related to the construction and/or performance of the Red Oak project. The complaint seeks the return from Red Oak of approximately $30 million that was drawn by Red Oak under a letter of credit that was posted by Raytheon related to the construction and/or performance of the Red Oak project. Raytheon also seeks $110 million in purported additional expense allegedly incurred by Raytheon in connection with the guaranty and construction agreements entered with Red Oak. In December 2004, Red Oak answered the complaint and filed counterclaims against Raytheon. In January 2005, Raytheon moved for dismissal of Red Oak s counterclaims. In March 2005, the motion to dismiss was withdrawn and a partial motion for summary judgment was filed by Raytheon seeking return of approximately $16 million of the letter of credit draw. Red Oak submitted its opposition to the partial motion for summary judgment in April. Meanwhile, Raytheon re-filed its motion to dismiss the fraud allegations in the counterclaim. In late April 2005, Red Oak filed its response opposing the renewed motion to dismiss. In December 2005, the Court granted a dismissal of Red Oak s fraud claim. The Court also ordered the return of approximately $16 million of the letter of credit draw that had yet to be utilized for the performance/construction issues. The parties are conducting discovery. Red Oak expects to defend itself vigorously in the action. Raytheon also filed a related action against Red Oak in the Superior Court of Middlesex County, New Jersey, on May 27, 2005, seeking to foreclose on a construction lien filed against property allegedly owned by Red Oak, in the amount of $31 million. Red Oak was served with the Complaint in September of 2005, and filed its answer, affirmative defenses, and counterclaim in October of 2005. Raytheon has stated that it wishes to stay the New Jersey action pending the outcome of the New York action. Red Oak has not decided whether it wishes to oppose the lien, or consent to a stay.

On January 26, 2005, the City of Redondo Beach, California, sent Williams Power Co., Inc., (Williams) and AES Redondo Beach, LLC (AES Redondo Beach), a subsidiary of the Company, a notice of assessment for utility users tax (UUT) for the period of May 1998 through September 2004 taxing the natural gas used at AES Redondo s plant to generate electricity during that time period. The original assessment included alleged amounts owing of $32.8 million for gas usage and $38.9 million in interest and penalties. The City lowered the assessment to total $56.7 million on July 13. An administrative hearing before the City s Tax Administrator was held on July 18-21 to hear Williams and AES Redondo

26

Beach s objections to the assessment. On September 23, the Tax Administrator issued a decision holding AES Redondo Beach and Williams jointly and severally liable for approximately $56.7 million, over $20 million of which is interest and penalties. AES Redondo Beach filed with the City Manager of Redondo Beach an appeal of that decision on October 7. Under its Ordinance, the City of Redondo Beach has 45 days to hold the appeal hearing from the date of the filing of the appeal. A hearing on the appeal will likely be scheduled for late January or February 2006. In addition, in July 2005, AES Redondo Beach filed a lawsuit in Los Angeles Superior Court seeking a refund of UUT that was paid from February 2005 through final judgment of that case and an order that the City cannot charge AES Redondo Beach that tax going forward. On August 11, 2005, the City filed a demurrer seeking a dismissal of that lawsuit.

On April 26, 2003 approximately 4,000 gallons of distillate fuel oil spilled as a result of incorrect loading and storage tank valve settings at the Company s gas turbine plant at Condado del Rey, Panama. Remediation efforts were promptly conducted and completed. AES Panama agreed with Autoridad Nacional del Ambiente (ANAM), the Panamanian National Environmental Authority, to pay a fine of $250 thousand, execute a soil remediation program, present an audit and new environmental management plan for the plant, and present a project to improve the domestic wastewater treatment system of the Condado del Rey neighborhood and the environmental recovery of the Abajo river watershed. As part of recent discussions and in response to a letter received by AES Panama from ANAM on May 25, 2005, clarifying the scope of the watershed project, AES Panama paid the fine on June 6, 2005, and complied with the agreed initiatives. The Company considers this issue to be closed and does not expect that any remaining costs or efforts to be material to our operations or results.

Tax Examinations

The Company and certain of its subsidiaries are under examination by the relevant taxing authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the provision for income taxes. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted only when there is more information available or when an event occurs necessitating a change to the reserves. While the Company believes that the amount of the tax estimates is reasonable, it is possible that the ultimate outcome of current or future examinations may exceed current reserves in amounts that could be material but cannot be estimated as of September 30, 2005.

Other

In exchange for the termination of $863 million of outstanding Brasiliana Energia debt and accrued interest during 2004, the Brazilian National Development Bank (BNDES) received $90 million in cash, 53.85% ownership of Brasiliana Energia and a one-year call option (Sul Option) to acquire a 53.85% ownership interest of Sul. The Sul Option, which would require the Company to contribute its equity interest in Sul to Brasiliana Energia, became exercisable on December 22, 2005. The probability of BNDES exercising the Sul Option is unknown at this time. BNDES s ability to exercise the Sul Option is contingent upon several factors. The most significant factor requires BNDES to obtain consent for the exercise of the option from the Sul syndicated lenders. In the event BNDES exercises its option, 100% of the Company s ownership in Sul would be transferred to Brasiliana Energia and the Company would be required to recognize a non-cash after-tax loss on its investment in Sul currently estimated at approximately $452 million. This amount primarily includes the recognition of currency translation losses and recording minority interest for BNDES s share of Sul offset by the recorded estimated fair value of the Sul Option. If the Sul Option is exercised, the Company s ownership of Sul would be reduced from approximately 100% to approximately 46%.

8. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) for the three and nine months ended September 30, 2005 and 2004 are as follows (in millions):

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net income	$ 244	$ 73	$ 453	$ 197
Foreign currency translation adjustments (net of income taxes of $)	66	48	148	14
Cash flow hedging activity:				
Reclassification to earnings (net of income tax benefit of $29, $5, $50 and $28, respectively)	53	41	114	86
Change in derivative fair value (net of income tax benefit (expense) of $78, $(17), $117 and $23, respectively)	(181)	(22)	(326)	(170)
Change in fair value of derivatives	(128)	19	(212)	(84)
Minimum pension liability (net of income taxes of $, $, $ and $2, respectively)				2
Comprehensive income	$ 182	$ 140	$ 389	$ 129

Accumulated other comprehensive loss is as follows at September 30, 2005 (in millions):

	Nine Months Ended September 30, 2005
Accumulated other comprehensive loss December 31, 2004	$ (3,641)
Total foreign currency translation adjustments	148
Change in fair value of derivatives	(212)
Accumulated other comprehensive loss September 30, 2005	$ (3,705)

9. SEGMENTS

AES previously reported its financial results in four business segments of the electricity industry: large utilities, growth distribution, contract generation and competitive supply. After careful review and consideration of the Company s operating segments during the second quarter, it was determined that the businesses within the large utilities and growth distribution segments were similar in terms of exposure to government regulation of their tariffs and the type of customer base served. The Company further determined that the similarities now outweigh the characteristics of size, location and growth potential that previously differentiated the two regulated distribution segments. Beginning in the second quarter of 2005, the large utilities and growth distribution segments were merged into one segment entitled regulated utilities.

Although the nature of the product is the same in all three segments, the segments are differentiated by the nature of the customers, operational differences, cost structure, regulatory environment and risk exposure.

- The regulated utilities segment primarily consists of 14 distribution companies in seven countries that maintain a monopoly franchise within a defined service area.

- The contract generation segment consists of facilities that have contractually limited their exposure to electricity price volatility by entering into long-term (five years or longer) power sales agreements for 75% or more of their output capacity. Exposure to fuel supply risks is also limited through long-term fuel supply contracts or through tolling arrangements. These contractual agreements generally reduce exposure to fuel commodity and electricity price volatility, and thereby increase the predictability of their cash flows and earnings.

- The competitive supply segment consists primarily of power plants selling electricity to wholesale customers through competitive markets, and as a result, the cash flows and earnings of such businesses are more sensitive to fluctuations in the market price of electricity, natural gas, coal, oil and other fuels.

All income statement information for businesses that were discontinued during the period is segregated and is shown in the line Income (loss) from operations of discontinued businesses in the accompanying consolidated statements of operations.

Information about the Company s operations by segment for the three and nine months ended September 30, 2005 and 2004, respectively, is as follows (in millions):

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2005	**2004(3)**	**2005**	**2004(3)**	**2005**	**2004(3)**	**2005**	**2004(3)**
	Revenue(1)		**Gross Margin(2)**		**Revenue(1)**		**Gross Margin(2)**	
Regulated Utilities	$ 1,406	$ 1,251	$ 340	$ 301	$ 4,200	$ 3,542	$ 821	$ 841
Contract Generation	1,046	906	453	371	3,019	2,642	1,198	1,054
Competitive Supply	330	265	106	64	894	756	230	181
Total	$ 2,782	$ 2,422	$ 899	$ 736	$ 8,113	$ 6,940	$ 2,249	$ 2,076

(1) Sales between the segments (intersegment revenues) are accounted for at fair value as if the sales were to third parties. Intersegment revenues for the three months ended September 30, 2005 and 2004 were $212 million and $104 million, respectively, and $563 million and $313 million for the nine months ended September 30, 2005 and 2004, respectively. These amounts have been eliminated in the appropriate segment on a consolidated basis.

(2) For consolidated subsidiaries, the Company uses gross margin as a measure of profit or loss for the Company s reportable segments. Gross margin equals revenues less cost of sales on the condensed consolidated statement of operations for each period presented.

(3) The Company s 2004 information has been restated to conform to the 2005 segment presentation.

Information about the Company s assets by segment as of September 30, 2005 and December 31, 2004, respectively, is as follows (in millions):

	Total Assets	
	September 30, 2005	**December 31, 2004**
Regulated Utilities	$ 12,685	$ 11,546
Contract Generation	14,236	14,034
Competitive Supply	2,174	2,156
Corporate	553	1,187
Total	$ 29,648	$ 28,923

10. BENEFIT PLANS

Certain of the Company s subsidiaries have defined benefit pension plans covering substantially all of their respective employees. Pension benefits are based on years of credited service, age of the participant and average earnings. Of the thirteen defined benefit plans, two are at U.S. subsidiaries and the remaining plans are at foreign subsidiaries.

Total pension cost for the three and nine months ended September 30, 2005 and 2004 include the following components (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005		2004		2005		2004	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	$ 1	$ 1	$ 1	$ 1	$ 3	$ 4	$ 3	$ 4
Interest cost on projected benefit obligation	7	75	7	56	21	215	(21)	168
Expected return on plan assets	(7)	(50)	(7)	(33)	(21)	(143)	21	(99)
Amortization of unrecognized actuarial loss	1	1	1	2	3	3	3	4
Total pension cost	$ 2	$ 27	$ 2	$ 26	$ 6	$ 79	$ 6	$ 77

The expected remaining scheduled annual employer contributions for 2005 are less than $1 million for U.S. subsidiaries and $26 million for foreign subsidiaries at September 30, 2005.

11. RECENT TAX LEGISLATION

On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA included a special one-time dividends received deduction of 85% of certain foreign earnings that are repatriated to the Company, as defined in the AJCA. The Company has reviewed the effects of the repatriation provision in accordance with recently issued Treasury Department guidance and it has determined it will not repatriate under the AJCA.

ITEM 2. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

Restatements of Previously Issued Quarterly Financial Statements

This Form 10-Q/A restates certain financial information as of September 30, 2005 and December 31, 2004 and for the three and nine months ended September 30, 2004, to correct certain accounting errors that were contained in the condensed consolidated financial statements in the previously filed Form 10-Q for the quarterly period ended September 30, 2005. See Note 1 to the condensed consolidated financial statements included in this Form 10-Q/A. The discussion below includes the effect of the restated condensed consolidated financial statements.

Executive Summary

AES is a global power company managed to meet the growing demand for electricity in ways that benefit all of our stakeholders. Through our subsidiaries and affiliates, we own and operate a portfolio of electricity generation and distribution businesses in 26 countries. We seek to capture the benefits of our global expertise and economies of scale in our operations. Predictable cash flow, an efficient capital structure and world-class operating performance are the continuing focus of our management efforts.

As we indicated in the previous quarters, we realigned our management reporting structure into four regions: North America; Latin America; Europe, Middle East and Africa (EMEA); and Asia, each led by a regional president who reports directly to the Chief Executive Officer (CEO). This realignment allows us to place senior leaders and resources closer to the businesses to further improve operating performance and integrate operations and development on a more localized level. The new structure will help us leverage regional market trends to enhance our competitiveness and identify and capitalize on key business development opportunities. The organizational changes are expected to streamline some corporate functions to more effectively support AES businesses around the globe.

We continue to operate in two types of businesses within the power sector: first, we engage in the generation of power for sale to utilities and other wholesale customers; second, we operate utilities that distribute power to retail, commercial, industrial and governmental customers. Each type of business generates approximately one half of the Company s revenues. Our financial results are reported within three business segments on a regulated and non-regulated basis within the above defined regions, which further refines our core business structure.

Our generation business segments Contract Generation and Competitive Supply consist of approximately 37 gigawatts of generating capacity from 98 power plants in 22 countries. Our contract generation plants have limited their exposure to electricity price volatility by entering into power sales agreements of five years or longer for 75% or more of their output capacity at the time of origination. Exposure to fuel supply risks is also limited through long-term fuel supply contracts or through fuel tolling arrangements whereby the customer assumes full responsibility for purchasing and supplying the fuel to the power plant. As a result of these contractual agreements, the businesses generally reduce commodity and electricity price volatility and thereby increase the predictability of their cash flows and earnings. Our competitive supply segment consists primarily of power plants selling electricity to wholesale customers through competitive markets and, as a result, the cash flows and earnings of such businesses are more sensitive to fluctuations in the market price of electricity and of natural gas, coal and other fuels. However, for our U.S. competitive supply business which includes a fleet of low-cost coal fired plants in New York, we typically hedge the majority of our exposure to fuel, energy and emissions pricing simultaneously and on a rolling two-year basis.

Beginning in the second quarter of 2005, our Large Utilities and Growth Distribution business segments have been merged into one business segment entitled Regulated Utilities. After careful review and consideration of our operating segments after our business realignment, we determined that the businesses within these two segments are similar in terms of exposure to government regulation of their tariffs and the type of customer base served. We further determined that these similarities now outweigh the characteristics of size, location and growth potential that previously differentiated the two regulated distribution segments. Consequently, all of our businesses engaged in the distribution of electricity will be reported under the Regulated Utilities segment.

The Regulated Utilities business segment consists of 14 distribution companies in seven countries with over 10.9 million customers. All of our companies maintain a monopoly franchise within a defined service area. This segment is composed of one integrated utility located in the U.S. (IPL), two distribution companies in Brazil (Eletropaulo and Sul), one integrated utility in Venezuela (EDC), as well as our interests in an integrated utility in Cameroon (AES SONEL) and electricity distribution businesses located in Argentina (EDELAP, EDEN and EDES), El Salvador (CAESS, CLESA, DEUSEM and EEO), and Ukraine (Kievoblenergo and Rivneenergo).

Third Quarter Operating Highlights

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2005	**2004**	**% Change**	**2005**	**2004**	**% Change**
	(in millions, except per share amounts)					
Revenue	$ 2,782	$ 2,422	15%	$ 8,113	$ 6,940	17 %
Gross Margin	$ 899	$ 736	22%	$ 2,249	$ 2,076	8 %
Gross Margin as a % of Revenue	32.3 %	30.4 %	6%	27.7 %	29.9 %	(7)%
Diluted Earnings Per Share from Continuing Operations	$ 0.37	$ 0.10	270%	$ 0.68	$ 0.38	79 %
Net Cash Provided By Operating Activities	$ 619	$ 504	23%	$ 1,466	$ 1,117	31 %

Revenue increased 15% in the third quarter ended September 30, 2005 compared to the prior year period and was up 17% on a year over year basis. We continue to see better pricing in markets like Brazil where we finalized the 2003 Eletropaulo asset base reset with ANEEL as part of the tariff adjustment in July of this year. We have experienced higher generation business electricity prices and higher capacity revenues in Chile as a result of increased node prices implemented by the Chilean government as a response to the gas shortage in Argentina, and we see increasing demand in certain markets like Cameroon and Venezuela. In addition, our revenues have been positively affected by the impacts of foreign currency translation, particularly due to the significant appreciation of the Brazilian real to the U.S. dollar.

Gross margin increased 22% in the third quarter ended September 30, 2005 compared to the prior year period and increased 8% in the nine months ended September 30, 2005 compared to prior year period. Gross margin as a percent of revenues increased from 30.4% to 32.3% quarter over quarter as higher energy spot sales and prices in our competitive supply businesses in Latin America outweighed other cost increases. Gross margin as a percent of revenues declined from 29.9% to 27.7% in the nine months ended September 30, 2005 compared to prior year period, largely due to a significant receivable allowance recorded at our Brazilian businesses, higher purchased electricity prices in our regulated utilities, and higher fuel costs throughout most of our businesses.

Diluted earnings per share from continuing operations increased 270% to **$0.37 for** the three months ended September 30, 2005 from $0.10 for the three months ended September 30, 2004. For the nine months ended September 30, 2005 d**iluted earnings per share from continuing operations increased to $0.68 from** $0.38 in the same prior year period. These increases were driven by higher operating earnings in our businesses, lower net interest expense, partially offset by higher tax expense and higher minority interest expense related to the increase in earnings at several of our four subsidiaries in Brazil.

Net cash from operating activities for the nine months ended September 30, 2005 increased 31% to $1.5 billion from $1.1 billion for the nine months ended September 30, 2004. This year over year net increase was largely driven by a net increase in other assets and liabilities of $279 million, offset by a decrease in working capital of $78 million and a decrease in net earnings (adjusted for non-cash items) of $8 million.

Strategic Highlights

AES continued its pursuit of its long-term value creation strategy through the financial restructuring of existing businesses and expansion of those business platforms. AES may, from time to time, make new investments in certain subsidiaries to facilitate recapitalization or debt restructuring.

It also continued to make significant investments on environmental-related projects. In May 2005, AES s Hungarian subsidiary, Tisza II, completed its two-year, $126 million refurbishment project, which extends the life of the plant to 2016 and is designed to ensure compliance with recent European Union environmental regulations. Also in May 2005, IPL, a U.S. subsidiary, completed a capital project for NOx removal via selective catalytic reduction systems at one unit at its Harding Street plant at a total capital cost of approximately $55 million. This is another element of IPL s ongoing air pollution investment program to reduce emissions. Indiana regulators approved a plan that allows IPL to recover the capital and operating costs of the equipment, including a return on investment. In addition, the Company has a $43 million multi-pollutant control program in progress at AES Eastern Energy s Greenidge plant in New York, which will allow for more economical dispatch of this coal-fired plant. These efforts demonstrate AES s desire to continue to provide clean, competitive and reliable electricity through the completion of financially viable projects.

The Company also continued to make important progress on important growth projects. Among those under construction, the Company s 120 MW Buffalo Gap wind power project in Texas, is currently scheduled for first quarter 2006 start-up. The Company s 1,200 MW gas-fired power plant in Cartagena, Spain, is scheduled for completion in the second quarter of 2006.

In October 2005, the AES Board of Directors approved the construction of a $37 million, 120 MW diesel-fired peaking facility to serve the largest power market in Chile. The project will be funded with internally generated cash and/or local financing and is expected to be on-line in 2006. This is the Company s first power project in Chile since 2001. The Company also continues to make important progress in arranging the financing and permitting for its proposed 600 MW (net) lignite-fired Maritza East I power plant project near Galabovo, Bulgaria. The Company has secured all necessary credit approvals for the provision of non-recourse construction and term financing from a group of commercial underwriters and from the European Bank for Reconstruction and Development, subject to final documentation of the credit documents and clearing of condition precedents. Permits are in place for the commencement of the construction of the power plant and permits for the associated solid waste disposal facilities are being finalized. Construction of this $1.4 billion project is expected to commence in the spring of 2006. The Company will fund its total equity contribution of approximately $500 million pro-rata with draw downs under the construction financing, and will post a letter of credit for the balance committed but not yet invested portion of its equity.

The Company continues to maintain an active development pipeline of potential growth investments, and is currently evaluating opportunities in 38 countries. It continues to devote significant resources at both the corporate and business level in support of business development opportunities, which may include expansion at existing locations, new greenfield investment, privatization, and mergers and acquisitions. It is also funding development costs in support of new projects and privatization opportunities which could lead to significant new investments in 2006. In October 2005, the Company was notified by the Romanian government that it had qualified to bid for a majority share in Electrica Muntenia Sud SA in Romania, which is being privatized by the Romanian government. Expected investment would be in the hundreds of millions of dollars.

The Company expects to fund these investments from our cash flows from operations and/or the proceeds from our issuance of debt, common stock, other securities and asset sales. We see sufficient value creating growth investment opportunities that may exceed available cash and cash flow from operations in future periods.

As part of our strategy to continue to strengthen our balance sheet, we amended our parent company $650 million credit facilities in June 2005 in order to reduce our borrowing costs. The interest rate on the $450 million Revolving Bank Loan was reduced from the London Interbank Offered Rate (LIBOR) plus 250 basis points to LIBOR plus 175 basis points. The maturity on the Revolving Bank Loan was extended from 2007 to 2010. The interest rate on the $200 million term loan facility was also reduced from LIBOR plus 225 basis points to LIBOR plus 175 basis points. In June 2005, we redeemed all outstanding 8.5% Senior Subordinated Notes due in 2007, and in August 2005, we redeemed all outstanding 4.5% Convertible Junior Subordinated Debentures. On September 30, 2005, we upsized the Revolving Bank Loan to a total commitment amount of $650 million from $450 million. We will continue to identify similar restructuring opportunities that arise as a result of AES s improving credit quality.

Results of Operations

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2005	**2004**	**change 2005 vs. 2004**	**2005**	**2004**	**change 2005 vs. 2004**
	(in millions, except per share amounts)					
Gross Margin:						
Regulated Utilities	$ 340	$ 301	$ 39	$ 821	$ 841	$ (20)
Contract Generation	453	371	82	1,198	1,054	144
Competitive Supply	106	64	42	230	181	49
Total gross margin	899	736	163	2,249	2,076	173
General and administrative expenses(1)	(49)	(40)	(9)	(143)	(130)	(13)
Interest expense	(450)	(500)	50	(1,392)	(1,439)	47
Interest income	97	52	45	280	191	89
Other (expense) income, net	(11)	(11)		41	(24)	65
Loss on sale of investments, asset and goodwill impairment expense		(4)	4		(5)	5
Foreign currency transaction losses, net	(22)	(26)	4	(54)	(107)	53
Equity in earnings of affiliates	20	18	2	66	57	9
Income tax expense	(143)	(123)	(20)	(372)	(211)	(161)
Minority interest expense	(97)	(36)	(61)	(222)	(163)	(59)
Income from continuing operations	244	66	178	453	245	208
Income (loss) from operations of discontinued businesses		7	(7)		(48)	48
Net income	$ 244	$ 73	$ 171	$ 453	$ 197	$ 256
PER SHARE DATA:						
Basic income per share from continuing operations	$ 0.38	$ 0.10	$ 0.28	$ 0.69	$ 0.38	$ 0.31
Diluted income per share from continuing operations	$ 0.37	$ 0.10	$ 0.27	$ 0.68	$ 0.38	$ 0.30

(1) General and administrative expenses are corporate and business development expenses.

Overview

Revenue

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Revenue (in millions)	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues
Regulated Utilities	$ 1,406	51 %	$ 1,251	52 %	$ 4,200	52 %	$ 3,542	51 %
Contract Generation	1,046	37 %	906	37 %	3,019	37 %	2,642	38 %
Competitive Supply	330	12 %	265	11 %	894	11 %	756	11 %
Non-Regulated	1,376	49 %	1,171	48 %	3,913	48 %	3,398	49 %
Total	$ 2,782	100 %	$ 2,422	100 %	$ 8,113	100 %	$ 6,940	100 %

Revenues increased $360 million, or 15%, to $2.8 billion for the three months ended September 30, 2005 from $2.4 billion for the three months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 10% for the three months ended September 30, 2005 from the three months ended September 30, 2004. Key factors leading to the increase in revenues were positive impacts from foreign currency translation in Latin America, as well as higher generation business electricity prices.

Revenues increased $1.2 billion, or 17%, to $8.1 billion for the nine months ended September 30, 2005 from $6.9 billion for the prior year period. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 10% for the nine months ended September 30, 2005 from the prior year period. Key factors leading to the increase in revenues were positive impacts from foreign currency translation and the impact of the new tariff rate in Brazil, as well as higher generation business electricity prices.

Gross Margin

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Gross Margin (in millions)	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin
Regulated Utilities	$ 340	38%	$ 301	41%	$ 821	37%	$ 841	41%
Contract Generation	453	50%	371	50%	1,198	53%	1,054	51%
Competitive Supply	106	12%	64	9%	230	10%	181	8%
Non-Regulated	559	62%	435	59%	1,428	63%	1,235	59%
Total	$ 899	100%	$ 736	100%	$ 2,249	100%	$ 2,076	100%
Gross Margin as a % of Revenue	32.3 %		30.4 %		27.7 %		29.9 %	

Gross margin increased $163 million, or 22%, to $899 million for the three months ended September 30, 2005 from $736 million for the three months ended September 30, 2004. Gross margin increased $173 million, or 8%, to $2.2 billion for the nine months ended September 30, 2005 from $2.1 billion for the nine months ended September 30, 2004. Gross margin dollar increases for both periods were primarily due to higher revenues.

Gross margin as a percent of revenues increased from 30.4% in the third quarter of 2004 to 32.3% in the third quarter of 2005 and declined from 29.9% from the nine months of 2004 to 27.7% in the nine months of 2005. The quarter over quarter increase is largely driven by increased energy spot sales and prices in our competitive supply businesses in Latin America. The decline for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004 is driven by increased receivable reserves in our Brazilian businesses, higher unrecovered purchased electricity prices in our regulated utilities, and higher fuel costs throughout most of our businesses.

Segment Analysis

Regulated Utilities Revenue

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2005		2004		2005		2004	
	Revenue (in millions)	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues
North America	$ 254	9%	$ 229	10%	$ 710	9%	$ 656	9%
Latin America	1,038	38%	915	38%	3,116	38%	2,547	37%
EMEA	114	4%	107	4%	374	5%	339	5%
Total	$ 1,406	51%	$ 1,251	52%	$ 4,200	52%	$ 3,542	51%

Revenue for the three months ended September 30, 2005 increased $155 million, or 12%, compared to the three months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have decreased approximately 2% for the three months ended September 30, 2005 as compared to the same period in 2004. Latin America experienced the largest regional quarter over quarter increase, totaling $123 million due to favorable exchange rates at Eletropaulo and Sul in Brazil, only partially offset by the negative impacts of foreign currency remeasurement at EDC in Venezuela. The Brazilian real appreciated almost 27% for the quarter versus the prior year quarter, while the Venezuelan bolivar devalued almost 11%. Revenue increases at IPALCO in North America are attributable to warmer weather and the resulting increase in the average number of cooling degree days, as well as to recoveries related to investments made in air emission equipment at its power plants.

Revenue for the nine months ended September 30, 2005 increased $658 million, or 19%, compared to the nine months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased 7% for the nine months ended September 30, 2005 as compared to the same period in 2004. A majority of the year-to-date increase was due to favorable exchange rates at Eletropaulo and Sul in Brazil, only partially offset by the negative impacts of foreign currency remeasurement at EDC in Venezuela. The Brazilian real appreciated almost 19% for the nine months ended September 30, 2005, while the Venezuelan bolivar devalued almost 11%. Recognition of a retroactive tariff increase at Eletropaulo in Brazil, and better demand at EDC in Venezuela and Ipalco in North America, also contributed to the significant year over year revenue increase.

Regulated Utilities Gross Margin

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Gross Margin (in millions)	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin
North America	$ 87	10%	$ 80	11%	$ 246	11%	$ 229	11%
Latin America	238	26%	194	26%	495	22%	545	26%
EMEA	15	2%	27	4%	80	4%	67	4%
Total	$ 340	38%	$ 301	41%	$ 821	37%	$ 841	41%
Regulated Utilities Gross Margin as a % of Regulated Utilities Revenue	24.2 %		24.1 %		19.5 %		23.7 %	

Gross margin increased $39 million, or 13%, for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Gross margin as a percent of revenue remained constant at approximately 24% for the three months ended September 30, 2005 and the prior year period. Gross margin increases were driven largely by Eletropaulo and EDC in Latin America and IPALCO in North America. Eletropaulo gross margin benefited from favorable foreign currency translation impacts, higher revenues and favorable purchased electricity prices. EDC benefited from higher prices and better demand. Ipalco gains were driven by higher revenues attributable to warmer weather and the resulting increase in the average number of cooling degree days.

Gross margin decreased $20 million, or 2%, for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Gross margin as a percent of revenue decreased to 19.5% in the nine months ended September 30, 2005 compared to 23.7% in the prior year period due to higher purchased electricity costs in all regions and the recording of $192 million of gross bad debts reserve in the second quarter of 2005 related to the collectibility of certain municipal receivables at our utilities in Brazil.

Contract Generation Revenue

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Revenue (in millions)	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues
North America	$ 338	12%	$ 338	14%	$ 951	12%	$ 952	14%
Latin America	462	16%	325	13%	1,276	16%	946	14%
EMEA	219	8%	222	9%	690	9%	645	9%
Asia	27	1%	21	1%	102	%	99	1%
Total	$ 1,046	37%	$ 906	37%	$ 3,019	37%	$ 2,642	38%

Revenue for the three months ended September 30, 2005 increased $140 million, or 15%, compared to the three months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 14% for the three months ended September 30, 2005 compared to the prior year period. Revenue increases occurred largely in Latin America and were attributable to increased generation business electricity prices. Tiete, consisting of a group of hydro-electric plants providing electricity primarily to Eletropaulo, in Brazil, continues to charge higher electricity prices consistent with its power purchase agreements, while Gener in Chile has experienced higher electricity prices and capacity revenues as a result of increased node prices implemented by the

Chilean government in response to the gas shortage in Argentina. Favorable foreign currency translation effects positively impacted revenues primarily at Gener in Chile and at Uruguaiana in Brazil. EMEA volumes were down slightly in the third quarter of 2005 versus the third quarter of 2004 due to planned maintenance at Kilroot in the United Kingdom.

Revenue for the nine months ended September 30, 2005 increased $377 million, or 14%, compared to the nine months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 13% for the nine months ended September 30, 2005 compared to the prior year period. The main drivers of the increases in revenue on a year-to-date basis were consistent with the drivers mentioned in the previous paragraph, namely increased electricity prices at Tiete in Brazil and at Gener in Chile. Favorable foreign currency translation effects positively impacted revenues largely at Gener in Chile and at Uruguaiana in Brazil.

Contract Generation Gross Margin

	For the Three Months Ended September 30,				**For the Nine Months Ended September 30,**			
	2005		**2004**		**2005**		**2004**	
	Gross Margin (in millions)	**% of Total Gross Margin**	**Gross Margin**	**% of Total Gross Margin**	**Gross Margin**	**% of Total Gross Margin**	**Gross Margin**	**% of Total Gross Margin**
North America	$ 137	15%	$ 150	20%	$ 347	15%	$ 391	19%
Latin America	219	24%	129	18%	516	23%	369	18%
EMEA	91	10%	88	12%	311	14%	273	13%
Asia	6	1%	4	%	24	1%	21	1%
Total	$ 453	50%	$ 371	50%	$ 1,198	53%	$ 1,054	51%
Contract Generation Gross Margin as a % of Contract Generation Revenue	43.3 %		40.9 %		39.7 %		39.9 %	

Gross margin increased $82 million, or 22%, for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Gross margin as a percent of revenues increased to 43.3% for the three months ended September 30, 2005 compared to 40.9% for the prior year period. Gross margin increases were driven primarily by Tiete and Gener in Latin America as increased electricity prices resulted in higher revenues that more than offset increases in fuel prices and other fixed costs. North America experienced a gross margin decrease due to the scheduled decrease in contracted capacity payments at Shady Point and a transmission line failure at Thames, both in the U.S.

Gross margin increased $144 million, or 14%, for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Gross margin as a percent of revenues remained constant at approximately 40% for the nine months ended September 30, 2005 and the prior year period. Gross margin increases were driven primarily by Tiete and Gener in Latin America as increased electricity prices resulted in higher revenues that more than offset increases in fuel prices and other fixed costs. North America experienced a gross margin decrease due to the scheduled decrease in contracted capacity payments at Shady Point, forced outages at Southland and a transmission line failure at Thames, all in the U.S. Gross margin as a percent of revenues remained relatively flat as purchased electricity cost increased at Gener, higher overall gas and coal costs and the negative impacts of foreign currency translation outweighed the benefits of higher average electricity pricing.

Competitive Supply Revenue

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Revenue (in millions)	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues	Revenue	% of Total Revenues
North America	$ 145	5%	$ 113	5%	$ 388	5%	$ 336	5%
Latin America	125	5%	87	4%	301	4%	229	3%
EMEA	27	1%	36	1%	94	1%	100	2%
Asia	33	1%	29	1%	111	1%	91	1%
Total	$ 330	12%	$ 265	11%	$ 894	11%	$ 756	11%

Revenue for the three months ended September 30, 2005 increased $65 million, or 25%, compared to the three months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 23% for the three months ended September 30, 2005 compared to the prior year period. Revenue increases occurred largely in Latin America and were primarily due to higher competitive market prices for electricity sold at Alicura and Parana in Argentina, and at our business in Panama, as well as increased production volumes at Alicura and Parana. North America revenue increases were impacted by higher average energy prices realized at the New York plants in the U.S. due to energy price increases in the forward markets primarily caused by increasing fuel prices.

Revenue for the nine months ended September 30, 2005 increased $138 million, or 18%, compared to the nine months ended September 30, 2004. Excluding the estimated impacts of foreign currency translation, revenues would have increased approximately 17% for the nine months ended September 30, 2005 compared to the prior year period. Revenue increases occurred primarily in Latin America and were primarily due to higher competitive market prices for electricity sold at Alicura and Parana in Argentina, as well as increased production volumes at Alicura. North America revenue increases were impacted by the sale of certain excess environmental emissions allowances and higher average energy prices realized at the New York plants in the U.S., partially offset by outages which occurred in the first half of the year.

Competitive Supply Gross Margin

	For the Three Months Ended September 30, 2005		2004		For the Nine Months Ended September 30, 2005		2004	
	Gross Margin (in millions)	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin	Gross Margin	% of Total Gross Margin
North America	$ 42	5%	$ 24	3%	$ 99	4%	$ 67	3%
Latin America	64	7%	34	5%	117	5%	83	4%
EMEA	(3)	%	1	%	(11)	%	5	%
Asia	3	%	5	1%	25	1%	26	1%
Total	$ 106	12%	$ 64	9%	$ 230	10%	$ 181	8%
Competitive Supply Gross Margin as a % of Competitive Supply Revenue	32.1 %		24.2 %		25.7 %		23.9 %	

Gross margin increased $42 million, or 66%, for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Gross margin as a percent of revenues increased to 32.1% for the three months ended September 30, 2005 compared to 24.2% for the prior year period. Gross margin and gross margin as a percent of revenue increases in North America and Latin America were primarily due to higher average pricing at the New York plants in the U.S. and higher competitive market prices for electricity sold at Alicura and Parana in Argentina, and at our business in Panama, only partially offset by higher coal purchase prices in New York, and gas purchase prices at Parana.

Gross margin increased $49 million, or 27%, for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Gross margin as a percent of revenues increased to 25.7% for the nine months ended September 30, 2005 compared to 23.9% for the prior year period. Gross margin and gross margin as a percent of revenue increases in North America and Latin America were primarily due to higher average pricing at the New York plant in the U.S. and higher competitive market prices for electricity sold at Alicura and Parana in Argentina, and at our business in Panama, only partially offset by higher coal purchase prices in New York, and gas purchase prices at Parana. In addition, gross margin as a percent of revenue was positively impacted by the sale of certain environmental excess emissions allowances in New York. Excluding the sale of these allowances for the full year, gross margin as a percent of revenue would have declined to 23.1% for the nine months ending September 30, 2005.

General and administrative expenses

General and administrative expenses increased $9 million to $49 million for the three months ended September 30, 2005 from $40 million for the three months ended September 30, 2004 and increased $13 million to $143 million for the nine months ended September 30, 2005 from $130 million for the nine months ended September 30, 2004. The increases are the result of higher professional and consulting fees associated with the restatement of the company s financial statements and the development of detailed reconciliation and reporting procedures related to the accounting for income taxes, as well as increased long term compensation costs.

Interest expense

Interest expense decreased $50 million, or 10%, to $450 million for the three months ended September 30, 2005 from $500 million for the three months ended September 30, 2004 primarily due to the benefits of debt retirements principally in Venezuela and the U.S., the impacts of fair value changes on certain derivative instruments due to the loss of hedge accounting and lower interest rate hedge related costs, partially offset by negative impacts from foreign currency translation in Brazil and higher interest rates at certain of our businesses.

Interest expense decreased $47 million to $1,392 million for the nine months ended September 30, 2005 from $1,439 million for the nine months ended September 30, 2004 due to the benefits of lower debt levels in Brazil, the U.S. and Venezuela and lower interest rate hedge related costs partially offset by higher interest rates at certain subsidiaries, the negative impacts of foreign currency translation in Brazil and the impacts of fair value changes on certain derivative instruments due to the loss of hedge accounting.

Interest income

Interest income increased $45 million to $97 million for the three months ended September 30, 2005 from $52 million for the three months ended September 30, 2004 and increased $89 million to $280 million for the nine months ended September 30, 2005 from $191 million for the nine months ended September 30, 2004. Interest income increases in both periods were primarily due to higher short-term investment balances at certain of our subsidiaries combined with higher short-term interest rates. Foreign currency translation impact due to the appreciation of the Brazilian real also favorably impacted the comparison periods presented.

Other income (expense)

Other income (expense) remained constant at an expense of $11 million for the three months ended September 30, 2005 and the prior year period.

Other income (expense) increased $65 million to $41 million for the nine months ended September 30, 2005 from an expense of $24 million for the nine months ended September 30, 2004. The increase was primarily due to the reversal of a Brazilian business tax liability no longer required and the favorable impact of foreign currency translation due to the appreciation of the Brazilian real.

Loss on sale of investments, asset and goodwill impairment expense

There was no loss on sale of investments, asset and goodwill impairment expense for the three months ended September 30, 2005. A $4 million fixed assets impairment expense was recognized in Panama for the three months ended September 30, 2004.

There was no loss on sale of investments, asset and goodwill impairment expense for the nine months ended September 30, 2005. A $5 million loss was recorded for the nine months ended September 30, 2004 as a result of an adjustment to an estimate related to the December 2003 sale of approximately 39% of AES s interest in AES Oasis Limited (AES Oasis), and a fixed assets impairment expense that was recognized in Panama.

Foreign currency transaction gains (losses), net

The Company recognized foreign currency transaction losses of $22 million and $26 million for the three months ended September 30, 2005 and 2004, respectively. The third quarter 2005 losses primarily related to Eletropaulo in Brazil offset by gains at EDC in Venezuela and at Los Mina in the Dominican Republic. Foreign currency losses at Eletropaulo increased primarily due to lower transaction gains in 2005 and higher losses on mark-to-market foreign currency transaction hedges. Foreign currency gains at EDC increased primarily due to higher non-regulated market currency conversion gains and to zero losses from foreign currency transaction hedges. Los Mina s foreign currency gains increased primarily due to the depreciation of the Dominican peso in 2005.

The Company recognized foreign currency transaction losses of $54 million for the nine months ended September 30, 2005 compared to $107 million of losses for the nine months ended September 30, 2004. The $53 million decrease was primarily related to gains at EDC in Venezuela offset by losses at Eletropaulo and Sul in Brazil. Foreign currency gains at EDC increased primarily due to transaction gains on bolivar-denominated debt, non-regulated market currency conversion gains in 2005 versus losses in 2004, and lower losses on mark-to-market foreign currency transaction hedges. Foreign currency gains at Sul increased primarily due to transaction gains on floating interest rate notes. This was offset by foreign currency losses at Eletropaulo primarily due to mark-to-market losses on foreign currency transaction hedges, transaction losses on U.S. dollar-denominated power purchase agreements offset by foreign currency transaction gains on debt.

Foreign currency transaction gains (losses) at certain of the Company s foreign subsidiaries and affiliates were as follows:

	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
	(in millions)			
Argentina	$ (3)	$ (1)	$ 4	$ (6)
Brazil	(27)	2	(65)	(35)
Venezuela	12	1	34	(29)
Dominican Republic	2	(16)	(3)	(16)
Pakistan	(6)	(5)	(17)	(14)
Other		(7)	(7)	(7)
Total(1)	$ (22)	$ (26)	$ (54)	$ (107)

(1) Includes $35 million and $40 million of losses on foreign currency derivative contracts for the three months ended September 30, 2005 and 2004, respectively; and includes $114 million and $54 million of losses on foreign currency derivative contracts for the nine months ended September 30, 2005 and 2004, respectively.

Equity in earnings of affiliates

Equity in earnings of affiliates increased $2 million, or 11%, to $20 million for the three months ended September 30, 2005 from $18 million for the three months ended September 30, 2004. The increase was primarily due to a plant fire causing lower earnings in 2004 at our affiliate in Canada.

Equity in earnings of affiliates increased $9 million, or 16%, to $66 million for the nine months ended September 30, 2005 from $57 million for the nine months ended September 30, 2004. The increase was primarily due to improved operations at our affiliates in Chile and Canada, partially offset by reduced earnings due to higher coal prices at our affiliates in China.

Income taxes

Income tax expense on continuing operations increased $20 million to $143 million for the three months ended September 30, 2005 from $123 million for the three months ended September 30, 2004. The Company s effective tax rates were 30% and 55% for the three months ended September 30, 2005 and 2004, respectively. The net decrease in the effective tax rate for the third quarter of 2005 versus the same period in 2004 resulted primarily from the reversal of a $41 million valuation allowance in the third quarter of 2005, related to the recovery of net operating losses at two of our subsidiaries in Argentina. The valuation allowance was reversed upon the final approval of a tariff increase in the third quarter of 2005. This benefit was partially offset by higher U.S. taxes on distributions from and earnings of certain non-U.S. subsidiaries and the impact of unrealized foreign currency gains on U.S. dollar debt held by certain of our Latin American subsidiaries.

Income tax expense on continuing operations increased $161 million to $372 million for the nine months ended September 30, 2005 from $211 million for the nine months ended September 30, 2004. The Company s effective tax rates were 36% and 34% for the nine months ended September 30, 2005 and 2004, respectively. The net increase in the effective tax rate for the first nine months of 2005 as compared to the same period in 2004 resulted primarily from higher U.S. taxes on distributions from and earnings of certain non-U.S. subsidiaries and the impact of unrealized foreign currency gains on U.S dollar debt held by certain of our Latin American subsidiaries offset partially by the reversal of the Argentina tax reserve noted above and a tax rate change that resulted in the reduction of the deferred tax liability at our subsidiary in Puerto Rico, which was recorded in the second quarter of 2005.

Minority Interest

Minority interest expense, net of tax, increased $61 million to $97 million for the three months ended September 30, 2005 from $36 million for the three months ended September 30, 2004, and increased $59 million to $222 million for the nine months ended September 30, 2005 from $163 million for the nine months ended September 30, 2004 due primarily to earnings from our Brazilian subsidiaries

Contingent Matters

As disclosed in Note 7 to the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q/A, in exchange for the termination of $863 million of outstanding Brasiliana Energia debt and accrued interest during 2004, the Brazilian National Development Bank (BNDES) received $90 million in cash, 53.85% ownership of Brasiliana Energia and a one-year call option (Sul Option) to acquire a 53.85% ownership interest of Sul. The Sul Option, which would require the Company to contribute its equity interest in Sul to Brasiliana Energia, became exercisable on December 22, 2005. The probability of BNDES exercising the Sul Option is unknown at this time. BNDES s ability to exercise the Sul Option is contingent upon several factors. The most significant factor requires BNDES to obtain consent for the exercise of the option from the Sul syndicated lenders. In the event BNDES exercises its option, 100% of the Company s ownership in Sul would be transferred to Brasiliana Energia and the Company would be required to recognize a non-cash after-tax loss on its investment in Sul currently estimated at approximately $452 million. This amount primarily includes the recognition of currency translation losses and recording minority interest for BNDES s share of Sul offset by the recorded estimated fair value of the Sul Option. If the Sul Option is exercised, the Company s ownership of Sul would be reduced from approximately 100% to approximately 46%.

Critical Accounting Policies and Estimates

The consolidated financial statements of AES are prepared in conformity with generally accepted accounting principles in the United States of America, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company s significant accounting policies are described in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission on January 19, 2006. The Company s critical accounting estimates are described in Management s Discussion and Analysis included in the Company s 2004 Form 10-K/A. An accounting estimate is considered critical if: the estimate requires management to make assumption about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate that would have a material impact on the Company s financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual accounting estimates could differ from the original estimates, requiring adjustments to these balances in future periods.

The Company has reviewed and determined that those policies remain the Company s critical accounting policies as of and for the nine months ended September 30, 2005. The Company did not make any changes to those policies during the period.

Recent Accounting Developments

See Note 2 to the condensed consolidated financial statements included in this Form 10-Q/A for a discussion of new accounting standards.

Capital Resources and Liquidity

Overview

We are a holding company that conducts all of our operations through subsidiaries. We have, to the extent achievable, utilized non-recourse debt to fund a significant portion of the capital expenditures and investments required to construct and acquire our electric power plants, distribution companies and related assets. This type of financing is non-recourse to other subsidiaries and affiliates and to us (as parent company), and is generally secured by the capital stock, physical assets, contracts and cash flow of the related subsidiary or affiliate. At September 30, 2005, we had $4.9 billion of recourse debt and $13.1 billion of non-recourse debt outstanding.

In addition to the non-recourse debt, if available, we provide a portion, or in certain instances all, of the long-term financing or credit required to fund development, construction or acquisition of power projects. These investments generally take the form of equity investments or loans, which are subordinated to the project s non-recourse loans. The Company expects to fund future investments from our cash flows from operations and/or the proceeds from our issuances of debt, common stock, other securities and asset sales. The Company believes that there are sufficient value creating growth investment opportunities that may exceed available cash and cash flow from operations in future periods. Similarly, in certain of our businesses, we may provide financial guarantees or other credit support for the benefit of counterparties who have entered into contracts for the purchase or sale of electricity with our subsidiaries. In such circumstances, if a subsidiary defaults on its payment or supply obligation, we will be responsible for the subsidiary s obligations up to the amount provided for in the relevant guarantee or other credit support.

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

As a result of AES parent s below-investment-grade rating, counter-parties may be unwilling to accept our general unsecured commitments to provide credit support. Accordingly, with respect to both new and existing commitments, we may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace our credit support. We may not be able to provide adequate assurances to such counter-parties. In addition, to the extent we are required and able to provide letters of credit or other collateral to such counterparties, this will reduce the amount of credit available to us to meet our other liquidity needs. At September 30, 2005, we had provided outstanding financial and performance related guarantees or other credit support commitments to or for the benefit of our subsidiaries, which were limited by the terms of the agreements, in an aggregate of approximately $444 million (excluding those collateralized by letters of credit and other obligations discussed below).

At September 30, 2005, we had $369 million in letters of credit outstanding, which operate to guarantee performance relating to certain project development activities and subsidiary operations. All of these letters of credit were provided under our Revolving Bank Loan. We pay letter of credit fees ranging from 0.50% to 1.95% per annum on the outstanding amounts. In addition, we had $4 million in surety bonds outstanding at September 30, 2005.

Many of our subsidiaries including those in the Caribbean and South America depend on timely and continued access to capital markets to manage their liquidity needs. The inability to raise capital on favorable terms, to refinance existing indebtedness or to fund operations and other commitments during times of political or economic uncertainty may adversely affect those subsidiaries financial condition and results of operations. In addition, changes in the timing of tariff increases or delays in the regulatory determinations under the relevant concessions could affect the cash flows and results of operations of our businesses in Brazil and Venezuela. Management believes that cash on hand, along with cash generated through operations, and our financing availability will be sufficient to fund normal operations, capital expenditures, and debt service requirements.

Cash Flows

During the nine months ended September 30, 2005, we decreased cash and cash equivalents by $117 million from December 31, 2004 to a total of $1.2 billion. The change in cash balances was impacted by $1.5 billion of cash provided by operating activities, offset by the use of cash for investing and financing activities of $697 million and $918 million, respectively, and by the positive effect of exchange rates on cash of $32 million. Cash used in financing activities included a net reduction in debt of $807 million for the nine months ended September 30, 2005.

Operating Activities

Net cash provided by operating activities increased by $349 million to $1.5 billion during the nine months ended September 30, 2005, compared to $1.1 billion during the same period in 2004 due to a net increase in other assets and liabilities of $279 million, a decrease in working capital of $78 million, and a decrease in net earnings (adjusted for non-cash items) of $8 million.

Other non-cash charges include the reversal of certain items including deferred tax provisions, minority interest earnings, pension charges, stock compensation expense, and unrealized foreign currency transaction gains (losses). The $347 million decline in other non-cash charges from $627 million in 2004 to $280 million in 2005 is primarily due to unrealized foreign currency gains related to Brazil and Venezuela incurred in 2005 versus unrealized losses incurred in the prior year, the reversal of a loss associated with discontinued operations in 2004, a gain on the sale of emission allowances and the reversal of a contingent liability in 2005 at Brazil due to the expiration of the Statute of Limitations.

The net increase in other assets and liabilities is due to higher non-cash mark-to-market derivative liabilities, a decrease in a long-term receivable due to a reserve adjustment made in Brazil, a decrease in deferred income, and movements in regulatory liabilities. Regulatory liabilities increased due to a higher tariff dollar against the market performance of the dollar.

The change in working capital is due to reductions in accounts receivable and prepaid expenses and other assets offset by an increase in inventory and a reduction in accounts payable and other liabilities. Accounts receivable declined in the current year mainly due to several factors including collections on outstanding invoices at Ras Laffan, an increase in bad debt reserves at Brazil, offset by an increase in accounts receivable at our New York plant due to higher energy prices. Prepaid expenses and other assets decreased due to the collection of a receivable for a minority interest buyout in our contract generation segment in Asia as well as a reduction in unbilled revenue due to a forced plant outage in EMEA. Inventory increased in the current year in our contract generation segment due to the resumption of normal activity in the Dominican Republic in the current year after a period of inactivity in the prior year; an increase in the price of coal in the Caribbean; and an increase in the purchase of fuel in EMEA and Asia. Accounts payable and other liabilities declined in the current year mainly due to the release of contractor payments at Ras Laffan. In addition, tax liabilities were reduced in the prior year due to our tax restatement.

Investing Activities

Net cash used in investing activities totaled $697 million during the nine months ended September 30, 2005 as compared to $623 million during the same period in 2004. In 2005, cash used in investing activities included $801 million in property additions and $85 million for acquisitions and related advance payments, partially offset by the net sale of short-term investments of $48 million and a decrease in restricted cash and debt service reserves and other assets of $105 million.

Property additions increased $204 million during the nine months ended September 30, 2005 as compared to the same period in 2004 mainly due to additional expenditures of $188 million at Cartagena, our construction project in Spain, $97 million for Buffalo Gap, our wind power project in Texas, and $33 million in Brazil for the purchase of computer software. Offsetting the increase in property additions is decreased spending of $90 million at Ras Laffan in Qatar due to large capital expenditures incurred prior to going into commercial operations at the end of 2004. The increase in property additions is also offset by a reduction in spending of approximately $27 million at Ipalco in the U.S. The spending for its environmental compliance projects did not continue at the same level during the same period in 2005.

In the first quarter of 2005, we spent a total of $85 million related to the purchase of the SeaWest wind development business in the U.S., including $60 million for the existing net assets of the business and an additional $25 million advance payment for pre-construction costs for SeaWest s development of Buffalo Gap.

The increase in the net sales of short-term investments of $107 million during the nine months ended September 30, 2005 as compared to the same period in 2004 was mainly due to the release of collateral at EDC in Venezuela of $132 million as a result of a repayment of approximately $264 million of related debt.

The decrease in the net proceeds from the sale of assets of $43 million during the nine months ended September 30, 2005 as compared to the same period in 2004 was due to the sale in the prior year of the Nacimiento power plant at Gener for $22 million, the sale of discontinued businesses (primarily Mountainview) for $15 million, net of expenses, as well as the sale of a substation property at Ipalco for $13 million in 2004.

Debt service reserves and other assets decreased $101 million during the nine months ended September 30, 2005 as compared to the same period in 2004 primarily due to the payment of $117 million of construction costs from a reserve account related to our construction project in Spain, offset by an increase of $20 million in debt service reserves at our Ebute plant in Nigeria required to satisfy the debt requirements on $120 million of financing.

Restricted cash balances decreased $36 million during the nine months ended September 30, 2005 as compared to the same period in 2004 primarily due to a $52 million decrease at EDC for the payment of its letters of credit in the current year and a reduction in restricted cash of $53 million at Ras Laffan for payments to the construction contractor, offset by a $59 million increase in restricted cash at Brazil for cash held for the prepayment of debentures issued in September 2005.

Financing Activities

Net cash used in financing activities was $918 million during the nine months ended September 30, 2005 as compared to $741 million during the same period in 2004. This was mainly due to the reduction of debt, net of issuances, of $807 million in 2005 versus $585 million in 2004.

Debt issuances declined by $465 million during the nine months ended September 30, 2005 primarily due to parent company debt issuances of $491 million in 2004 compared to $6 million in 2005; a bond issuance of $400 million at Gener in Chile in the first quarter of 2004 and other debt issuances of $150 million during the second quarter of 2004 compared to $119 million in the current year from a bridge loan refinancing; a decrease of $79 million over the prior year at EDC in Venezuela mainly due to the issuance of debt in local currency in 2004 as part of its debt restructuring; and a decrease in financing of $120 million at Ebute, our plant in Nigeria, due to $120 million of financing issued in September 2004. In 2005, Ebute did not incur any new debt issuances. These reductions in debt issuances were offset by increased borrowings at Brazil of $547 million and a $97 million project construction loan at Buffalo Gap. Brazil issued a $200 million U.S. dollar equivalent bond issuance in June 2005 and $348 million of debentures in September 2005. The issuances in 2005 were used to reduce higher interest-bearing debt.

Debt repayments during the nine months ended September 30, 2005 was $2.3 billion compared to $2.6 billion during the same period in 2004. The decline of approximately $300 million was mainly due to repayment of corporate recourse debt of $809 million in 2004 compared to $258 million in 2005. The 2005 payments include the redemption of all of the Company s 8.5% Senior Subordinated Notes and its 4.5% Convertible Junior Subordinated Debentures. In addition, AES Gener decreased debt repayments in 2005 by $637 million due to the completion of their debt restructuring and refinancing that occurred during 2004. This was offset by increased debt and debenture payments at Brazil by $526 million in 2005 to pay off higher interest-bearing debt and increased debt repayments at EDC of $315 million mainly due to the repayment of 200 million Euro debt in March 2005 and the repayment of debt in local currency of $66 million.

Payments for deferred financing costs decreased $71 million during the nine months ended September 30, 2005 due to parent company debt issuances in the prior year that did not occur at the same level in the current year, higher deferred financing costs at Gener due to the size of the debt offering in 2004, higher deferred financing costs in 2004 at Brazil due to their reprofiling of debt in 2004, and higher deferred financing costs at Ebute due to the $120 million refinancing arrangement in September 2004.

Parent Company Liquidity

Because of the non-recourse nature of most of our indebtedness, we believe that unconsolidated parent company liquidity is an important measure of liquidity. Our principal sources of liquidity at the parent company level are:

- dividends and other distributions from our subsidiaries, including refinancing proceeds;
- proceeds from debt and equity financings at the parent company level, including borrowings under our Revolving Bank Loan; and
- proceeds from asset sales.

Our cash requirements at the parent company level are primarily to fund:

- interest and preferred dividends;
- principal repayments of debt;
- acquisitions;
- construction commitments;
- other equity commitments;
- taxes; and
- parent company overhead and development costs.

Since 2002, the Company has undertaken various initiatives to improve the credit and risk profile of both the parent and the consolidated company while continuing to pursue disciplined growth.

On June 1, 2005, the Company redeemed all outstanding 8.5% Senior Subordinated Notes due 2007, at a redemption price of 101.417%, and an aggregate principal amount of approximately $112 million, including unamortized transaction costs.

On June 23, 2005, the Company amended its $650 million Senior Secured Bank Facilities. The interest rate on the $450 million Revolving Bank Loan was reduced to the London Interbank Offered Rate (LIBOR) plus 175 basis points. Previously, the rate was LIBOR plus 250 basis points. In addition, the Revolving Bank Loan maturity was extended from 2007 to 2010. The interest rate on the term $200 million Senior Secured Term Loan was also reduced to LIBOR plus 175 basis points, from LIBOR plus 225 basis points, while its maturity in 2011 remains unchanged. On September 30, 2005, the Company upsized the Revolving Bank Loan to a total commitment amount of $650 million from $450 million.

On August 15, 2005, the Company repaid at maturity all outstanding 4.5% Convertible Junior Subordinated Debentures (the Debentures) at par for an aggregate principal amount of $142 million.

During the first half of 2005, the Company also funded the purchase of the SeaWest wind development business and posted letters of credit to support ongoing construction and operating activities.

Parent liquidity was as follows at September 30, 2005 and December 31, 2004:

	September 30, 2005	**December 31, 2004**
	(in millions)	
Cash and cash equivalents	$ 1,201	$ 1,281
Less: cash and cash equivalents at subsidiaries	1,055	994
Parent cash and cash equivalents	146	287
Borrowing available under revolving credit facility	281	352
Cash at qualified holding companies(1)	9	4
Total parent liquidity	$ 436	$ 643

(1) The cash held at qualified holding companies represents cash sent from subsidiaries of the Company domiciled outside of the U.S. Such subsidiaries have no contractual restrictions on their ability to send cash to the parent company.

The following table sets forth our parent company contingent contractual obligations as of September 30, 2005:

Contingent contractual obligations	**Amount ($ in millions)**	**Number of Agreements**	**Term Range (years)**	**Exposure Range for Each Agreement**
Guarantees(1)	$ 444	36	<1 - 20+	<$1 - $100
Letters of credit under the Revolving Bank Loan	369	19	<1 - 3	<$1 - $104
Surety bonds	4	2	<1	<$1 - $3
Total	$ 817	57		

(1) Excluding those collateralized by letters of credit and other obligations

We have a varied portfolio of performance related contingent contractual obligations. Amounts related to the balance sheet items represent credit enhancements made by us at the parent company level and by other third parties for the benefit of the lenders associated with the non-recourse debt recorded as liabilities in the accompanying consolidated balance sheets. These obligations are designed to cover potential risks and only require payment if certain targets are not met or certain contingencies occur. The risks associated with these obligations include change of control, construction cost overruns, political risk, tax indemnities, spot market power prices, supplier support and liquidated damages under power sales agreements for projects in development, under construction and operating. While we do not expect that we will be required to fund any material amounts under these contingent contractual obligations during 2005 or beyond that are not recorded on the balance sheet, many of the events which would give rise to such an obligation are beyond our control. We can provide no assurance that we will be able to fund our obligations under these contingent contractual obligations if we are required to make substantial payments thereunder.

While we believe that our sources of liquidity will be adequate to meet our needs through the end of 2005, this belief is based on a number of material assumptions, including, without limitation, assumptions about exchange rates, power market pool prices and the ability of our subsidiaries to pay dividends. In addition, our project subsidiaries ability to declare and pay cash dividends to us (at the parent company level) is subject to certain limitations contained in project loans, governmental provisions and other agreements. We can provide no assurance that these sources will be available when needed or that our actual cash requirements will not be greater than anticipated. We have met our interim needs for shorter-term and working capital financing at the parent company level with a Revolving Bank Loan of $650 million. At September 30, 2005, we had $369 million of letters of credit outstanding under the Revolving Bank Loan.

Various debt instruments at the parent company level, including our Senior Secured Bank Facilities, Senior Secured Notes and Senior Subordinated Notes contain certain restrictive covenants. The covenants provide for, among other items:

- limitations on other indebtedness, liens, investments and guarantees;
- restrictions on dividends and redemptions and payments of unsecured and subordinated debt and the use of proceeds of project financings and asset sales;
- restrictions on mergers and acquisitions, sales of assets, leases, transactions with affiliates and off balance sheet and derivative arrangements; and
- maintenance of certain financial ratios.

Non-Recourse Debt Financing

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

- reducing our cash flows as the subsidiary will typically be prohibited from distributing cash to the parent level during the time period of any default;
- triggering our obligation to make payments under any financial guarantee, letter of credit or other credit support we have provided to or on behalf of such subsidiary;
- causing us to record a loss in the event the lender forecloses on the assets; and
- triggering defaults in our outstanding debt at the parent level. For example, our Revolving Bank Loan and outstanding Senior Notes, Senior Subordinated Notes and Junior Subordinated Notes at the parent level include events of default for certain bankruptcy related events involving material subsidiaries. In addition, our Revolving Bank Loan at the parent level includes events of default related to payment defaults and accelerations of outstanding debt of material subsidiaries.

Some of our subsidiaries are currently in default with respect to all or a portion of their outstanding indebtedness. The total debt classified as current in the accompanying consolidated balance sheets related to such defaults was $302 million at September 30, 2005.

Andres and Los Mina, both electricity generation companies which are wholly owned subsidiaries of the Company located in the Dominican Republic, entered into forbearance agreements with their respective lenders in December 2004. Pursuant to the forbearance agreements, the lenders agreed not to exercise any remedies under the respective credit agreements. The forbearance agreements for Andres and Los Mina expired on July 29, 2005 and June 10, 2005, respectively. Subsequently, in December 2005, AES Dominicana Energia Finance, S.A., a wholly owned subsidiary of the Company, issued a $160 million Senior Secured Corporate Bond in the international capital markets under Rule 144A/Regulation S. The 10-year notes, with final maturity in December 2015, were priced to yield 11%. The net proceeds of the issuance were used to retire the current bank debt at both Andres and Los Mina of $112 million and $24 million, respectively. As of September 30, 2005, the debt for both of these subsidiaries is reported as current in the accompanying condensed consolidated balance sheet.

In September 2005, Indian Queens Power Ltd. (Indian Queens), an electricity generation company which is a wholly owned subsidiary of the Company located in the United Kingdom, was not able to meet the debt service coverage ratio as required pursuant to its term loan agreement. As a result, the debt is currently in default. The lenders have not issued a waiver for the default at this time. As of September 30, 2005, the outstanding debt balance of Indian Queens is reported as current in the accompanying condensed consolidated balance sheet.

None of the subsidiaries that are currently in default currently meet the applicable definition of materiality in AES s corporate debt agreements in order for such defaults to trigger an event of default or permit an acceleration under such indebtedness. However, as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations, it is possible that one or more of these subsidiaries could fall within the definition of a material subsidiary and thereby upon an acceleration trigger an event of default and possible acceleration of the indebtedness under the AES parent company s Senior Notes, Senior Subordinated Notes and Junior Subordinated Notes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes that there have been no material changes in its exposure to market risks during the nine months ended September 30, 2005 compared with the exposure set forth in the Company s Annual Report filed with the U.S Securities and Exchange Commission (SEC) on Form 10-K/A for the year ended December 31, 2005 as filed on April 4, 2006.

We have performed a company wide value at risk analysis (VaR) of all of our material financial assets, liabilities and derivative instruments. The VaR calculation incorporates numerous variables that could impact the fair value of our instruments, including interest rates, foreign exchange rates and commodity prices, as well as correlation within and across these variables. We express Analytic VaR herein as a dollar amount of the potential loss in the fair value of our portfolio based on a 95% confidence level and a one day holding period. Our commodity analysis is an Analytic VaR utilizing a variance-covariance analysis within the commodity transaction management system.

The Value at Risk as of September 30, 2005 for foreign exchange, interest rate and commodities was $37 million, $119 million and $23 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and *reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the chief executive officer (CEO) and chief financial officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.*

The Company carried out the evaluation required by paragraph (b) of the Exchange Act Rules 13a 15 and 15d 15, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a 15(e) and 15d 15(e)). Based upon this evaluation, the CEO and CFO concluded that as of September 30, 2005, our disclosure controls and procedures were not effective.

As reported in Item 9A of the Company s 2005 Form 10-K filed on April 4, 2006, management reported that material weaknesses existed in our internal controls as of December 31, 2005 and is in the process of taking remedial steps to correct these weaknesses. Due to the fact that these remedial steps have not been completed, the Company performed additional analysis and other post-closing procedures in order to ensure the consolidated financial statements contained in this Form 10-Q/A were prepared in accordance with generally accepted accounting principles in the United States of America.

Changes in Internal Controls

In the course of our evaluation of disclosure controls and procedures, management considered certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. Based upon that evaluation, the CEO and CFO concluded that there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a 15 or 15d 15 that occurred during the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

As reported in Item 9A of our 2005 Form 10-K filed on April 4, 2006, the Company determined that material weaknesses in internal control over financial reporting existed as of December 31, 2005. These material weaknesses also existed as of September 30, 2005 and therefore are reported in this Form 10-Q/A.

Income Taxes:

The Company lacked effective controls for the proper reconciliation of the components of its parent company and subsidiaries income tax assets and liabilities to related consolidated balance sheet accounts, including a detailed comparison of items filed in the subsidiaries tax returns to the corresponding calculation of U.S. GAAP balance sheet tax accounts. The Company lacked an effective control to ensure that foreign subsidiaries whose functional currency is the U.S. dollar had properly classified income tax accounts as monetary, rather than non-monetary, assets and liabilities at the time of acquisition. These subsidiaries were not re-measuring their deferred tax balances each period in accordance with Financial Accounting Standards Board Statement (SFAS) No. 52, Foreign Currency Translation and SFAS No. 109, Accounting for Income Taxes. Finally, the Company determined that it lacked effective controls and procedures for evaluating and recording tax related purchase accounting adjustments to the financial statements. These control deficiencies resulted in adjustments that were required to be made to the consolidated financial statements and are included in this Form 10-K. In addition, these deficiencies could result in a future misstatement of certain account balances that would result in a material misstatement to the annual or interim financial statements.

Aggregation of Control Deficiencies at our Cameroonian Subsidiary:

AES SONEL, a 56% owned subsidiary of the Company located in Cameroon, lacked adequate and effective controls related to transactional accounting and financial reporting. These deficiencies included a lack of timely and sufficient financial statement account reconciliation and analysis, lack of sufficient support resources within the accounting and finance group, inadequate preparation and review of purchase accounting adjustments incorrectly recorded in 2002, and errors in the translation of local currency financial statements to the U.S. Dollar. These deficiencies could result in a future misstatement of certain account balances that would result in a material misstatement to the annual or interim financial statements.

Lack of U.S. GAAP Expertise in Brazilian Businesses:

The Company lacked effective controls to ensure the proper application of certain U.S. GAAP principles, not limited to, SFAS No. 95, Statement of Cash Flows, SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 109, Accounting for Income Taxes. In addition, the Company lacked effective controls to ensure appropriate conversion and analysis of Brazilian GAAP to U.S. GAAP financial statements for certain of our Brazilian subsidiaries. These control deficiencies resulted in adjustments that were required to be made to the consolidated financial statements and are included in this Form 10-K. In addition, these deficiencies could result in a future misstatement of certain account balances that would result in a material misstatement to the annual or interim financial statements.

Treatment of Intercompany Loans Denominated in Other Than the Functional Currency:

The Company lacked effective controls to ensure the proper application of SFAS No. 52, Foreign Currency Translation, related to the treatment of foreign currency gains or losses on certain long term intercompany loan balances denominated in other than the entity s functional currency and lacked appropriate documentation for the determination of certain of its holding companies functional currencies. The Company determined it was incorrectly translating certain loan balances due to the fact that it lacked an effective assessment process to identify and document whether or not a loan was to be repaid in the foreseeable future at inception and to update this determination on a periodic basis. Also, the Company had incorrectly determined the functional currency for one of its holding companies which impacted the proper translation of its intercompany loan balances. These deficiencies could result in a future misstatement of certain account balances that would result in a material misstatement to the annual or interim financial statements.

Derivative Accounting:

The Company lacked effective controls related to accounting for certain derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Specifically, a deficiency was identified related to a lack of sufficient controls designed to ensure the adequate analysis and documentation of whether or not certain fuel contracts or power purchase contracts met the criteria of being accounted for as a derivative instrument at inception and on an ongoing basis. In addition, the Company lacked an effective control to ensure adequate hedge valuation was performed. Subsequent to filing the 2004 Form 10-K/A, the Company identified an additional deficiency related to a lack of sufficient controls to ensure adequate documentation of the on-going assessment of hedge effectiveness, in accordance with SFAS 133, for certain interest rate and foreign currency hedge contracts entered into prior to 2005. These control deficiencies resulted in adjustments that were required to be made to the consolidated financial statements and are included in this Form 10-K. In addition, these deficiencies could result in a future misstatement of certain account balances that would result in a material misstatement to the annual or interim financial statements.

Material Weaknesses Previously Reported

The Company reported the following material weaknesses in internal control over financial reporting existed as of December 31, 2004:

Consolidation Accounting:

The Company lacked effective controls related to adequate evaluation and documentation of certain journal entries made as part of the preparation of the consolidated financial statements. During the course of the Company s tax remediation activities and in conjunction with other post-closing procedures initiated during the first quarter of 2005, management determined that there were errors in certain entries made in the consolidation process that were initially recorded prior to 2002 and carried forward as unchanged amounts from 2002 through 2004. Management reported in the 2004 Form 10-K/A that it has adequately remediated this material weakness. However, as the date the remediation occurred during the third quarter of 2005, management is including it in this Form 10-Q/A.

Material Weaknesses Remediation Plans as of the date of filing this Form 10-Q/A

Management and our Board of Directors are committed to the remediation of these material weaknesses as well as the continued improvement of the Company s overall system of internal control over financial reporting. Management has developed remediation plans for each of the weaknesses described below and is undergoing efforts to strengthen the existing finance organization and systems across the Company. These efforts include the planned expansion of accounting and tax personnel at the corporate office to provide technical support and oversight of our global financial processes, as well as adding additional finance resources to our subsidiaries, where applicable. In addition, various levels of training programs on specific aspects of U.S. GAAP are being developed for distribution to the subsidiaries during 2006. The Company is also utilizing additional resources to assist in the program management aspect of each material weakness remediation plan and has committed to provide status reports to our external auditors and our Audit Committee of the Board of Directors on a monthly basis throughout 2006.

Income Taxes:

The Company had corrected errors identified and recorded tax accounting adjustments on the appropriate subsidiaries books for ongoing tracking, reconciliation and translation, where appropriate. The Company currently is executing its remediation plan that includes the following:

- Adopting a more rigorous approach to communicate, document and reconcile the detailed components of subsidiary income tax assets and liabilities including developing policy and procedure manuals and detailed checklists for use by our subsidiaries;

- Expanding staffing and resources worldwide, including the continued use of external third party assistance, along with providing specific SFAS 109 training to the income tax accounting function throughout the Company;

- Continuing to identify and implement additional best practice solutions, including the use of automated resources to ensure efficient data collection, integration and adherence to controls as well as developing best practice processes to ensure tax related purchase accounting adjustments are properly evaluated and recorded; and

- Implementing additional procedures for tax and accounting personnel in the identification and evaluation of non-recurring tax adjustments and in tracking movements in deferred tax accounts recorded by the parent company and its subsidiaries.

Aggregation of Control Deficiencies at our Cameroonian Subsidiary:

The Company utilized our Internal Audit department, in conjunction with our Corporate finance department, to assist the SONEL finance team with performing additional detailed analytical reviews of the financial statements to obtain assurance that results were not misstated. The Company currently is executing its remediation plan that includes the following:

- Developing a dedicated remediation team led by the AES CFO s organization, that includes members of our global information technology department, Internal Audit, the SONEL finance team, and external resources;

- Expanding the information technology infrastructure, resources, and capabilities across SONEL s business units in order to centralize and improve the financial data collection process;

- Creating detailed training programs on financial controls, policies and procedures for use by SONEL business units to ensure on-going application and execution of controls; and

- Developing tools to perform consistent, routine analytical reviews of the financial results, including key balance sheet account analyses and conversion of local currency financial statements to U.S. Dollar.

Lack of U.S. GAAP Expertise in Brazilian Businesses:

The Company performed detailed analysis of the U.S. GAAP financial results, including conversion of local GAAP to U.S. GAAP. Specific reviews of U.S. GAAP issues were performed by the Brazil country level CFO and additional reviews of significant accounting positions were added to the on-going monthly and quarterly analysis discussions held between the Brazilian finance organization and the Corporate finance department, to obtain assurance that reported results are not misstated. The Company currently is executing its remediation plan that includes the following:

- Engaging consultants to work in conjunction with the Corporate finance department to develop detailed U.S. GAAP and operational accounting policy and procedure guidance, including SFAS 71, SFAS 133, SFAS 109, SFAS 95 and SFAS 87;

- Utilizing local recruiters to assist with hiring personnel for positions identified as a result of the evaluation of the local finance organization completed by the Brazilian businesses; and

- Developing procedures to ensure timely and complete communication and evaluation of operational issues that have a potential impact on the financial results within the Brazilian businesses and formalizing processes to evaluate complex issues with technical accounting personnel at Corporate.

Treatment of Intercompany Loans Denominated in Other Than the Functional Currency:

The Company confirmed the correct evaluation and documentation of certain material intercompany loans with the parent denominated in currencies other than the entity s functional currency to ensure proper application of SFAS 52 and re-evaluated and documented the functional currencies of certain U.S. and non U.S. holding companies to ensure that proper SFAS 52 translations were being performed. The Company currently is executing its remediation plan that includes the following:

- Developing additional accounting policy guidance for communication to its subsidiaries regarding the requirements of SFAS 52 related to intercompany loan transactions to ensure proper evaluation of material transactions;

- Providing detailed training programs on critical aspects of SFAS 52, including workshops on how to apply SFAS 52 to intercompany transactions; and

54

- Developing and implementing procedures to ensure documentation and testing of the proper determination of an entity s functional currency on a periodic basis, particularly as it relates to the Company s material holding company structures.

Derivative Accounting:

The Company performed a reassessment of certain material fuel contracts and power purchase contracts to confirm that appropriate documentation existed or that the contracts did not qualify as derivatives. The Company also performed a detailed review of material components of the other comprehensive income balance within stockholders equity to ensure appropriate application of on-going hedge effectiveness testing and documentation. The Company currently is executing its remediation plan that includes the following:

- Engaging outside resources to assist management in refining comprehensive derivative policies and procedures for use by our subsidiaries when evaluating, reviewing and approving contracts that may qualify as derivatives;

- Evaluating automated solutions to collect and consolidate all material contracts at our subsidiaries to ensure appropriate evaluation and documentation has been followed in accordance with SFAS 133;

- Developing additional detailed training to be provided on a routine basis to both finance and non-finance employees who are responsible for hedging activities, development of power purchase agreements and negotiation of significant purchase contracts; and

- Expanding the technical accounting personnel who will support our subsidiaries in the evaluation of derivative implications within hedge instruments and purchase/sale contracts.

PART II

ITEM 1. *LEGAL PROCEEDINGS*

The following disclosure provides a summary and update of significant changes, if any, from December 31, 2004, related to our significant claims, suits and legal proceedings. Readers should also refer to Note 7 of the notes to our condensed consolidated financial statements in Item 1, Part I of Form 10-Q/A for a more detailed description of each claim.

The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company has accrued for litigation and claims where it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company s financial statements. It is possible, however, that some matters could be decided unfavorably to the Company, and could require the Company to pay damages or to make expenditures in amounts that could have a material adverse effect on the Company s financial position and results of operations.

In September 1999, a Brazilian appellate state court of Minas Gerais granted a temporary injunction suspending the effectiveness of a shareholders agreement between Southern Electric Brasil Participacoes, Ltda. (SEB) and the state of Minas Gerais concerning CEMIG. AES s investment in CEMIG is through SEB. This shareholders agreement granted SEB certain rights and powers in respect of CEMIG (Special Rights). In March 2000, a lower state court in Minas Gerais held the shareholders agreement invalid where the agreement purported to grant SEB the Special Rights and the lower state court enjoined the exercise of Special Rights. In August 2001, a state appellate court denied an appeal of the decision, and extended the injunction. In October 2001, SEB filed two appeals against the decision on the merits of the state appellate court, one appeal to the Federal Superior Court and the other appeal to the Supreme Court of Justice. The state appellate court denied access of these two appeals to the higher courts, and in August 2002, SEB filed two interlocutory appeals against the state appellate court s decision, one directed to the Federal Superior Court and the other to the Supreme Court of Justice. In December 2004, the Federal Superior Court denied SEB s appeal. In June 2005, the Supreme Court of Justice formally accepted SEB s appeal. SEB intends to vigorously pursue a restoration of the value of its investment in CEMIG; however, there can be no assurances that it will be successful in its efforts. Failure to prevail in this matter may limit SEB s influence on the daily operation of CEMIG.

In November 2000, the Company was named in a purported class action suit along with six other defendants, alleging unlawful manipulation of the California wholesale electricity market, resulting in inflated wholesale electricity prices throughout California. The alleged causes of action include violation of the Cartwright Act, the California Unfair Trade Practices Act and the California Consumers Legal Remedies Act. In December 2000, the case was removed from the San Diego County Superior Court to the U.S. District Court for the Southern District of California. On July 30, 2001, the Court remanded the case to San Diego Superior Court. The case was consolidated with five other lawsuits alleging similar claims against other defendants. In March 2002, the plaintiffs filed a new master complaint in the consolidated action, which reasserted the claims raised in the earlier action and names the Company, AES Redondo Beach, L.L.C., AES Alamitos, L.L.C., and AES Huntington Beach, L.L.C. as defendants. In May 2002, the case was removed by certain cross-defendants from the San Diego County Superior Court to the United States District Court for the Southern District of California. The plaintiffs filed a motion to remand the case to state court, which was granted on December 13, 2002. Certain defendants appealed aspects of that decision to the United States Court of Appeals for the Ninth Circuit. On December 8, 2004, a panel of the Ninth Circuit issued an opinion affirming in part and reversing in part the decision of the District Court, and remanding the case to state court. On July 8, 2005, defendants filed a demurrer in state court seeking dismissal of the case in its entirety. In October 2005, the state court dismissed the case. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In August 2000, the Federal Energy Regulatory Commission (FERC) announced an investigation into the organized California wholesale power markets in order to determine whether rates were just and reasonable. Further investigations involved alleged market manipulation. The FERC requested documents from each of the AES Southland plants and AES Placerita. AES Southland and AES Placerita have cooperated fully with the FERC investigation. AES Southland is not subject to refund liability because it did not sell into the organized spot markets due to the nature of its tolling agreement. The Ninth Circuit heard oral arguments on the time scope of the refunds. The Ninth Circuit Court of Appeals also addressed the appeal of the FERC s decision not to impose refunds for the alleged failure to file rates including transaction specific data for sales to the California Independent System Operator (ISO) for 2000 and 2001. See *State of California ex rel. Bill Lockyer*. Although in its order issued on September 9, 2004 the Ninth Circuit did not order refunds, the Ninth Circuit remanded the case to the FERC for a refund proceeding to consider remedial options. That remand order is pending rehearing at the Ninth Circuit. Placerita made sales during the referenced time period. Depending on the method of calculating refunds and the time period to which the method is applied, the alleged refunds sought from AES Placerita could approximate $23 million.

In August 2001, a petition was filed against CESCO, an affiliate of the Company, by the Grid Corporation of Orissa, India (Gridco), with the Orissa Electricity Regulatory Commission (OERC), alleging that CESCO had defaulted on its obligations as an OERC-licensed distribution company, that CESCO management abandoned the management of CESCO, and asking for interim measures of protection, including the appointment of an administrator to manage CESCO. Gridco, a state-owned entity, is the sole wholesale energy provider to CESCO. Pursuant to the OERC s August 2001 order, the management of CESCO was replaced with a government administrator who was appointed by the OERC. The OERC later held that the Company and other CESCO shareholders were not necessary or proper parties to the OERC proceeding. In August 2004, the OERC issued a notice to CESCO, the Company and others giving the recipients of the notice until November 2004 to show cause why CESCO s distribution license should not be revoked. In response, CESCO submitted a business plan to the OERC. In February 2005, the OERC issued an order rejecting the proposed business plan. The order also stated that the CESCO distribution license would be revoked if an acceptable business plan for CESCO was not submitted to, and approved by, the OERC prior to March 31, 2005. In its April 2, 2005 order, the OERC revoked the CESCO distribution license. CESCO has filed an appeal against the April 2, 2005 OERC order and that appeal remains pending in the Indian courts. In addition, Gridco asserted that a comfort letter issued by the Company in connection with the Company s indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO s financial obligations to Gridco. In December 2001, Gridco served a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 on the Company, AES Orissa Distribution Private Limited (AES ODPL), and Jyoti Structures (Jyoti) pursuant to the terms of the CESCO Shareholders Agreement between Gridco, the Company, AES ODPL, Jyoti and CESCO (the CESCO arbitration). In the arbitration, Gridco appears to seek approximately $188.5 million in damages plus undisclosed penalties and interest, but a detailed alleged damages analysis has yet to be filed by Gridco. The Company has counter-claimed against Gridco for damages. A arbitration hearing with respect to liability was conducted on August 3-9, 2005 in India. Final written arguments regarding liability were submitted by the parties to the arbitral tribunal in late October 2005. A decision on liability may be issued in the first quarter of 2006. A petition remains pending before the Indian Supreme Court concerning fees of the third neutral arbitrator and the venue of future hearings with respect to the CESCO arbitration. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In December 2001, a petition was filed by Gridco in the local Indian courts seeking an injunction to prohibit the Company and its subsidiaries from selling their shares in Orissa Power Generation Company Pvt. Ltd. (OPGC) pending the outcome of the above discussed CESCO arbitration. OPGC, located in Orissa, is a 420 MW coal-based electricity generation business from which Gridco is the sole off-taker of electricity. Gridco obtained a temporary injunction, but the District Court eventually dismissed Gridco s petition for an injunction in March 2002. Gridco appealed to the Orissa High Court, which in January 2005 allowed the appeal and granted the injunction. The Company has appealed the High Court s decision to the Supreme Court of India. In May 2005, the Supreme Court adjourned this matter until August 2005. In August 2005, the Supreme Court adjourned the matter again to await the award of the arbitral tribunal in the CESCO arbitration. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In early 2002, GRIDCO made an application to the OERC requesting that the OERC initiate proceedings regarding the terms of OPGC s existing power purchase agreement (PPA) with Gridco. In response, OPGC filed a petition in the India courts to block any such OERC proceedings. In early 2005 the Orissa High Court upheld the OERC s jurisdiction to initiate such proceedings as requested by Gridco. OPGC appealed that High Court s decision to the Supreme Court and sought stays of both the High Court s decision and the underlying OERC proceedings regarding the PPA terms. In April 2005, the Supreme Court granted OPGC s requests and ordered stays of the High Court s decision and the OERC proceedings with respect to the PPA terms. The matter is awaiting further hearing. Unless the Supreme Court finds in favor of OPGC s appeal or otherwise prevents the OERC s proceedings regarding the PPA terms, the OERC will likely lower the tariff payable to OPGC under the PPA, which would have an adverse impact on OPGC s financials. The Company believes that it has meritorious defenses to any actions asserted against it and will defend itself vigorously against the allegations.

In July 2002, the Company, Dennis W. Bakke, Roger W. Sant, and Barry J. Sharp were named as defendants in a purported class action filed in the United States District Court for the Southern District of Indiana. In September 2002, two virtually identical complaints were filed against the same defendants in the same court. All three lawsuits purport to be filed on behalf of a class of all persons who exchanged their shares of IPALCO common stock for shares of AES common stock issued pursuant to a registration statement dated and filed with the SEC on August 16, 2000, (the Share Exchange). The complaints purport to allege violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 based on statements in or omissions from the registration statement concerning, among other things, an alleged breach by AES of obligations AES owed to Williams Energy Services Co. (Williams) under an agreement between the two companies in connection with the California energy market. On September 26, 2003, defendants filed a motion to dismiss the complaint. By Order dated November 17, 2004, the Court dismissed all of the claims asserted in the amended and consolidated complaint against all defendants except for the claim alleging that the registration statement and prospectus disseminated to the IPALCO stockholders for purposes of the Share Exchange failed to disclose AES s purported temporary default on its contract with Williams. On December 15, 2004, the AES Defendants filed a motion for judgment on the pleadings dismissing the remaining claims. On July 7, 2005, the district court granted defendants motion for judgment on the pleadings and entered an order dismissing all claims and thereby terminating this action in the district court. The time to file an appeal to the action has expired without the filing of an appeal.

Commencing on May 2, 2003, the Indiana Securities Commissioner of Indiana s Office of the Secretary of State, Securities Division, pursuant to Indiana Code 23-2-1, served subpoenas on 30 former officers and directors of IPALCO Enterprises, Inc. (IPALCO), AES, and others, requesting the production of documents in connection with the March 27, 2001 share exchange between the Company and IPALCO pursuant to which stockholders exchanged shares of IPALCO common stock for shares of the Company s common stock and IPALCO became a wholly-owned subsidiary of the Company. IPALCO and the Company have produced documents pursuant to the subpoenas served on them. In addition, the Indiana Securities Commissioner s office has taken testimony from various individuals. On January 27, 2004, Indiana s Secretary of State issued a statement which provided that the investigative staff had determined that there did not appear to be a justifiable reason to focus further specific attention upon six non-employee former members of IPALCO s board of directors. In October 2005, the Secretary of State issued a press release announcing that the investigation had been concluded and that no charges would be sought.

In April 2002, IPALCO and certain former officers and directors of IPALCO were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of Indiana. On May 28, 2002, an amended complaint was filed in the lawsuit. The amended complaint asserts that IPALCO and former members of the pension committee for the Indianapolis Power & Light Company thrift plan breached their fiduciary duties to the plaintiffs under the Employees Retirement Income Security Act by investing assets of the thrift plan in the common stock of IPALCO prior to the acquisition of IPALCO by the Company. In December 2002, plaintiffs moved to certify this case as a class action. The Court granted the motion for class certification on September 30, 2003. On October 31, 2003, the parties filed cross-motions for summary judgment on liability. On August 11, 2005, the Court issued an Order denying the summary judgment motions, but striking one defense asserted by defendants. Trial has been scheduled for early February 2006 addressing only the allegations of breach of fiduciary duty. If necessary, one or more trials on reliance and damages issues will be conducted separately. IPALCO believes it has meritorious defenses to the claims asserted against it and intends to defend this lawsuit vigorously.

In November 2002, a lawsuit was filed against AES Wolf Hollow, L.P. (AESWH) and AES Frontier, L.P. (AESF) in the District Court of Hood County, Texas by Stone & Webster, Inc. (S&W). At the time of filing, AESWH and AESF were two indirect subsidiaries of the Company. In December 2004, the Company finalized agreements to transfer the ownership of AESWH and AESF. S&W contracted with AESWH and AESF to perform the engineering, procurement and construction of the Wolf Hollow project, a gas-fired combined cycle power plant in Hood County, Texas. In its initial complaint, S&W requested a declaratory judgment that a fire that took place at the project on June 16, 2002 constituted a force majeure event and that S&W was not required to pay rebates assessed for associated delays. As part of the initial complaint, S&W also sought to enjoin AESWH and AESF from drawing down on letters of credit provided by S&W. The Court refused to issue the injunction. S&W has since amended its complaint five times and joined additional parties, including the Company and Parsons Energy & Chemicals Group, Inc. In addition to the claims already mentioned, the current claims by S&W include claims for breach of contract, breach of warranty, wrongful liquidated damages, foreclosure of lien, fraud and negligent misrepresentation. S&W appears to assert damages against the subsidiaries and the Company in the amount of $114 million in recently filed reports and seeks exemplary damages. S&W has filed a lien against the ownership interests of AESWH and AESF in the property, with each lien allegedly valued, after amendment on March 14, 2005, at approximately $87 million. In January 2004, the Company filed a counterclaim against S&W and its parent, the Shaw Group, Inc. (Shaw). AESWH and AESF filed answers and counterclaims against S&W, which since have been amended. The amount of AESWH and AESF s counterclaims are approximately $215 million, according to calculations of the subsidiaries and of an expert retained in connection with the litigation, minus the Contract balance, currently not earned, in the amount of $45.8 million. In March 2004, S&W and Shaw each filed an answer to the counterclaim. The counterclaim and answers subsequently were amended. In March 2005, the Court rescheduled the trial date for October 24, 2005. In September 2005, the trial date was re-scheduled for June 2006. In November 2005, the Company filed a motion for partial summary judgment. The Company believes that the allegations in S&W s complaint are meritless, and that it has meritorious defenses to the claims asserted by S&W. The Company intends to defend the lawsuit and pursue its claims vigorously.

In March 2003, the office of the Federal Public Prosecutor for the State of Sao Paulo, Brazil (MPF) notified Eletropaulo that it had commenced an inquiry related to the BNDES financings provided to AES Elpa and AES Transgas and the rationing loan provided to Eletropaulo, changes in the control of Eletropaulo, sales of assets by Eletropaulo and the quality of service provided by Eletropaulo to its customers and requested various documents from Eletropaulo relating to these matters. In October 2003 this inquiry was sent to the MPF for continuing investigation. Also in March 2003, the Commission f