AES CORPORATION
Form 8-K
November 21, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (date of earliest event reported): November 21, 2003

THE AES CORPORATION

(exact name of registrant as specified in its charter)

DELAWARE	**0-19281**	**54-1163725**
(State of Incorporation)	(Commission File No.)	(IRS Employer Identification No.)

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

NOT APPLICABLE
(Former Name or Former Address, if changed since last report)

ITEM 5 OTHER EVENTS

The Company is filing the selected financial data for the five years ended December 31, 2002, certain sections of Management s Discussion and Analysis for the three years ended December 31, 2002, and consolidated financial statements as of December 31, 2002 and 2001 and for the three years ended December 31, 2002 in order to report the impact of our classification of AES Barry, AES Haripur Private Ltd., and AES Meghnaghat Ltd., during the three months ended March 31, 2003 as well as AES Mtkvari, AES Khrami, AES Telasi, AES Communications Bolivia, AES Whitefield and Drax Power Limited during the quarters ended June 30, 2003 and September 30, 2003, as discontinued operations pursuant to Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS No. 144). Except for the foregoing, and, as otherwise expressly stated herein, we have not updated any of the information herein for events occurring after December 31, 2002.

Forward-looking statements

Certain statements contained in this Form 8-K are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements speak only as of the date hereof. Forward-looking statements can be identified by the use of forward-looking terminology such as believe, expects, may, intends, will, should or anticipates or the negative forms or other variatior terms or comparable terminology, or by discussions of strategy. Future results covered by the forward-looking statements may not be achieved. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The most significant risks, uncertainties and other factors are discussed in the Company s Annual Report on Form 10-K. You are urged to read this document and carefully consider such factors.

Selected Financial Data

Please note that acquisitions, disposals, reclassifications and changes in accounting principles affect the comparability of information included in the tables below. Please refer to the Notes to the consolidated financial statements for further explanation of the effect of such activities.

	Year Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(in millions, except per share data)				
Statement of Operations Data:					
Revenues	$ 7,642	$ 6,631	$ 5,157	$ 3,589	$ 3,214
(Loss) income from continuing operations	(1,635)	413	691	330	451
Discontinued operations, net of tax	(1,528)	(140)	104	27	(10)
Cumulative effect of change in accounting principle, net of tax	(346)				
Net (loss) income	$ (3,509)	$ 273	$ 795	$ 357	$ 441
Basic (loss) earnings per share:					
(Loss) income from continuing operations	$ (3.03)	$ 0.78	$ 1.43	$ 0.78	$ 1.14
Discontinued operations	(2.83)	(0.26)	0.23	0.06	(0.03)
Cumulative effect of change in accounting principle	(0.65)				
Basic (loss) earnings per share	$ (6.51)	$ 0.52	$ 1.66	$ 0.84	$ 1.11
Diluted (loss) earnings per share:					
(Loss) income from continuing operations	$ (3.03)	$ 0.77	$ 1.39	$ 0.76	$ 1.09
Discontinued operations	(2.83)	(0.26)	0.20	0.06	(0.02)
Cumulative effect of change in accounting principle	(0.65)				
Diluted (loss) earnings per share	$ (6.51)	$ 0.51	$ 1.59	$ 0.82	$ 1.07

	December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(in millions)				
Balance Sheet Data:					

Total assets	$ 34,230	$ 36,812	$ 33,038	$ 23,222	$ 12,900
Non-recourse debt (long-term)	10,628	11,303	9,356	6,086	4,448
Non-recourse debt (long-term) Discontinued operations	3,542	3,520	3,507	3,435	57
Recourse debt (long-term)	5,778	4,913	3,458	2,167	1,644
Mandatorily redeemable preferred stock of subsidiary	22	22	22	22	
Company obligated convertible mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of AES	978	978	1,228	1,318	550
Stockholders (deficit) equity	(341)	5,539	5,542	3,315	2,368

Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

2002 COMPARED TO 2001

Revenues

Revenues increased $1.0 billion, or 15%, to $7.6 billion in 2002 from $6.6 billion in 2001. The increase in revenues is due to the acquisition of new businesses, new operations from greenfield projects and positive improvements from existing operations. Excluding businesses acquired or that commenced commercial operations in 2002 or 2001, revenues decreased 19% to $5.2 billion in 2002. AES is a global power company which operates in 30 countries around the world. The breakdown of AES s revenues for the years ended December 31, 2002 and 2001, based on the business segment and geographic region in which they were earned, is set forth below.

	Twelve Months Ended December 31, 2002		Twelve Months Ended December 31, 2001		% Change
			(in $millions)		
Large Utilities:					
North America	$	818	$	836	(2)%
South America		1,685			NM
Caribbean*		634		806	(21)%
Total Large Utilities	$	3,137	$	1,642	91%
Growth Distribution:					
South America	$	263	$	781	(66)%
Caribbean*		559		635	(12)%
Europe/Africa		295		143	106%
Total Growth Distribution	$	1,117	$	1,559	(28)%
Total Regulated Revenues	$	4,254	$	3,201	33%

* Includes Venezuela and Colombia

NM - Not Meaningful

Regulated revenues. Regulated revenues increased 33% or $1.1 billion to $4.3 billion in 2002 compared to $3.2 billion in 2001. The $1.5 billion increase in large utilities revenues was offset by a $442 million decline in growth distribution revenues. Weather generally impacts the demand for electricity, and therefore, extreme temperatures will impact the amount of revenues recorded. Excluding businesses acquired or that commenced operations in 2002 or 2001, regulated revenues decreased 28% to $2.2 billion during 2002.

Large Utilities

Large utilities revenues increased 91% or $1.5 billion to $3.1 billion in 2002 compared to $1.6 billion in 2001. This change was primarily due to the consolidation of Eletropaulo in Brazil partially offset by an $18 million decrease in North America and a $172 million decrease in the Caribbean. The North America change was primarily due to lower revenues at IPALCO in Indiana resulting from low wholesale electricity prices. The Caribbean decline occurred at EDC in Venezuela and was primarily caused by the devaluation of the Venezuelan Bolivar. The Company began consolidating Eletropaulo in February 2002 when control of the business was obtained. Please see Note 2 to the Consolidated Financial Statements for a complete description of the Eletropaulo swap transaction. If Eletropaulo had been consolidated during the comparable period in 2001, revenues compared to the prior period would have been lower due to rationing in Brazil in early 2002. Although rationing ended in February 2002 customer demand has not returned to the level it was prior to rationing. As customer demand builds, Eletropaulo believes it will experience benefits through increased revenues.

Growth Distribution

Growth distribution revenues decreased 28% or $0.5 billion to $1.1billion in 2002 compared to $1.6 billion in 2001. Growth distribution revenues decreased $518 million and $76 million in South America and the Caribbean, respectively. This was offset by a $152 million increase in Europe/Africa. South America revenues decreased due to the impact of the devaluation of the Argentine peso at Eden-Edes and Edelap, as well as due to the provision for the Brazilian regulatory decision at Sul. During the second quarter of 2002, ANEEL announced an order to retroactively change the calculation methods of the Wholesale Energy Markets (MAE). As a result the company recorded a provision for the Brazilian regulatory decision at Sul of approximately $146 million against revenues. The Caribbean decreased primarily due to lower revenues in El Salvador. Increases in Europe/Africa are due to the acquisitions of Sonel in Cameroon and Kievoblenergo and Rivnooblenergo in the Ukraine.

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	% Change
	(in millions)		
Contract Generation:			
North America	$ 830	$ 742	12%
South America	738	807	(9)%
Caribbean*	180	204	(12)%
Europe/Africa	355	300	18%
Asia	303	300	1%
Total Contract Generation	$ 2,406	$ 2,353	2%
Competitive Supply:			
North America	$ 439	$ 503	(13)%
South America	87	155	(44)%
Caribbean*	195	196	(1)%
Europe/Africa	172	140	(23)%
Asia	89	83	7%
Total Competitive Supply	$ 982	$ 1,077	(9)%
Total Non-Regulated Revenues	$ 3,388	$ 3,430	(1)%

* Includes Venezuela and Colombia

Non-regulated revenues. Non-regulated revenues decreased 1% or $42 million in 2002 from 2001 due to reductions in competitive supply revenues offset in part by an increase in contract generation revenues. Non-regulated revenues will continue to be impacted by weather and market prices for electricity in the Northeastern U.S. Excluding businesses acquired or that commenced operations in 2002 or 2001, non-regulated revenues decreased 11% to $3.0 billion in 2002.

Contract Generation

Contract generation revenues increased 2% or $53 million in 2002 from 2001. Increases in contract generation revenues during 2002 in North America, Europe/Africa and Asia were offset by declines in South America and the Caribbean. North America revenues increased $88 million mainly due to the start of operations at Ironwood in Pennsylvania, Red Oak in New Jersey, increased revenues from Warrior Run in Maryland and the acquisition of Mendota in California and Hemphill in New Hampshire as part of the Thermoecotek acquisition, offset by declines at Southland in California. South America revenues decreased $69 million mainly due to declines at the Gener plants in Chile and Tiete and Uruguaiana in Brazil. Caribbean revenues decreased $24 million due to lower revenues from Los Mina in the Dominican Republic and Merida III in Mexico. Europe/Africa revenues increased $55 million due to the acquisition of Ebute in Nigeria and Bohemia in the Czech Republic, and improved operations at Tisza in Hungary offset by lower revenues from Kilroot in Northern Ireland, which experienced an outage in the second quarter of 2002. Asia revenues increased $3 million most significantly at Jiaozuo in China.

Competitive Supply

Competitive supply revenues decreased 9% or $95 million to $1.0 billion in 2002 compared to $1.1 billion in 2001 due to decreases in all geographic regions except for Asia and Europe/Africa. North America revenues declined $64 million primarily due to lower market prices in the Northeastern U.S. combined with a decline in demand in California due to mild weather. The decline in California was partially offset by additional revenue associated with the acquisition of Delano in California. South America revenues

decreased $68 million primarily due to the devaluation of the Argentine peso in February 2002 offset slightly by the start of operations at Parana in Argentina. Caribbean revenues increased slightly due to declines at Colombia I and Panama offset in part by an increase at Chivor in Colombia. Europe/Africa revenues increased $32 million due primarily from the acquisition of Ottana in Italy. Asia revenues increased $6 million primarily due to increases at our business in Kazakhstan.

Gross Margin

Gross margin decreased $34 million, or 2%, to $2.0 billion in 2002 from $2.0 billion in 2001. Gross margin as a percentage of revenues decreased to 25% in 2002 from 30% in 2001. The decrease in gross margin is due to lower market prices in the U.S., and elsewhere partially offset by the acquisition of new businesses and new operations from greenfield projects. Gross margin as a percentage of revenues declined for each segment except contract generation. Excluding businesses acquired or that commenced commercial operations in 2002 or 2001, gross margin decreased 18% to $1.6 billion in 2002. Gross margin in future periods will be negatively impacted by the expensing of stock options and other long-term incentive compensation.

	Twelve Months Ended December 31, 2002 (in $millions)	% of Revenue	Twelve Months Ended December 31, 2001 (in $millions)	% of Revenue	% Change
Large Utilities:					
North America	$ 302	37%	$ 290	35%	4%
South America	163	10%	(14)		NM
Caribbean*	220	35%	342	42%	(36)%
Total Large Utilities:	$ 685	22%	$ 618	38%	11%
Growth Distribution:					
South America	(61)	(23)%	249	32%	(124)%
Caribbean*	53	9%	31	5%	71%
Europe/Africa	30	10%	(13)	(9)%	NM%
Asia	(3)	NM	(3)	NM	
Total Growth Distribution	$ 19	2%	$ 264	17%	(92)%
Total Regulated Gross Margin	$ 704	17%	$ 882	28%	(20)%

* Includes Venezuela and Colombia

NM - Not Meaningful

Regulated gross margin. Regulated gross margin decreased 20% or $178 million to $704 million in 2002 compared to $882 million in 2001. The decrease is primarily due to weakening margins in our South American growth distribution businesses and our Caribbean large utility business offset by increases at our North and South American large utilities and Europe/Africa growth distribution businesses. Regulated gross margin as a percentage of revenues decreased to 17% in 2002 from 28% in 2001. Excluding businesses acquired or that commenced operations in 2002 or 2001, regulated gross margin decreased 44% to $509 million in 2002.

Large Utilities

Large utilities gross margin increased 11% or $67 million to $685 million in 2002 compared to $618 million in 2001 primarily due to increases in North and South America offset in part by a decrease in the Caribbean. North America increased $12 million due to increased contributions from IPALCO. South America increased $177 million due to the consolidation of Eletropaulo. The decrease of $122 million in the Caribbean is due to the devaluation of the Venezuelan Bolivar and its impacts on EDC. EDC s tariff is adjusted semi-annually to reflect fluctuations in inflation and the currency exchange rate. However, a failure to receive such an adjustment to reflect changes in the exchange rate and inflation could adversely affect their results of operations in the future. The large utilities gross margin as a percentage of revenues decreased to 22% for 2002 from 38% in 2001. Eletropaulo s 2002 gross margin was negatively impacted by the write off approximately $80 million of other receivables. Our distribution concession contracts in Brazil provide for annual tariff adjustments based upon changes in the local inflation rates and, generally, significant devaluations are followed by increased local currency inflation. However, because of the lack of adjustment to the current exchange rate, the in arrears nature of the respective tariff adjustment, or the potential delays or magnitude of the resulting local currency inflation of the tariff, the future results of operations of Eletropaulo could be adversely affected by the continued devaluation of the Brazilian Real.

Growth Distribution

Growth distribution gross margin decreased 92% or $245 million to $19 million in 2002 compared to $264 million in 2001. The decline of $310 million in South America gross margin was offset in part by increases of $43 million and $22 million in Europe/Africa and the Caribbean, respectively. South America gross margin declined primarily due to devaluation of the Argentine peso and the reduction in gross margin from Sul due to the $146 million provision for the Brazilian Regulatory decision. Europe/Africa gross margin increased due to the acquisitions of Kievoblenergo and Rivnooblenergo in the Ukraine. Caribbean gross margin increased due primarily to operational improvements at EDE Este in the Dominican Republic. The growth distribution gross margin as a percentage of revenues decreased to 2% in 2002 from 17% in 2001.

	Twelve Months Ended December 31, 2002		% of Revenue		Twelve Months Ended December 31, 2001		% of Revenue		% Change	
	(in millions)				(in millions)					
Contract Generation:										
North America	$	426	51	%	$	368	50	%	16	%
South America		280	38	%		253	31	%	11	%
Caribbean*		32	18	%		27	13	%	19	%
Europe/Africa		139	39	%		94	31	%	48	%
Asia		146	48	%		91	30	%	60	%
Total Contract Generation	$	1,023	43	%	$	833	35	%	23	%
Competitive Supply:										
North America	$	94	21	%	$	131	26	%	(28	)%
South America		21	24	%		40	26	%	(48	)%
Caribbean*		66	34	%		56	29	%	18	%
Europe/Africa		18	10	%		22	16	%	(18	)%
Asia		19	21	%		15	18	%	27	%
Total Competitive Supply	$	218	22	%	$	264	25	%	(17	)%
	$	1,241	37	%	$	1,097	32	%	(13	)%

Total Non-Regulated Gross Margin											

* Includes Venezuela and Colombia

NM - Not Meaningful

Non-regulated gross margin. Non-regulated gross margin decreased 13% or $144 million to $1.2 billion in 2002 compared to $1.1 billion in 2001. This decrease is primarily due to lower margins at our North American, South American, European and African competitive supply businesses partially offset by increased margins in all regions of our contract generation segment. Non-regulated gross margin as a percentage of revenues increased to 37% in 2002 from 32% in 2001. Excluding businesses acquired or that commenced operations in 2002 or 2001, non-regulated gross margin increased 5% to $1.1 billion in 2002.

Contract Generation

Contract generation gross margin increased 23% or $190 million to $1.0 billion in 2002 compared to $0.8 billion in 2001 primarily due to improvements at existing businesses and operations from new businesses. The contract generation gross margin as a percentage of revenues increased to 43% in 2002 from 35% in 2001. Gross margin increased in all geographic regions. North America gross margin increased $58 million due to the start of commercial operations at Ironwood in Pennsylvania, Red Oak in New Jersey and improvements at Warrior Run in Maryland and Beaver Valley in Pennsylvania. South America gross margin increased $27 million due to increases at Gener, Tiete and Uruguaiana. Europe/Africa gross margin increased $45 million mainly due to the acquisition of Ebute in Nigeria and improvements at Kilroot in Northern Ireland and Tisza II in Hungary. Asia gross margin increased $55 million mainly due to increased contributions from Jiaozuo and Hefei in China.

Competitive Supply

Competitive supply gross margin decreased 17% or $46 million to $218 million in 2002 compared to $264 million in 2001. Decreases in North America, South America, Europe and Africa gross margins were offset slightly by increases from the Caribbean and Asia. North America gross margin decreased $37 million mainly due to the lower energy prices in New York and milder weather in California. South America gross margin decreased $19 million mainly due to the devaluation of the peso in Argentina. Europe/Africa gross margin decreased $4 million mainly due to lower energy prices in the United Kingdom. Caribbean gross margin increased $10 million mainly due to increases from Panama and Chivor in Colombia. The competitive supply gross margin as a percentage of revenues decreased to 22% in 2002 from 25% in 2001.

Selling, general and administrative expenses. SG&A decreased $8 million, or 7%, to $112 million in 2002 from $120 million in 2001. SG&A as a percentage of revenues decreased to 1% in 2002 from 2% in 2001. The overall decrease in SG&A is due to the Company s increased focus on cost cutting. However, the Company has undertaken several corporate initiatives that require additional personnel and infrastructure, and these may result in increased selling, general and administrative expenses in future periods. Additionally, the expensing of stock options and other long-term incentive compensation will increase selling, general and administrative expenses in future periods.

Severance and transaction costs. During 2001, the Company incurred approximately $131 million of transaction and contractual severance costs related to the acquisition of IPALCO.

Interest expense. Interest expense increased $419 million, or 31%, to $1.8 billion in 2002 from $1.3 billion in 2001. Interest expense as a percentage of revenues was 23% in 2002 and 20% in 2001. Overall interest expense increased primarily due to the consolidation of Eletropaulo in February 2002, issuance of senior secured notes at IPALCO, interest expense from new businesses, as well as additional corporate interest costs arising from a higher outstanding balance during 2002 on the Company s revolving loan. During December 2002, the Company refinanced a significant amount of

debt at terms less favorable than the original debt. As a result, the amount of interest expense recorded in future periods is expected to increase.

Interest income. Interest income increased $98 million, or 55%, to $276 million in 2002 from $178 million in 2001. Interest income as a percentage of revenues was 4% in 2002 and 3% in 2001. The increase in interest income during 2002 is due primarily to the consolidation of Eletropaulo partially offset by a decline in interest income from Thames due to the collection of its contract receivable.

Other income. Other income increased $23 million, or 21%, to $133 million in 2002 from $110 million in 2001. Approximately $85 million of the amount recorded in 2002 is attributable to gains on the extinguishment of liabilities and market-to-market gains on commodity derivatives. See Note 16 to the consolidated financial statements for an analysis of other income.

Other expense. Other expense increased $18 million, or 31%, to $77 million in 2002 from $59 million in 2001. Approximately $67 million of the amount recorded in 2002 is attributable to losses on the sale of assets or extinguishment of liabilities and other non-operating expenses. See Note 16 to the consolidated financial statements for an analysis of other expense.

Foreign currency transaction losses. Foreign currency transaction losses increased $468 million to $484 million in 2002 from $16 million in 2001. Foreign currency transaction losses increased primarily due to a 50% devaluation in the Argentine peso from 1.65 at December 31, 2001 to 3.32 at December 31, 2002, which resulted in $143 million of foreign currency transaction losses for the year ended December 31, 2002. Additionally, a 32% devaluation occurred in the Brazilian Real during 2002 from 2.41 at December 31, 2001 to 3.53 at December 31, 2002. Furthermore, the Company recorded more foreign currency losses due to the consolidation of Eletropaulo, and since there was less allocation to the minority partners because their investment has been reduced to zero. As a result, the Company recorded net Brazilian foreign currency losses of $357 million during 2002, of which approximately $83 million is included in equity in pre-tax (losses) earnings of affiliates. These decreases were offset by $39 million of foreign currency transaction gains recorded at EDC during 2002 due to a 46% devaluation of the Venezuelan Bolivar from 758 at December 31, 2001 to 1,403 at December 31, 2002. EDC uses the U.S. dollar as its functional currency but a portion of its debt is denominated in the Venezuelan Bolivar.

Equity in pre-tax (losses) earnings of affiliates. Equity in pre-tax (losses) earnings of affiliates declined by $383 million to a loss of $207 million in 2002 compared to income of $176 million in 2001. The overall decrease is due primarily to declines in equity in earnings of Brazilian large utility affiliates, including the impairment charge associated with the other than temporary decline in value of CEMIG.

Additionally, a share swap was completed during February 2002 which gave the Company control of Eletropaulo. In 2001, the Company recorded $134 million of equity in Eletropaulo s pre-tax earnings; however, this amount decreased to $18 million due to consolidation of Eletropaulo s results subsequent to the share swap and the ongoing devaluation of the Brazilian Real. Equity in pre-tax (losses) earnings of our large utilities included non-cash Brazilian foreign currency transaction losses of $83 million and $210 million during 2002 and 2001, respectively, due to the devaluation of the Brazilian Real during both periods.

Equity in (losses) earnings of growth distribution affiliates improved from a loss of $13 million in 2001 to $0 in 2002. The improvement is primarily due to a change in accounting for our investment in CESCO.

Equity in earnings of contract generation affiliates increased to $75 million in 2002 from $54 million in 2001. The increase is due primarily to contributions from several Chinese equity affiliates and from Elsta offset by a decrease from OPGC.

Equity in earnings of competitive supply affiliates improved from a loss of $9 million in 2001 to a loss of $7 million in 2002. The improvement is primarily due to the sale of Infovias, a Brazilian company, during the second quarter of 2002.

(Loss) gain on sale of assets and asset impairment expense. (Loss) gain on sale of assets and asset impairment expense changed from a gain of $18 million for 2001 to a loss of $473 million in 2002 primarily resulting from impairment charges taken in 2002.

In the fourth quarter of 2002, the Company decided not to provide any further funding to Lake Worth and to sell the project. As a result, the carrying amount of AES s investment in the Lake Worth project is not expected to be recovered. Accordingly, in accordance with SFAS No. 144, an impairment charge of $78 million was recorded to write-down the net assets of Lake Worth to their fair market value.

In September 2002, AES Greystone, LLC and its subsidiary Haywood Power I, LLC, sold the Greystone gas-fired peaker assets then under construction in Tennessee to Tenaska Power Equipment for $36 million including cash and assumption of certain obligations. With this sale, AES and its subsidiaries have eliminated any future capital expenditures related to the facility, and also settled all major outstanding obligations with parties involved in this project. AES recorded a loss of approximately $168 million associated with this sale. Greystone was previously recorded as a competitive supply business.

Additionally, during 2002, the Company recorded $86 million of other losses which resulted from the sale of assets to third parties, and $141 million of other asset impairment charges taken to reflect the net realizable value of discontinued development projects and other non-recoverable assets.

Goodwill impairment expense. During 2002, the Company recorded a goodwill impairment charge of $612 million primarily related to all of the goodwill at Eletropaulo in Brazil. The Company recognizes as goodwill the excess of the cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. The Company evaluates goodwill for impairment on an annual basis and

whenever events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company s annual impairment testing date is October 1st. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over the estimated benefit period, which ranged from 10 to 40 years, and total accumulated amortization amounted to $190 million at December 31, 2001. As of January 1, 2002, goodwill is no longer amortized.

Income taxes. Income tax expense (including income taxes on equity in earnings) on continuing operations increased to $297 million in 2002 from expense of $276 million in 2001. The Company s tax position changed from tax expense at a 40% effective tax rate in 2001 to (22)% in 2002. The 2002 effective tax rate resulted from a small tax expense on the pre-tax book loss, which was primarily due to the book write off of non-deductible foreign goodwill, and the recording of valuation allowances against deferred tax assets from translation losses and various capital losses.

Minority interest (income) expense. Pre-tax minority interest changed $138 million, or 133%, to a benefit of $34 million in 2002 from an expense of $104 million in 2001. Increases in minority interest income in large utilities and competitive supply were somewhat offset by greater minority interest expense in growth distribution and contract generation.

Large utilities minority interest changed by $124 million to a benefit of $36 million for 2002 from expense of $88 million for 2001. Increases in minority interest income from EDC and CEMIG were slightly offset by increased expense from Eletropaulo. The change is mainly due to the sharing of losses that resulted from currency devaluations and impairment charges with the minority shareholders. The change in large utilities minority interest would have been somewhat greater; however, the minority interest in Eletropaulo was reduced to zero during the third quarter of 2002 and the Company began picking up all of the losses.

Growth distribution minority interest changed to an expense of $6 million for 2002 compared to a benefit of $16 million for 2001. The change in growth distribution minority interest is due to additional expense from Sonel, Kievoblenergo, and Ede Este partially offset by lower expense at Eden Edes, Edelap, and CAESS.

Contract generation minority interest expense increased $26 million to $48 million for 2002 compared to expense of $23 million for 2001. The change is due to the sharing of earnings by the minority partners of Tiete in Brazil and at several of our Chinese businesses.

Competitive supply minority interest changed by $60 million to a benefit of $51 million in 2002 compared to expense of $9 million in 2001. The change in competitive supply minority interest is primarily due to sharing of losses that resulted from the devaluation of the Argentine peso with the minority shareholders.

(Loss) income from continuing operations. (Loss) income from continuing operations decreased $2.0 billion to a loss of $1.6 billion for 2002 from income of $413 million for 2001. The loss recorded in 2002 resulted primarily from asset and goodwill impairments as well as foreign currency transaction losses.

Discontinued operations. Loss from operations of discontinued businesses, net of tax, were $1,528 million and $140 million, respectively, in 2002 and 2001. During 2001, the Company discontinued certain of its operations, including Power Direct, Ib Valley, Power Northern, Geoutilities, TermoCandelaria and several telecommunications businesses in the United States and Brazil. During 2002, the Company discontinued certain of its operations including Fifoots, CILCORP, NewEnergy, Eletronet, Mt. Stuart, Ecogen, two Altai businesses, Mountainview and Kelvin. Subsequently, during 2003, the Company discontinued certain of its operations including Barry, Haripur, Meghnaghat and Drax. The Company closed the sale of both CILCORP and Mt. Stuart in January 2003 and the sale of Ecogen in February 2003. All of the operations for these businesses and the related write offs from dispositions in 2002 and 2001 are reported in this line item. Pursuant to SFAS No. 144, if any of these businesses are not sold or disposed of within one year of the date they were classified as discontinued operations they must be reclassified as continuing operations.

Accounting change. On April 1, 2002, the Company adopted Derivative Implementation Group (DIG) Issue C-15 which established specific guidelines for certain contracts to be considered normal

purchases and normal sales contracts under SFAS No. 133. As a result of this adoption, the Company had two contracts which no longer qualified as normal purchases and normal sales contracts and were required to be treated as derivative instruments under SFAS No. 133. The adoption of DIG Issue C-15, effective April 1, 2002, resulted in a cumulative increase to income of $127 million, net of income tax effects.

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets which establishes accounting and reporting standards for goodwill and other intangible assets. The adoption of SFAS No. 142 resulted in a cumulative reduction to income of $473 million, net of income tax effects. SFAS No. 142 adopts a fair value model for evaluating impairment of goodwill in place of the recoverability model used previously. The Company wrote-off the goodwill associated with certain acquisitions where the current fair market value of such businesses is less than the current carrying value of the business, primarily as a result of reductions in fair value associated with lower than expected growth in electricity consumption compared to the original estimates made at the date of acquisition. The Company s annual impairment testing date is October 1st.

Net (loss) income. Net (loss) income decreased $3.8 billion to a loss of $3.5 billion in 2002 from net income of $273 million in 2001. This effect was due to lower gross margin from the growth distribution and competitive supply segments, increased interest expense, increased foreign currency losses due to devaluation in Brazil and Argentina, impairment charges taken on goodwill and other assets, and losses from discontinued operations offset by greater interest income, higher gross margin from the large utilities and contract generation segments, and greater sharing of losses with minority partners.

2001 COMPARED TO 2000

Revenues

Revenues increased $1.4 billion, or 29% to $6.6 billion in 2001 from $5.2 billion in 2000. The increase in revenues is due to the acquisition of new businesses, new operations from greenfield projects and positive improvements from existing operations. Excluding businesses acquired or that commenced commercial operations in 2001 or 2000, revenues increased 3% to $4.5 billion in 2001. AES is a global power company which operates in 30 countries around the world. The breakdown of AES s revenues for the years ended December 31, 2001 and 2000, based on the business segment and geographic region in which they were earned, is set forth below.

	Twelve Months Ended December 31, 2001 (in $millions)		Twelve Months Ended December 31, 2000 (in $millions)		% Change
Large Utilities:					
North America	$	836	$	892	(6)%
Caribbean*		806		493	63%
Total Large Utilities	$	1,642	$	1,385	19%
Growth Distribution:					
South America	$	781	$	767	2%

Caribbean*		635		338	88%
Europe/Africa		143			NM
Asia				131	NM
Total Growth Distribution	$	1,559	$	1,236	26%
Total Regulated Revenues	$	3,201	$	2,621	22%

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* Includes Venezuela and Colombia

NM - Not Meaningful

Regulated revenues. Regulated revenues increased $580 million, or 22%, to $3.2 billion in 2001 from $2.6 billion in 2000. Regulated revenues increased in both the large utilities and growth distribution segments due to the contributions of acquired businesses as well as improved operations. Weather generally impacts the demand for electricity, and therefore, extreme temperatures will impact the amount of revenues recorded. Excluding businesses acquired or that commenced operations in 2001 or 2000, regulated revenues increased 8% to $2.1 billion during 2001.

Large Utilities

Large utilities revenues increased $257 million, or 19%, to $1.6 billion in 2001 from $1.4 billion in 2000 principally resulting from the addition of revenues attributable to businesses acquired during 2001 or 2000. The majority of the increase occurred within the Caribbean, offset by a decrease of $56 million in North America. In the Caribbean, revenues increased $313 million due to a full year of revenues from EDC, which was acquired in June 2000.

Growth Distribution

Growth distribution revenues increased $323 million, or 26%, to $1.6 billion in 2001 from $1.2 billion in 2000. Revenues increased most significantly in the Caribbean and to a lesser extent in South America and Europe/Africa. Revenues decreased in Asia. In the Caribbean, growth distribution segment revenues increased $297 million due primarily to a full year of operations at CAESS, which was acquired in 2000, and improved operations at EDE Este. In South America, growth distribution segment revenues increased $14 million due to the significant revenues at Sul from our settlement with the Brazilian government offset by declines in revenues at our Argentine distribution businesses. The settlement with the Brazilian government confirmed the sales price that Sul would receive from its sales into the southeast market (where rationing occurred) under its Itaipu contract. The Brazilian government reversed this decision retroactively in 2002. In Europe/Africa, growth distribution segment revenues increased $143 million primarily from the acquisition of SONEL. In Asia, growth distribution segment revenues decreased $131 million mainly due to the change in the way in which we are accounting for our investment in CESCO. CESCO was previously consolidated but was changed to equity method during 2001 when the Company was removed from management and the Board of Directors. This decline was partially offset by the increase in revenues from the distribution businesses that we acquired in Ukraine.

	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000	% Change
	(in $millions)	(in $millions)	
Contract Generation:			
North America	$ 742	$ 696	7%
South America	807	286	182%
Caribbean*	204	193	6%
Europe/Africa	300	213	41%
Asia	300	308	(3)%
Total Contract Generation	$ 2,353	$ 1,696	39%
Competitive Supply:			
North America	$ 503	$ 506	(1)%

South America		155		109		42%
Caribbean*		196		74		165%
Europe/Africa		140		80		75%
Asia		83		71		17%
Total Competitive Supply	$	1,077	$	840		28%
Total Non-Regulated Revenues	$	3,430	$	2,536		35%

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* Includes Venezuela and Colombia

Non-regulated revenues. Non-regulated revenues increased $894 million, or 35%, to $3.4 billion in 2001 from $2.5 billion in 2000. Non-regulated revenues increased in both the contract generation and competitive supply segments due to the acquisition of new businesses as well as improved operations at existing businesses. Excluding businesses acquired or that commenced operations in 2001 or 2000, non-regulated revenues decreased 1% to $2.4 billion during 2001

Contract Generation

Contract generation revenues increased $657 million, or 39% to $2.4 billion in 2001 from $1.7 billion in 2000, principally resulting from the addition of revenues attributable to businesses acquired during 2001 or 2000. Contract generation revenues increased in all geographic regions, but most significantly in South America. South America revenues grew $521 million due mainly to the acquisition of Gener and the full year of operations at Uruguaiana offset by reduced revenues at Tiete from the electricity rationing in Brazil. In Europe/Africa, contract generation segment revenues increased $87 million, and the acquisition of a controlling interest in Kilroot during 2000 was the largest contributor to the increase. North America contract generation revenues increased $46 million. Caribbean contract generation revenues increased $11 million due to a full year of operations at Merida III offset by a lower capacity factor at Los Mina. Asia contract generation decreased $8 million.

Competitive Supply

Competitive supply revenues increased $237 million or 28% to $1.1 billion in 2001 from $0.8 billion in 2000. The most significant increases occurred within the Caribbean where revenues increased $122 million due primarily to the acquisition of Chivor. Slight increases were recorded within South America and Asia. Europe/Africa reported a $ 60 million increase due to the acquisition of Ottana. In North America, competitive supply segment revenues decreased $3 million due primarily to increased operations at Placerita offset by lower market prices at our New York businesses.

Gross Margin

Gross margin increased $369 million, or 23%, to $2.0 billion in 2001 from $1.6 billion in 2000. Gross margin as a percentage of revenues decreased to 30% in 2001 from 31% in 2000. The increase in gross margin is due to the acquisition of new businesses and new operations from greenfield projects. The decrease in gross margin as a percentage of revenues is due to a decline in the contract generation and competitive supply gross margin percentages offset slightly by increased gross margin percentages from large utilities and growth distribution. Excluding businesses acquired or that commenced commercial operations in 2001 or 2000, gross margin decreased 4% to $1.5 billion in 2001.

	Twelve Months Ended December 31, 2001 (in $millions)	% of Revenue	Twelve Months Ended December 31, 2000 (in $millions)	% of Revenue	% Change
Large Utilities:					
North America	$ 290	35%	$ 262	29%	11%
South America	(14)		(2)		NM
Caribbean*	342	42%	177	36%	93%
Total Large Utilities	$ 618	38%	$ 437	32%	41%
Growth Distribution:					
South America	$ 249	32%	$ 169	22%	47%
Caribbean*	31	5%	(8)	(2)%	NM
Europe/Africa	(13)	(9)%			NM
Asia	(3)	NM	(16)	(12)%	81%
Total Growth Distribution	$ 264	17%	$ 145	12%	82%
Total Regulated Gross Margin	$ 882	28%	$ 582	22%	52%

* Includes Venezuela and Colombia

NM - Not Meaningful

Regulated gross margin. Regulated gross margin increased $300 million, or 52%, to $882 million in 2001 from $582 million in 2000. Regulated gross margin increased in both the large utilities and growth distribution segments.

Regulated gross margin as a percentage of revenues increased to 28% during 2001 from 22% for 2000. Excluding businesses acquired or that commenced operations in 2001 or 2000, regulated gross margin increased 43% to $592 million during 2001.

Large Utilities

Large utilities gross margin increased $181 million, or 41%, to $618 million in 2001 from $437 million in 2000. Large utilities gross margin as a percentage of revenues increased to 38% in 2001 from 32% in 2000. In the Caribbean, large utility gross margin increased $165 million and was due to a full year of contribution from EDC which was acquired in June 2000. Additionally, increased margins at IPALCO contributed to a $28 million improvement in North American gross margin.

Growth Distribution

Growth distribution gross margin increased $119 million, or 82%, to $264 million in 2001 from $145 million in 2000. Growth distribution gross margin as a percentage of revenue increased to 17% in 2001 from 12% in 2000. Growth distribution gross margin, as well as gross margin as a percentage of sales, increased in South America, the Caribbean, and Asia but decreased in Europe/Africa. In South America, growth distribution margin increased $80 million and was 32% of revenues. The increase is due primarily to Sul s sales of excess energy at prices determined under an initial decision made by ANEEL into the southeast market where rationing was taking place; however, the Brazilian government reversed this decision retroactively in 2002. In the Caribbean, growth distribution margin increased $39 million and was 5% of revenues mainly due to lower losses at Ede Este and an increase in contribution from CAESS. In Europe/Africa, growth distribution margin decreased $13 million and was negative due to losses at SONEL. In Asia, growth distribution margin improved $13 million but remained negative. The improvement was primarily due to the change in accounting for CESCO.

CESCO was previously consolidated but was changed to equity method accounting in the third quarter of 2001 when the Company was removed from management and lost operational control.

	Twelve Months Ended December 31, 2001	% of Revenue	Twelve Months Ended December 31, 2000	% of Revenue	% Change
	(in $millions)		(in $millions)		
Contract Generation:					
North America	$ 368	50%	$ 360	52%	2%
South America	253	31%	189	66%	34%
Caribbean	27	13%	16	8%	69%
Europe/Africa	94	31%	46	22%	104%
Asia	91	30%	135	44%	(33)%
Total Contract Generation	$ 833	35%	$ 746	44%	12%
Competitive Supply:					
North America	$ 131	26%	$ 145	29%	(10)%
South America	40	26%	63	58%	(41)%
Caribbean	56	29%	41	55%	37%
Europe/Africa	22	16%	20	25%	(10)%
Asia	15	18%	13	18%	15%
Total Competitive Supply	$ 264	25%	$ 282	34%	(6)%
Total Non-Regulated Gross Margin	$ 1,097	32%	$ 1,028	41%	7%

Non-regulated gross margin. Non-regulated gross margin remained relatively consistent at $1.0 billion in both 2001 and 2000. Non-regulated gross margin as a percentage of revenues decreased to 32% during 2001 from 41% in 2000 due to a decline in market prices in the U.S. which resulted in a decrease in competitive supply gross margin that was offset by an increase in contract generation gross margin. Excluding businesses acquired or that commenced operations in 2001 or 2000, non-regulated gross margin decreased 13% to $0.9 billion in 2001.

Contract Generation

Contract generation gross margin increased $87 million, or 12%, to $ 833 million in 2001 from $746 million in 2000. Contract generation gross margin increased in all geographic regions except Asia. The contract generation gross margin as a percentage of revenues decreased to 35% in 2001 from 44% in 2000. In South America, contract generation gross margin increased $64 million and was 31% of revenues. The increase is due to the acquisition of Gener offset by a decline at Tiete from the rationing of electricity in Brazil. In North America, contract generation gross margin increased $8 million and was 50% of revenues. The increase is due to improvements at Shady Point and Beaver Valley partially offset by a decrease at Thames from the contract buydown. In Europe/Africa, contract generation gross margin increased $48 million and was 31% of revenues. The increase is due primarily to our additional ownership interest in Kilroot and the acquisition of Ebute in Nigeria. In Asia, contract

generation gross margin decreased $44 million and was 30% of revenues. The decrease is due mainly to additional bad debt provisions at Jiaozuo, Hefei and Aixi in China. The decrease in contract generation gross margin as a percentage of revenue is due to the acquisition of generation businesses with overall gross margin percentages lower than the overall portfolio of generation businesses. As a percentage of sales, contract generation gross margin declined in North America, South America and Asia, and increased in Europe/Africa and the Caribbean.

Competitive Supply

The competitive supply gross margin decreased $18 million, or 6%, to $264 million in 2001 from $282 million in 2000. The overall decrease is due to declines in North America and South America that were partially offset by slight increases in the Caribbean, Europe/Africa and Asia. The competitive supply gross margin as a percentage of revenues decreased to 25% in 2001 from 34% in 2000. In South America, competitive supply segment gross margin decreased $23 million and was 26% of revenues due to declines at several of our businesses in Argentina. In Europe/Africa, competitive supply segment gross margin increased $2 million and was 16% of revenues. In North America, competitive supply segment gross margin decreased $14 million and was 26% of revenues. The decrease was due to decreases at Somerset in New York and Deepwater in Texas. In the Caribbean, the competitive supply gross margin increased $15 million and was 29% of revenues. The increase is due primarily to the acquisition of Chivor offset by lower margin at Panama. As a percentage of sales, competitive supply gross margin declined in all regions except Asia where it remained relatively flat.

Selling, general and administrative expenses. Selling, general and administrative expenses increased $38 million, or 46%, to $120 million in 2001 from $82 million in 2000. Selling, general and administrative expenses as a percentage of revenues was 2% in 2001 and 2% in 2000. The overall increase in selling, general and administrative expenses was due to increased development activities.

Severance and transaction costs. During the first quarter of 2001, the Company incurred approximately $94 million of transaction and contractual severance costs related to the acquisition of IPALCO. During the third quarter of 2001, the Company recorded an additional $37 million in contractual severance costs related to the IPALCO transaction.

Interest expense. Interest expense increased $292 million, or 28%, to $1,342 million in 2001 from $1,050 million in 2000. Interest expense as a percentage of revenues was 20% in 2001 and 2000. Interest expense increased overall primarily due to interest expense at new businesses, additional corporate interest expense arising from senior debt issued during 2001 to finance new investments and mark-to-market losses on interest rate related derivative instruments. In December 2002, the Company refinanced $2.1 billion of bank debt and debt securities at terms less favorable than the original debt. As a result, the amount of interest expense recorded in future periods is expected to increase.

Interest income. Interest income decreased $3 million, or 2%, to $178 million in 2001 from $181 million in 2000. Much of the decrease occurred at Thames due to receiving payment of the contract receivable from Connecticut Light and Power, plus generally lower interest rates in 2001.

Other income. Other income increased $59 million, or 115%, to $110 million in 2001 from $51 million in 2000. See Note 16 to the consolidated financial statements for an analysis of other income.

Other expense. Other expense increased $7 million, or 13%, to $59 million in 2001 from $52 million in 2000. See Note 16 to the consolidated financial statements for an analysis of other expense.

Foreign currency transaction losses. Foreign currency transaction losses increased $6 million, or 60%, to $16 million in 2001 from $10 million in 2000. Foreign currency transaction losses increased primarily due to devaluations in Argentina, offset by income received on foreign currency forward contracts.

Equity in pre-tax (losses) earnings of affiliates. Equity in pre-tax earnings of affiliates decreased $299 million, or 63%, to $176 million in 2001 from $475 million in 2000. The overall decrease in equity in earnings is due primarily to declines in equity in earnings of Brazilian large utility affiliates which

primarily resulted from the devaluation of the Brazilian Real, as well as the rationing of electricity in Brazil.

Equity in earnings of large utilities decreased $282 million to $144 million in 2001 from $426 million in 2000 and included non-cash Brazilian foreign currency transaction losses on a pretax basis of $210 million and $64 million in 2001 and 2000, respectively. Our distribution concession contracts in Brazil provide for annual tariff adjustments based upon changes in the local inflation rates and generally significant devaluations are followed by increased local currency inflation. However, because of the lack of adjustment to the current exchange rate, the in arrears nature of the respective adjustment to the tariff or the potential delays or magnitude of the resulting local currency inflation of the tariff, the future results of operations of the company s distribution companies in Brazil could be adversely affected by the continued devaluation of the Brazilian Real.

Equity in earnings of growth distribution affiliates decreased to an expense of $13 million in 2001 from $0 million in 2000. The decrease is primarily due to the change in the way in which we account for our investment in CESCO. CESCO was previously consolidated but was changed to equity method during 2001 when the Company was removed from management and the Board of Directors.

Equity in earnings of contract generation affiliates increased to $54 million in 2001 from $49 million in 2000. The increase is due primarily to contributions from equity affiliates of Gener and the contribution from Itabo offset by a decrease in Kilroot related to the Company s purchase of an additional interest thereby making it a consolidated subsidiary.

Equity in earnings of competitive supply affiliates decreased to expense of $9 million in 2001 from $0 million in 2000. The decrease is due to losses incurred at Infovias, a Brazilian company.

Income taxes. Income taxes (including income taxes on equity in earnings and minority interests) decreased $92 million to $276 million in 2001 from $368 million in 2000. The Company s effective tax rate was 40% in 2001 and 35% in 2000. The increase in the tax rate was primarily due to additional taxes on foreign earnings.

Minority interest (income) expense. Minority interest expense (before income taxes) decreased $21 million, or 17%, to $104 million in 2001 from $125 million in 2000. Minority interest expense decreased in contract generation and competitive supply. Minority interest income decreased in growth distribution, and large utilities minority interest expense increased.

Large utilities minority interest expense increased $3 million to $88 million in 2001 from $85 million in 2000. Increased expense at EDC was almost entirely offset by declines at CEMIG.

Growth distribution minority interest income decreased $10 million to $16 million in 2001 from $26 million in 2000. The decrease was mainly due to the deconsolidation of CESCO, and sharing the effect of a full year s results of CAESS with our minority partners.

Contract generation minority interest expense decreased $14 million to $22 million in 2001 from $36 million in 2000. The decrease in contract generation minority interest expense was due primarily to lower contributions from Tiete and Jiaozuo.

Competitive supply minority interest expense decreased $21 million to $9 million in 2001 from $30 million in 2000. The decrease in competitive supply minority interest expense is due primarily to lower contributions from Panama and CTSN.

Discontinued operations. Loss from operations of discontinued businesses, net of tax, were $140 million and $104 million, respectively, in 2001 and 2000. During 2001, the Company discontinued certain of its operations, including Power Direct, Ib Valley, Power Northern, Geoutilities, TermoCandelaria and several telecommunications businesses in the United States and Brazil. Subsequently, during 2002, the Company discontinued certain of its operations, including Fifoots, CILCORP, NewEnergy, Eletronet, Mt. Stuart, Ecogen, two Altai businesses, Mountainview and Kelvin. During 2003, the Company discontinued certain of its operations including, Barry, Haripur, Meghnaghat and Drax. The Company closed the sale of both CILCORP and Mt. Stuart in January 2003, the sale of Ecogen in February 2003. All of the operations for these businesses and the related write offs from dispositions in 2001 are reported in this line item. Pursuant to SFAS No. 144, if any of these businesses are not sold or disposed of within one year of the date they were classified as discontinued operations they must be reclassified as continuing operations.

Net income. Net income decreased $522 million to $273 million in 2001 from $795 million in 2000. The overall decrease in net income is due to decreased gross margin from competitive supply due to lower market prices in the United Kingdom and the decline in the Brazilian Real during 2001 resulting in foreign currency transaction losses of approximately $210 million. Additionally the Company recorded severance and transaction costs related to the IPALCO pooling-of-interest transaction and a loss from discontinued operations of $220 million. This decrease was partially offset by increased gross margins from large utilities, growth distribution and contract generation.

Off balance sheet arrangements

As of December 31, 2002, the Company s known contractual obligations are as follows, excluding discontinued operations and businesses held for sale.

Contractual obligations	Payment due by period (amounts in millions)				
	Total	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**
Indebtedness (excluding interest)	$ 19,723	$ 3,317	$ 4,704	$ 2,931	$ 8,771
Trust preferred securities (excluding dividends)	$ 978				$ 978
Construction commitments	$ 65	$ 65			
Operating lease obligations	$ 1,719	$ 86	$ 155	$ 143	$ 1,335
Purchase obligations	$ 14,991	$ 1,654	$ 2,512	$ 1,433	$ 9,392
Total	$ 37,415	$ 5,138	$ 7,374	$ 4,518	$ 20,385

Please refer to Note 11 to the consolidated financial statements for additional disclosure regarding these obligations.

Parent company liquidity

While the Company believes that its sources of liquidity will be adequate to meet its needs through the end of 2003, this belief is based on a number of material assumptions, including, without limitation, assumptions about exchange rates, power market pool prices, the ability of its subsidiaries to pay dividends and the timing and amount of asset sale proceeds. In addition, there can be no assurance that these sources will be available when needed or that its actual cash requirements will not be greater than anticipated.

The parent company s non-contingent contractual obligations are set forth below:

	Payment due by period (amounts in millions)			
Non-contingent contractual obligation	**Less than 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Indebtedness (excluding interest)	$ 26	$ 1,810	$ 3,968	$ 5,804
Trust preferred securities (excluding dividends)			$ 978	$ 978
Construction commitments	$ 65			$ 65
Total	$ 91	$ 1,810	$ 4,946	$ 6,847

The parent company s contingent contractual obligations are set forth below (in millions, except for number of agreements):

Contingent contractual obligations	**Amount**	**Number of Agreements**	**Exposure Range for Each Agreement**	**Recorded On Balance Sheet**
Guarantees	$ 652	52	<$1 - $100	$ 273
Letters of credit-under the Revolver	$ 104	14	<$1 - $36	$ 51
Letters of credit-outside the Revolver	$ 109	5	<$1 - $84	$ 84
Surety bonds	$ 6	6	<$1 - $3	
Total	$ 871	77		$ 408

FINANCIAL POSITION AND CASH FLOWS

Consolidated cash flows

At December 31, 2002, AES had a consolidated net working capital deficit of $2.2 billion as compared to negative working capital of ($236) million at the end of 2001. The decrease in net working capital was due primarily to an increase in the current portion of debt, accounts payable, and accrued and other liabilities, partially offset by an increase in other current assets. Cash and short-term investments were $1.0 billion at

December 31, 2002. Included in the net working capital deficit is approximately $3.3 billion from the current portion of long-term debt. The Company expects to refinance a significant amount of the current portion of long-term debt. There can be no guarantee that these refinancings will have terms as favorable as those currently in existence. There are some subsidiaries that issue short-term debt and commercial paper in the normal course of business and continually refinance these obligations.

Property, plant and equipment, net of accumulated depreciation, accounts for 54% of the Company s total assets and was $18.4 billion at December 31, 2002. Net property, plant and equipment increased $677 million, or 4%, during 2002. The increase was due primarily to construction activities at the Company s greenfield projects and the consolidation of Eletropaulo, offset by the reclassification of certain businesses to discontinued operations.

AES continuously monitors both actual and potential changes to environmental regulations and plans for the associated costs. As a result of such events, the Company expects to spend approximately $105 million in 2003 to comply with environmental laws and regulations and to raise our level of preparedness for future regulations that may be enacted. The Company expects to obtain third party financing for a portion of these capital expenditures. The planned 2003 capital expenditures include anticipated construction costs associated with new environmental standards imposed by the EPA relating to NOx emission reductions, as well as the installation of low NOx burners, additional monitoring equipment, and other environmental-related projects.

In total, the Company s consolidated debt increased $1.1 billion, or 6%, to $19.7 billion at December 31, 2002. The increase is due primarily to the addition of debt held on the books of Eletropaulo which was consolidated during 2002, and borrowings used to fund the construction of the

Company s greenfield projects. This increase was partially offset by the reclassification of certain businesses to discontinued operations.

At December 31, 2002, the Company had $797 million of cash and cash equivalents representing a increase of $37 million from December 31, 2001. The $1.4 billion provided by operating activities and the $172 million of cash raised by financing activities was used to fund the $1.6 billion of investing activities.

Cash flows provided by operating activities totaled $1.4 billion during 2002. The decrease in cash provided by operating activities during 2002 is due to the one-time collection of a contract prepayment in 2001, partially offset by improved cash flows from operations at several North American businesses. Net cash used in investing activities totaled $1.6 billion during 2002. The cash used in investing activities includes $2.1 billion for property additions, primarily representing new greenfield construction efforts. Net cash provided by financing activities was $172 million during 2002, which primarily consists of net borrowings.

Financial Statements and Supplementary Data

INDEPENDENT AUDITORS REPORT

To the Stockholders of The AES Corporation:

We have audited the accompanying consolidated balance sheets of The AES Corporation and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of C.A. La Electricidad de Caracas and Corporation EDC, C.A. and their subsidiaries (EDC), a majority-owned subsidiary, for the years ended December 31, 2001 and 2000, which statements reflect total assets constituting 9% of consolidated total assets as of December 31, 2001, total revenues constituting 11% and 8% of consolidated total revenues and total income from continuing operations constituting 51% and 14% of consolidated total income from continuing operations for 2001 and 2000, respectively. Those statements were audited by other auditors who have ceased operations and whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EDC, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of The AES Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the Company changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001 to conform with Statement of Financial Accounting Standards No. 133. Also, as discussed in Note 10 to the financial statements, the Company changed its method of accounting for certain contracts for the purchase or sale of electricity effective April 1, 2002 to conform with Derivative Implementation Group Issue C-15. As discussed in Note 6 to the financial statements, the Company changed its method of accounting for goodwill and other intangible assets effective January 1, 2002 to conform with Statement of Financial Accounting Standards No. 142.

Deloitte & Touche LLP

McLean, VA

February 12, 2003 (October 28, 2003 as to Note 4,

March 21, 2003 as to Note 9, and October 31, 2003 as to Note 11)

Due to the Company s inability to obtain an accountants report from Porta, Cachafeiro, Laría Y Asociados (a Member Firm of Andersen), we have included this copy of their latest signed and dated accountants report on the financial position and results of operations of C.A. La Electricidad de Caracas and Corporación EDC, C.A. and their subsidiaries as of December 31, 2001 and 2000, the results of their operations and their cash flows for the year ended December 31, 2001, and the results of their operations and cash flows for the period from June 1 through December 31, 2000. This report is a copy of the original and has not been reissued by Porta, Cachafeiro, Laría Y Asociados. Porta, Cachafeiro, Laría Y Asociados has not provided a consent to the inclusion of its report in this Form 10-K. See Exhibit 23.2 for additional information regarding our inability to obtain this consent and the limitations imposed on investors as a result.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors of

C.A. La Electricidad de Caracas and Corporación EDC, C.A.:

We have audited the accompanying combined balance sheets of C.A. La Electricidad de Caracas and Corporación EDC, C.A. and their Subsidiaries (Venezuelan corporations), translated into U.S. dollars, as of December 31, 2001 and 2000, and the related translated combined statements of income, stockholders investment and cash flows for the year ended December 31, 2001 and for the period from June 1 through December 31, 2000. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

These translated combined financial statements have been prepared for use in the preparation of the consolidated financial statements of AES Corporation and, accordingly, they translate the assets, liabilities, stockholders investment, revenues and expenses of C.A. La Electricidad de Caracas and Corporación EDC, C.A. and their Subsidiaries for that purpose. The translated combined financial statements have not been prepared for use by other parties and may not be appropriate for such use.

In our opinion, the translated financial statements referred to above present fairly, in all material respects and for the purpose described in the preceding paragraph, the financial position of C.A. La Electricidad de Caracas and Corporación EDC, C.A. and their Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the year ended December 31, 2001 and for the period from June 1 through December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Porta, Cachafeiro, Laría

Y Asociados

A Member Firm of Andersen

Hector L. Gutierrez D.

Public Accountant CPC N° 24,321

Caracas, Venezuela

January 18, 2002 (except with respect
to the matter discussed in Note 18, as
to which the dates are February 20, 2002)

THE AES CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001
	(Amounts in Millions, Except Shares and Par Value)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 797	$ 760
Restricted cash	160	357
Short-term investments	177	215
Accounts receivable - net of reserves of $375-2002; $206 -2001	1,078	1,069
Inventory	366	453
Receivable from affiliates	25	10
Deferred income taxes - current	130	244
Prepaid expenses	64	145
Other current assets	923	400
Current assets of discontinued operations and businesses held for sale	629	1039
Total current assets	4,349	4,692
Property, Plant and Equipment:		
Land	699	538
Electric generation and distribution assets	18,313	15,860
Accumulated depreciation and amortization	(4,049)	(2,983)
Construction in progress	3,211	4,108
Property, plant, and equipment net	18,174	17,523
Other Assets:		
Deferred financing costs net	397	333
Project development costs	15	66
Investments in and advances to affiliates	678	3,031
Debt service reserves and other deposits	508	433
Goodwill net	1,388	2,367
Deferred income taxes noncurrent	939	
Long-term assets of discontinued operations and businesses held for sale	6111	7,632
Other assets	1,671	735
Total other assets	11,707	14,597
Total	$ 34,230	$ 36,812
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 1,107	$ 700

Accrued interest	362	260
Accrued and other liabilities	1,118	622
Current liabilities of discontinued operations and businesses held for sale	607	902
Recourse debt - current portion	26	488
Non-recourse debt - current portion	3,291	1,956
Total current liabilities	6,511	4,928
Long-Term Liabilities:		
Non-recourse debt	10,628	11,303
Recourse debt	5,778	4,913
Deferred income taxes	981	627
Pension liabilities	1,166	232
Long-term liabilities of discontinued operations and businesses held for sale	5,127	5,044
Other long-term liabilities	2,584	1718
Total long-term liabilities	26,264	23,837
Minority Interest (including discontinued operations of $41 - 2002; $126 - 2001)	818	1,530
Commitments and Contingencies (Note 11)		
Company-Obligated Convertible Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of AES	978	978
Stockholders Equity (Deficit):		
Preferred stock, no par value - 50 million shares authorized; none issued		
Common stock, $.01 par value - 1,200 million shares authorized for 2002 and 2001, 776 million issued and 558 million outstanding in 2002, 645 million issued and 533 million outstanding in 2001	6	5
Additional paid-in capital	5,312	5,225
Retained earnings (accumulated deficit)	(700)	2,809
Accumulated other comprehensive loss	(4,959)	(2,500)
Total stockholders (deficit) equity	(341)	5,539
Total	$ 34,230	$ 36,812

See notes to consolidated financial statements.

THE AES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(Amounts in Millions, Except Shares and Par Value)		
Revenues			
Regulated	$ 4,254	$ 3,201	$ 2,621
Non-regulated	3,388	3,430	2,536
Total Revenues	7,642	6,631	5,157
Cost of sales			
Regulated	(3,550)	(2,319)	(2,039)
Non-regulated	(2,147)	(2,333)	(1,508)
Total cost of sales	(5,697)	(4,652)	(3,547)
Selling, general and administrative expenses	(112)	(120)	(82)
Severance and transaction costs		(131)	(79)
Interest expense	(1,761)	(1,342)	(1,050)
Interest income	276	178	181
Other income	133	110	51
Other expense	(77)	(59)	(52)
(Loss) gain on sale of investments and asset impairment expense	(473)	18	140
Goodwill impairment expense	(612)		
Foreign currency transaction losses	(484)	(16)	(10)
Equity in pre-tax (loss) earnings of affiliates	(207)	176	475
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	(1,372)	793	1,184
Income tax expense	297	276	368
Minority interest (income) expense	(34)	104	125
(LOSS) INCOME FROM CONTINUING OPERATIONS	(1,635)	413	691
(Loss) Income from operations of discontinued businesses (net of income tax benefit of $414, $80 and $5, respectively)	(1,528)	(140)	104
(LOSS) INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(3,163)	273	795
Cumulative effect of change in accounting principle (net of income tax benefit of $72)	(346)		
Net (loss) income	$ (3,509)	$ 273	$ 795
BASIC (LOSS) EARNINGS PER SHARE:			
(Loss) income from continuing operations	$ (3.03)	$ 0.78	$ 1.43
Discontinued operations	(2.83)	(0.26)	0.23

Cumulative effect of accounting change	(0.65)		
BASIC (LOSS) EARNINGS PER SHARE	$ (6.51)	$ 0.52	$ 1.66
DILUTED (LOSS) EARNINGS PER SHARE:			
(Loss) income from continuing operations	$ (3.03)	$ 0.77	$ 1.39
Discontinued operations	(2.83)	(0.26)	(0.20)
Cumulative effect of accounting change	(0.65)		
DILUTED (LOSS) EARNINGS PER SHARE	$ (6.51)	$ 0.51	$ 1.59

See notes to consolidated financial statements.

THE AES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(Amounts in Millions)		
OPERATING ACTIVITIES:			
Net (loss) income	$ (3,509)	$ 273	$ 795
Adjustments to net (loss) income:			
Cumulative effect of change in accounting principle	418		
Depreciation and amortization continuing and discontinued operations	837	859	697
Loss (gain) from sale of investments and asset impairment expense	1,600	(18)	(143)
Goodwill impairment expense	612		
Loss on disposal and impairment write-down associated with discontinued operations	784	193	27
Provision for deferred taxes	(315)	47	(2)
Minority interest (earnings) expense	(34)	103	120
Foreign currency transaction losses	456	30	4
Loss (earnings) of affiliates, net of dividends	285	(140)	(320)
Other	16	(61)	(56)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	128	712	(270)
Decrease (increase) in inventory	129	(10)	(56)
Increase in prepaid expenses and other current assets	(301)	(34)	(156)
Decrease (increase) in other assets	(160)	295	(132)
(Decrease) increase in accounts payable	286	(125)	257
(Decrease) increase in accrued interest	98	(148)	126
Increase (decrease) in accrued and other liabilities	73	(368)	