

AES CORPORATION  
Form 424B2  
June 18, 2003

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Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-64572

Prospectus Supplement  
(to Prospectus Dated July 18, 2001)

**43,000,000 Shares**

## THE AES CORPORATION

### Common Stock

We are offering all of these shares of common stock and will receive all of the proceeds of this offering.

Our common stock is listed on the New York Stock Exchange under the symbol "AES". On June 17, 2003, the closing price for our common stock on that exchange was \$7.39 per share.

**See "Risk Factors" beginning on page S-9 of this prospectus supplement to read about certain factors you should consider before buying our common stock.**

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Initial public offering price	\$ 7.0000	\$ 301,000,000
Underwriting discount	\$ 0.2275	\$ 9,782,500
Proceeds, before expenses, to AES	\$ 6.7725	\$ 291,217,500

We have granted the underwriters the right to purchase up to an additional 6,450,000 shares of common stock to cover over-allotments. If the over-allotment option is exercised in full, we will receive aggregate proceeds before expenses of \$334,900,125.

The underwriters expect to deliver the shares in New York, New York on June 23, 2003.

*Joint Book-Running Lead Managers*

**Banc of America Securities LLC**

**Lehman Brothers**

**Citigroup**

**Deutsche Bank Securities**

**UBS Investment Bank**

**Credit Lyonnais Securities (USA) Inc.**  
**SG Cowen**

June 17, 2003

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of the dates thereof.

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**SUMMARY**

*The following information is qualified entirely by, and should be read in conjunction with, the more detailed information appearing elsewhere in and incorporated by reference into this prospectus supplement and the accompanying prospectus. Unless the context otherwise requires, the terms "AES," "we," "our," "us," and "the Company" refer to The AES Corporation, including all of its subsidiaries and affiliates.*

**The AES Corporation**

The AES Corporation, founded in 1981, is a leading global power company. Our goal is to help meet the world's need for electric power in ways that benefit all of our stakeholders, to build long-term value for our shareholders, and to assure sustained performance and viability for our owners, employees and other individuals and organizations who depend on us.

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AES participates primarily in four lines of business: contract generation, competitive supply, large utilities and growth distribution.

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

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

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

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are sensitive to changes in economic growth, abnormal weather conditions affecting their market and regulatory changes.

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

### Senior Secured Notes Offering

On May 8, 2003, we completed a \$1.8 billion private placement of second priority senior secured notes. The second priority senior secured notes were issued in two tranches: \$1.2 billion aggregate principal amount of 8<sup>3</sup>/<sub>4</sub>% second priority senior secured notes due 2013 and \$600 million aggregate principal amount of 9% second priority senior secured notes due 2015. The net proceeds were or will be used to (i) repay \$475 million of debt outstanding under our senior secured credit facilities, (ii) to repurchase approximately \$1.1 billion aggregate principal amount of our senior notes pursuant to a tender offer, (iii) to repurchase approximately \$104 million aggregate principal amount of our senior subordinated notes pursuant to a tender offer and (iv) for general corporate purposes, which may include repurchasing other outstanding securities. We also amended our senior secured credit facilities to permit the private placement and tender offer described above and to provide certain additional changes under the covenants contained therein.

### Recent Developments

The following sections reflect recent material developments that have occurred since the filing of our Form 10-Q for the three months ended March 31, 2003.

#### *Asset sales*

AES has announced a number of strategic initiatives designed to decrease its dependence on access to the capital markets, strengthen its balance sheet, reduce the financial leverage at the parent company and improve short-term liquidity. One of these initiatives involves the sale of all or part of certain of the Company's subsidiaries. During 2002, the Company announced agreements to sell AES NewEnergy, CILCORP, AES Mt. Stuart, and AES Ecogen for net equity proceeds of approximately \$819 million. The NewEnergy transaction closed in September 2002, CILCORP and AES Mt. Stuart closed in January 2003 and AES Ecogen closed in February 2003. Additionally, the Company has reached agreements to sell 100% of Songas Limited and AES Kelvin (Pty.) Ltd, two generation businesses in Africa, for net equity proceeds of approximately \$116 million. These transactions are expected to close in early or mid-2003. In January 2003, the Company announced the sale of Mountainview for \$30 million with another \$20 million payment contingent on the achievement of project specific milestones. This transaction closed in March 2003. Additionally, the Company announced in March 2003, agreements to sell 100% of its ownership interest in two generation businesses in Bangladesh (AES Haripur Private Limited ("Haripur") and AES Meghnaghat Limited ("Meghnaghat")) and 32% of its ownership interest in AES Oasis Limited ("AES Oasis"), which includes two electric generation development projects and desalination plants in Oman and Qatar (AES

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Barka and AES Ras Laffan, respectively), and the oil-fired generating facilities, AES LalPir and AES PakGen in Pakistan. Proceeds from the sales of Haripur and Meghnaghat are expected to be approximately \$127 million in cash plus assumption of debt, subject to certain closing adjustments. Cash proceeds from the sale of the minority interest in AES Oasis will be approximately \$150 million. Completion of this sale is subject to certain conditions, including government and lender approvals. The Company continues to evaluate which additional businesses it may sell. However, there can be no guarantee that the proceeds from such sales transactions will cover the entire investment in such subsidiaries. Depending on which businesses are eventually sold, the entire or partial sale of any subsidiary may change the current financial characteristics of the Company's portfolio and results of operations, and in the future may impact the amount of recurring earnings and cash flows the Company would expect to achieve. In addition, any changes in the Company's portfolio due to asset sales or the resolution of a number of the Company's businesses currently under restructuring could also impact certain of the Company's various regulatory approvals for certain of its projects. In such event, the Company could address such impact either through petitions for other regulatory approvals, the sale of part or all of certain businesses, or the acquisition of other assets.

#### *Brazil*

*Eletropaulo.* AES has owned an interest in the Eletropaulo operating company since April 1998. The Company began consolidating Eletropaulo in February 2002 when AES Elpa acquired a controlling interest in the business. AES financed a significant portion of the acquisition of Eletropaulo, including both common and preferred shares, through loans and deferred purchase price financing arrangements provided by the National Development Bank of Brazil ("BNDES") and its wholly owned subsidiary, BNDES Participacoes Ltda. ("BNDESPAR"), to AES Elpa and AES Transgas, respectively. All of the common shares of Eletropaulo owned by AES Elpa are pledged to BNDES to secure the AES Elpa debt and all of the preferred shares of Eletropaulo owned by AES Transgas and AES Cemig Empreendimentos II, Ltd. (which owns approximately 7.4% of Eletropaulo's preferred shares, representing 4.4% economic ownership of Eletropaulo) are pledged to BNDESPAR to secure AES Transgas debt. AES has pledged its share of the proceeds in the event of the sale of certain of its businesses in Brazil, including Sul, Uruguiana, Eletronet and AES Communications Rio, to secure the indebtedness of AES Elpa to BNDES. The interests underlying the Company's investments in Uruguiana, AES Communications Rio and Eletronet have also been pledged as collateral to BNDES under the AES Elpa loan.

As of March 31, 2003, Eletropaulo had approximately \$1.4 billion of outstanding indebtedness and AES Elpa and AES Transgas had approximately \$606 million and \$620 million of outstanding indebtedness to BNDES and BNDESPAR, respectively. Due, in part, to the effects of power rationing, the decline of the value of the Brazilian real in U.S. dollar terms in 2001 and 2002 and the lack of access to the international capital markets, Eletropaulo, AES Elpa and AES Transgas continue to face significant near-term debt payment obligations that must be extended, restructured, refinanced or repaid. As a result of AES Elpa's and AES Transgas' failure to pay amounts due under the financing arrangements, BNDES has the right to call due all of AES Elpa's outstanding obligation with BNDES, and BNDESPAR has the right to call due all of AES Transgas' outstanding obligation with BNDESPAR. The default on the BNDES loan could also result in a cross-default to a BNDES loan in connection with our investment in Companhia Energetica de Minas Gerais ("CEMIG"). In addition, as a result of a cross default provision, at March 31, 2003 BNDES has the right to call due approximately \$234 million loaned to Eletropaulo under the program in Brazil established to alleviate the effects of rationing on electricity companies. Due to BNDES' right of acceleration and existing payment, financial

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covenant and other defaults under the Eletropaulo loan agreements, Eletropaulo's commercial lenders have the right to call due approximately \$753 million of indebtedness as of March 31, 2003. Due to a cross-payment default provision, Eletropaulo also faces default on an additional \$99 million of indebtedness, however, Eletropaulo received a waiver with respect to such indebtedness until

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September 15, 2003. At March 31, 2003, Eletropaulo, AES Elpa and AES Transgas had a combined \$2.3 billion of debt classified as current on the consolidated balance sheet.

Eletropaulo, AES Elpa and AES Transgas are in negotiations with debt holders, BNDES and BNDESPAR, to seek resolution of these issues, during the course of which additional payment and other defaults may occur. There can be no assurance that these negotiations will be successful. If the negotiations are not concluded satisfactorily, Eletropaulo would face an increased risk of intervention by the Brazilian National Electric Energy Agency ("ANEEL"), loss of its concession and of bankruptcy, resulting in an increased risk of loss of AES's investment in Eletropaulo. Dividend restrictions applicable to Eletropaulo are expected to reduce substantially the ability of Eletropaulo to pay dividends. In addition, the refinancing agreement entered into with BNDES in June 2002 provides for Eletropaulo to pay directly to BNDES any dividends in respect of the shares held by AES Elpa, AES Transgas and CEMIG. On April 30, 2003, BNDESPAR took preliminary steps to foreclose on the preferred shares of Eletropaulo held by AES Transgas and CEMIG. If such foreclosure were to occur, it would result in a loss and a corresponding write-off of a portion or all of our investment in Eletropaulo.

During the fourth quarter of 2002, we recorded a pre-tax impairment charge of approximately \$756 million at Eletropaulo. This charge was taken to reflect the reduced carrying value of certain assets, including goodwill, primarily resulting from slower than anticipated recovery of pre-rationing electricity consumption levels and lower electricity prices due to devaluation of foreign exchange rates. Our total investment associated with Eletropaulo as of March 31, 2003 was approximately negative \$1.0 billion. AES may have to write-off additional assets of Eletropaulo, AES Elpa or AES Transgas if no satisfactory resolution is reached.

On May 20, 2003, Eletropaulo received a letter from the president of the Mines and Energy Commission of the House of Representatives of the National Congress. The letter requested that Eletropaulo attend a public hearing at the National Congress to provide information concerning facts in connection with Eletropaulo's privatization. No other specificity regarding the information sought by the Commission was provided in the May 20 letter. On May 28, 2003, the public hearing was postponed until June 12, 2003. On June 12, 2003, a representative of Eletropaulo attended the public hearing as requested by the Commission and discussed various issues regarding the electricity market and privatization.

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.

*Sul.* AES Sul Distribuidora Gaucha de Energia S.A. ("Sul") and AES Cayman Guaiba, a subsidiary of the Company that owns the Company's interest in Sul, are facing near-term debt payment obligations that must be extended, restructured, refinanced or paid. Sul had outstanding debentures of \$55 million, at the March 31, 2003 exchange rate, that were restructured on December 1, 2002. The restructured debentures have partial interest payments due in June 2003 and December 2003 and principal payments due in 12 equal monthly installments commencing on December 1, 2003. On January 20, 2003 Sul and AES Cayman Guaiba signed a letter agreement with the agent for the banks under the \$300 million AES Cayman Guaiba syndicated loan for the restructuring of the loan. A \$30 million principal payment due on January 24, 2003 under the syndicated loan was waived by the lenders through April 24, 2003 and has not been paid. While the lenders have not agreed to extend any additional waivers, they have not exercised their rights under the \$50 million AES parent guarantee and have indicated their willingness to complete satisfactory final documentation in respect of the restructuring of such loan. There can be no assurance, however, that a restructuring of this loan will be

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completed. Our total investment associated with Sul as of March 31, 2003 was approximately \$157 million.

*CEMIG.* CEMIG, an equity method affiliate of AES, received a loan from BNDES to finance its investment in CEMIG, and the balance, including accrued interest, outstanding on this loan is approximately \$717 million as of March 31, 2003. Approximately \$88 million of principal and interest, of which \$57 million represents our share, was scheduled to be repaid in May 2003. CEMIG was not able to repay the amount due and has not yet reached an agreement to refinance or extend the maturities of the amounts due. BNDES may choose to seize the shares held as collateral. Additionally, the existing default on the debt used to finance the acquisition of CEMIG has resulted in a cross default to the BNDES

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debt used to finance the acquisition of Eletropaulo and the BNDES rationing loan. At March 31, 2003, our total investment associated with CEMIG was negative.

*May 29, 2003 Eletronet Bankruptcy Court Order.* In the Rio de Janeiro bankruptcy court proceedings for Eletronet, a company owned 51% by AES Bandeirantes Empreendimentos Ltda. (an entity formerly owned by us) ("AES Bandeirantes") and 49% by Lightpar (a subsidiary of state-owned Eletrobras), the judge, without a hearing, granted the request of the bankruptcy trustee for a preliminary injunction to attach the common and preferred shares of Eletropaulo held by AES Elpa and AES Transgas, respectively, and the common shares of Tiete held by AES Tiete Empreendimentos Ltda. ("TE"). AES Elpa, AES Transgas and TE are our indirect subsidiaries, but are wholly separate corporate entities from each other as well as AES Bandeirantes. The stated purpose of the bankruptcy court's order was to assure the effectiveness of any future decision finding AES Bandeirantes responsible for Eletronet's obligations. We believe there is no legal basis for the preliminary injunction.

*Other Regulatory Matters.* In 2003 Brazil entered a major round of tariff resets. Eletropaulo's tariff reset process is expected to be concluded by July 4, 2003. On May 26, 2003, ANEEL released a preliminary proposed tariff increase of 9.62% for Eletropaulo. A number of issues remain unresolved with respect to the methodologies to be utilized in the tariff reset process, certain of which have been challenged by the electric distribution companies in the Brazilian courts. In addition, on April 4, 2003, the Brazilian government issued a decree postponing for a 1-year period, the tracking account tariff increases. According to this decree, the passing through to tariffs of the amounts accumulated on the tracking account for the distribution concessionaires which had been scheduled to occur from April 8, 2003 to April 7, 2004 will be postponed to the subsequent year's tariff adjustment. As a result, in the case of Eletropaulo, the pass-through of the tracking account balance, which would have occurred on July 4, 2003, has now been postponed to July 4, 2004. This amount, to be accumulated in the next twelve months, shall be recovered over a 24-month period rather than the usual 12-month period. The eventual resolution of these issues could materially adversely affect the results of operations of the electricity distribution companies. For these reasons, we are unable to predict the ultimate effect of the tariff reset process on Eletropaulo.

On April 19, 2003, Sul was granted a rate increase by ANEEL, the regulatory body in Brazil responsible for tariff changes. Exclusive of the tracking account adjustment, the tariff revision will amount to a 16.38% increase in revenue without considering any growth or change in customer mix. Sul is appealing several items from the tariff reset process on various levels. Should all appeals fail, the 16.38% increase will remain in effect.

In addition, the Brazilian government has announced its intention to review the existing electric sector model. The Ministry of Mines and Energy has formed a group for the purpose of designing a new model, the results of which have not been officially disclosed.

### *Venezuela*

At March 31, 2003, EDC was not in compliance with two of its net worth covenants on \$131 million and \$9 million of non-recourse debt primarily due to the impact of the devaluation of the

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Venezuelan Bolivar. EDC has received a written waiver on the \$131 million debt obligation which is effective through September 30, 2003, and EDC has received a written waiver on the \$9 million debt obligation, which is effective through June 30, 2003. Of the above-mentioned debt, approximately \$102 million is classified as non-recourse debt long term. The remainder is classified as non-recourse debt current portion. At March 31, 2003, our total investment in EDC was approximately \$1.8 billion.

### *United Kingdom*

On December 12, 2002 AES Drax Power Limited ("Drax") entered into an agreement (the "Standstill Agreement") for the purpose of providing Drax and its senior creditors with a period of stability during which discussions regarding a consensual restructuring could take place. Pursuant to the terms of the Standstill Agreement, on March 14, 2003 Drax presented to the steering committee (the "Steering Committee") representing the syndicate of banks (the "Senior Lenders"), which financed the Eurobonds issued by Drax to finance the acquisition of the Drax power plant, and the ad hoc committee (the "Ad Hoc Committee" and, together with the Steering Committee, the "Senior Creditors Committee") formed by holders of Drax's Senior Bonds, proposals for a restructuring plan and an updated business plan. On May 22, 2003, Drax was informed by the Senior Creditors Committee of a counterproposal for a restructuring plan (the "Senior Creditors' Counterproposal"). Drax reviewed and considered the terms of the Senior Creditors' Counterproposal and conducted detailed discussions with the Senior Creditors Committee about the terms for a restructuring. Although the full terms of a consensual restructuring remain to be agreed, based on negotiations through May 30, 2003, an agreement in principle was reached with the Senior Creditors Committee and will form the basis for further discussions during an extended standstill period.

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In order to maintain stability during a period in which further discussions regarding consensual restructuring took place, Drax sought the requisite consents of the holders of its Senior Bonds and its Senior Lenders to enter into a new standstill agreement as the current Standstill Period terminated on May 31, 2003. Accordingly, Drax reached an agreement in principle with the Senior Creditors' Committee regarding the terms of a further standstill agreement (the "Further Standstill Agreement"). The Further Standstill Agreement became effective on June 9, 2003 and will expire on June 30, 2003 unless terminated earlier or extended in accordance with its terms. The Standstill Agreement and the Further Standstill Agreement provide temporary and/or permanent waivers by certain of the senior lenders of defaults that have occurred or could occur up to the expiration of the standstill period on June 30, 2003 including a permanent waiver resulting from termination of the Hedging Agreement.

Since certain of Drax's forward looking debt service cover ratios as of June 30, 2002 were below required levels, Drax, was not able to make any cash distributions to Drax Energy, the holding company high-yield note issuer, at that time. Drax expects that the ratios, if calculated as of December 31, 2002, would also have been below the required levels at December 31, 2002 since any improvement in the ratios for the period ended December 31, 2002 would have required a favorable change in the forward curve for electricity prices during the period from June 30, 2002 to December 31, 2002 and such favorable change did not occur. In addition, as part of the Standstill Agreement, Drax deferred a certain portion of the principal payments due to its Senior Lenders and the debt service coverage ratios as of December 31, 2002 were not calculated by the bank group. As a consequence of the foregoing, Drax was not permitted to make any distributions to its parent company Drax Energy. As a result, Drax Energy was unable to make the full amount of the interest payment of \$11.5 million and £7.6 million due on its high-yield notes on February 28, 2003. Drax Energy's failure to make the full amount of the required interest payment constitutes an event of default under its high-yield notes, although pursuant to intercreditor agreements the holders of the high-yield notes had no enforcement rights until 90 days following the delivery of certain notices under the intercreditor arrangements. The high yield note holders delivered a notice of acceleration on May 19, 2003 and delivered the required notices under the intercreditor arrangements on May 28, 2003. We have written off our investment in Drax.

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### The Offering

Common stock offered	43,000,000 shares
Common stock to be outstanding after the offering	611,889,726 shares <sup>1</sup>
Use of proceeds	We are obligated to use \$162.5 million of the net proceeds from this offering to repay (i) \$75 million of the secured equity-linked loan due 2004 issued by AES New York Funding LLC and (ii) \$87.5 million of our tranche C term loan facility. We are obligated to use one half of the net proceeds from this offering in excess of \$162.5 million to repay our obligations under our senior secured credit facilities other than our revolving credit facility. We may seek a waiver to postpone or eliminate our obligation to prepay our senior secured credit facilities (including our tranche C term loan facility) with the proceeds of this offering as we are also exploring the possibility of refinancing our senior secured credit facilities with new facilities. We intend to use any net proceeds remaining from this offering (after we make any required prepayments) for general corporate purposes, including potential repayment or repurchases of our debt although we have not yet identified which debt we would repay or repurchase.

New York Stock Exchange symbol                      AES

(1) The number of shares of common stock to be outstanding after this offering is based on 568,889,726 shares outstanding as of March 31, 2003. The number of shares of common stock offered and to be outstanding after this offering does not include:

6,450,000 additional shares of common stock that the underwriters have a right to purchase from us within 30 days after the date of this prospectus supplement to cover over-allotments;

41,442,089 shares issuable upon the exercise of stock options outstanding as of March 31, 2003 and having a weighted average exercise price of \$13.59 per share; and

## RISK FACTORS

*Investing in our common stock involves risks. You should carefully consider the risks described below, as well as all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before investing in the securities.*

### Risks Relating to Our Business

#### *Our high degree of leverage could affect our ability to fulfill our obligations*

We had approximately \$19.5 billion of outstanding indebtedness at March 31, 2003. As a result, we might be significantly limited in our ability to meet our debt service obligations, to compete effectively or to operate successfully under adverse economic conditions. The agreements governing our indebtedness and the indebtedness of our subsidiaries limit but do not prohibit us or our subsidiaries from incurring additional indebtedness.

#### *We have significant cash requirements and limited sources of liquidity*

The AES Corporation, which refers to the AES parent company, requires cash primarily to fund:

principal repayments of debt,

interest and preferred dividends,

construction commitments,

other equity commitments,

taxes, and

AES parent company overhead.

AES parent company's principal sources of liquidity are:

dividends and distributions from its subsidiaries,

proceeds from debt and equity financings at the parent company level, and

proceeds from asset sales.

For a more detailed discussion of our cash requirements and sources of liquidity, please see "Item 7. Discussion and Analysis of Financial Condition and Results of Operations-Capital Resources and Liquidity" in our Annual Report on Form 10-K for the year ended December 31, 2002, "Item 2. Discussion and Analysis of Financial Condition and Results of Operations-Financial Position, Cash Flows and Foreign Currency Exchange Rates" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and "Item 5. Discussion and Analysis of Financial Condition and Results of Operations-Off balance sheet arrangements", "Item 5. Discussion and Analysis of Financial Condition and Results of



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Operations-Parent company liquidity" and "Item 5. Discussion and Analysis of Financial Condition and Results of Operations-Financial Position and Cash Flows" in our Current Report on Form 8-K filed on June 13, 2003.

While AES believes that these sources will be adequate to meet its needs at the parent company level 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, tariff rate adjustments, the ability of its subsidiaries to pay dividends and the timing and amount of asset sale proceeds. Any number of assumptions could prove to be incorrect and therefore we cannot assure you that these sources will be available when needed or that AES's actual cash requirements will not be greater than expected. In addition, the AES parent company's cash flow may not be sufficient to repay at maturity all of the principal of our senior secured credit facilities and outstanding debt securities and we may have to refinance such obligations. We cannot assure you that we will be successful in obtaining such refinancings.

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### ***Existing and potential future defaults by project subsidiaries could adversely affect our results of operations and financial condition***

AES attempts to finance each domestic and foreign project primarily under loan agreements and related documents which, except as noted below, require the loans to be repaid solely from the project's revenues and provide that the repayment of the loans (and interest thereon) is secured solely by the capital stock, physical assets, contracts and cash flow of that project subsidiary or affiliate. This type of financing is usually referred to as non-recourse debt or "project financing." In some project financings, AES parent company has explicitly agreed to undertake certain limited obligations and contingent liabilities, most of which by their terms will only be effective or will be terminated upon the occurrence of future events. These obligations and liabilities take the form of guarantees, indemnities, letter of credit reimbursement agreements, and agreements to pay, in certain circumstances, to project lenders or other parties. To the extent AES parent company becomes liable under such guarantees and other arrangements, distributions received by AES parent company from other projects are subject to the possibility of being utilized by AES parent company to satisfy these obligations.

At March 31, 2003, AES had approximately \$5.5 billion of recourse debt and approximately \$14 billion of non-recourse debt outstanding. At March 31, 2003, AES parent company had provided outstanding financial and performance related guarantees or other credit support commitments to or for the benefit of its subsidiaries, which were limited by the terms of the agreements, to an aggregate of approximately \$629 million (excluding those collateralized by letter-of-credit obligations discussed below). AES parent company is also obligated under other commitments, which are limited to amounts, or percentages of amounts, received by AES parent company as distributions from its project subsidiaries. These amounts aggregated \$25 million as of March 31, 2003. In addition, AES parent company has commitments to fund its equity in projects currently under development or in construction. At March 31, 2003, such commitments to invest amounted to approximately \$51 million (excluding those collateralized by letter-of-credit obligations). At March 31, 2003, AES had \$193 million in letters of credit outstanding, which operate to guarantee performance relating to certain project development activities and subsidiary operations. In addition, AES had \$3 million in surety bonds outstanding at such date.

A number of our project subsidiaries are currently in default under their outstanding indebtedness. See "Item 2. Discussion and Analysis of Financial Condition and Results of Operations Financial Position, Cash Flows and Foreign Currency Exchange Rates Project level defaults" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and "Item 5. Other Events Discussion and Analysis of Financial Condition and Results of Operations Recent Developments" in our Current Report on Form 8-K filed on June 13, 2003.

Certain other subsidiaries, including, in particular, our subsidiaries in Argentina, Brazil and Venezuela, have significant amounts of indebtedness with near term maturities. As of March 31, 2003, our Argentine, Brazilian and Venezuelan subsidiaries have approximately \$3.3 billion of indebtedness maturing prior to March 31, 2004 and there is substantial uncertainty whether these subsidiaries will be able to extend or refinance this indebtedness. While the lenders under AES's non-recourse project financings generally do not have direct recourse to the parent (other than to the extent of any credit support given by AES), defaults thereunder can still have important consequences for AES's results of operations and liquidity, including, without limitation:

reducing AES parent company's cash flows since the project subsidiary will typically be prohibited from distributing cash to AES during the pendency of any default;

triggering AES parent company's obligation to make payments under any financial guarantee, letter of credit or other credit support AES has provided to or on behalf of such subsidiary;

causing AES to record a loss in the event the lender forecloses on the assets; or

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triggering defaults in the AES parent company's outstanding debt and trust preferred instruments. For example, the AES parent company's senior secured credit facilities and outstanding senior notes, senior subordinated notes and junior subordinated notes include events of default for certain bankruptcy related events involving material subsidiaries. In addition, the AES parent company's senior secured credit facilities include events of default relating to accelerations of outstanding debt of material subsidiaries.

None of the projects that are currently in default are owned by subsidiaries that meet the applicable definition of materiality in AES parent company's senior secured credit facilities in order for such defaults to trigger an event of default or permit an acceleration under such indebtedness. However, as a result of future write down of assets, dispositions and other matters that affect 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 of such subsidiary's debt, trigger an event of default and possible acceleration of the indebtedness under AES parent company's senior secured credit facilities.

Furthermore, as a result of AES's credit ratings and the trading prices of AES's equity and debt securities, counter parties may no longer be as willing to accept general unsecured commitments by AES parent company to provide credit support. Accordingly, with respect to both new and existing commitments, AES may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace any AES credit support. AES cannot provide assurance that such counter parties will accept such guarantees in the future. In addition, to the extent AES is required and able to provide letters of credit or other collateral to such counter parties, it will limit the amount of credit available to AES to meet its other liquidity needs.

***Our competitive supply and Latin American operations represent a substantial portion of our assets and have caused and are expected to continue to cause significant volatility in our results of operations and cash flows***

The competitive supply segment of our business represented 21% and South America represented 31% of our revenues for the quarter ended March 31, 2003. Each of these areas has had and is expected to continue to have a volatile effect on our results of operations and cash flows. The competitive supply segment's volatility has resulted from volatile electricity prices, which are influenced by peak demand requirements, weather conditions, competition, market regulation, interest rate and foreign exchange rate fluctuations, electricity transmission and environmental emission constraints, the availability or prices of emission credits and fuel prices, as well as plant availability and other relevant factors. Our Latin American operations have experienced significant volatility both because of currency devaluations as well as the regulatory and economic difficulties being experienced in these countries.

***We do a significant amount of our business outside the United States which presents significant risks***

The operation, financing and development of projects outside the United States entail significant political and financial uncertainties including, without limitation, uncertainties associated with first-time privatization efforts in the countries involved, currency exchange rate fluctuations, currency repatriation restrictions, regulation of the electricity business, currency inconvertibility, tax law, political instability, changes in governmental leadership, civil unrest, and expropriation and other credit quality, liquidity or structuring issues that have the potential to cause a material impairment of the value of the project. The ability to obtain financing on a commercially acceptable non-recourse basis in developing nations has become more difficult. Even when such non-recourse financing is available, lenders may require us to make higher equity investments than historically have been the case. In addition, financing in countries with less than investment grade sovereign credit ratings may also require substantial participation by multilateral financing agencies. There can be no assurance that such financing can be obtained when needed.

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The uncertainty of the legal environment in certain countries in which we are operating, developing, or constructing could make it more difficult for us to enforce our respective rights under agreements relating to such businesses. International businesses we own may, in certain cases, be expropriated by applicable governments. Although we may have legal recourse in enforcing our rights under agreements and recovering damages for breaches thereof, there can be no assurance that any such legal proceedings will be successful or resolved in a timely manner.

***Our business is subject to substantial development uncertainties***

Certain of our subsidiaries and affiliates are in various stages of developing and constructing greenfield power plants, some but not all of which have signed long-term contracts or made similar arrangements for the sale of electricity. Successful completion depends upon overcoming substantial risks, including, but not limited to, risks relating to failures of siting, financing, construction, permitting, governmental approvals or the potential for termination of the power sales contract as a result of a failure to meet certain milestones. As of March 31, 2003, capitalized costs for projects under development and in early stage construction were approximately \$6 million. We believe that these costs are recoverable; however, we cannot assure you that any individual project will be completed and reach commercial operation. If these development efforts are not successful, we may abandon a project under development. At the time of abandonment, we would expense all capitalized development costs incurred in connection therewith and could incur additional losses associated with any related contingent liabilities.

***Our acquisitions may not perform as expected***

We have achieved a majority of our growth through acquisitions. Although each of the acquired businesses had a significant operating history at the time we acquired them, we have a limited history of owning and operating many of these businesses. In addition, most of these businesses were government owned and some were operated as part of a larger integrated utility prior to their acquisition. There can be no assurances that we will be successful in transitioning these to private ownership, that such businesses will perform as expected or that the returns from such businesses will support the indebtedness incurred to acquire them or the capital expenditures needed to develop them.

Acquisitions have placed, and in the future may place, a strain on our internal accounting and managerial controls. In addition, our acquisitions outside the United States have required, and will require, us to hire personnel with sufficient expertise in U.S. GAAP to timely and accurately comply with our reporting obligations. An inability to maintain adequate internal accounting and managerial controls and hire and retain qualified personnel could have an adverse affect on our ability to report our financial condition and results of operations.

***The performance of our generation business is dependent to a large degree on certain of our larger projects and their customers***

The nature of most of our generation plants (based on revenues) is such that each facility generally relies on one power sales contract with a single customer for the majority, if not all, of its revenues over the life of the power sales contract. The prolonged failure of any significant customer to fulfill its contractual obligations could have a substantial negative impact on these revenues. We have sought to reduce this risk in part by entering into power sales contracts with utilities or other customers of strong credit quality and by locating our plants in different geographic areas in order to mitigate the effects of regional economic downturns. No assurance can be made that we will mitigate such effects.

***Global competition is increasing and could adversely affect us***

The global power production market is characterized by numerous strong and capable competitors, many of whom may have extensive and diversified developmental or operating experience (including both domestic and international experience) and financial resources similar to or greater than ours.

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Further, in recent years, the power production industry has been characterized by strong and increasing competition with respect to both obtaining power sales agreements and acquiring existing power generation assets. In certain markets, these factors have caused reductions in prices contained in new power sales agreements and, in many cases, have caused higher acquisition prices for existing assets through competitive bidding practices. The evolution of competitive electricity markets and the development of highly efficient gas-fired power plants have also caused, or are anticipated to cause, price pressure in certain power markets where we sell or intend to sell power. There can be no assurance that the foregoing competitive factors will not have a material adverse effect on us.

***Our distribution businesses are highly regulated***

Our distribution businesses face increased regulatory and political scrutiny in the normal conduct of their operations. This scrutiny may adversely impact our results of operations to the extent that such scrutiny or pressure prevents us from reducing losses as quickly as we planned or denies us a rate increase called for by our concession agreements. In general, our distribution businesses have lower margins and are more dependent on regulation to ensure expected annual rate increases for inflation and increased power costs, among other things. There can be no assurance that these rate reviews will be granted, or occur in a timely manner.

***We are subject to significant government regulation***

Our generation business in the United States is subject to the provisions of various laws and regulations, including the Public Utility Regulatory Policies Act of 1978, as amended, commonly referred to as PURPA, and the Public Utility Holding Company Act of 1935, as amended, commonly referred to as PUHCA. PUHCA regulates public utility holding companies and their subsidiaries. We currently own one

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traditional utility company in the United States (IPL) that is a public-utility company under PUHCA and its parent holding company (IPALCO) which is exempt from registration under PUHCA. We are a utility holding company exempt from registration under Section 3(a)(5) of PUHCA. Our current exemption from PUHCA is based on our extensive foreign energy operations and holdings, which benefit from exemptions from PUHCA as foreign utility companies.

One benefit of our particular PUHCA exemption is that it allows us to own a majority of the equity interest in certain generating plants that are qualifying facilities, commonly referred to as QFs, under PURPA. PURPA provides to QFs certain exemptions from substantial federal and state legislation, including regulation as public utilities, and requires utilities to purchase power from QFs at the utilities' avoided cost of power. Currently a material portion of our domestic revenues is received from QFs. If AES were to fail to maintain its current exemption from PUHCA, it is possible that AES's QF plants would lose their QF status, unless prior to AES losing its PUHCA exemption AES is able to reduce its ownership of each QF to 50% or less of the project's equity. Any restructuring of a project subsidiary could result in, among other things, a reduced financial interest in such subsidiary, which could result in a gain or loss on the sale of the interest in such subsidiary, the removal of such subsidiary from our consolidated income tax group or our consolidated financial statements, or an increase or decrease in our results of operations.

We cannot ensure that we will be able to maintain appropriate PUHCA exemptions for all of our businesses. In the event we were unable to avoid the loss of such status for one of our plants, to avoid public utility holding company status with respect to such facility, we could apply to the U.S. Federal Energy Regulatory Commission, commonly referred to as the FERC, to obtain status as an Exempt Wholesale Generator, commonly referred to as an EWG, or could restructure the ownership of the project subsidiary. An EWG is a facility that has been determined by the FERC, to be exclusively engaged in owning or operating electric generating facilities and selling electric energy at wholesale prices. EWGs, however, are subject to broader regulation by the FERC and may be subject to state public utility commission regulation regarding non-rate matters. All of our domestic non-QF plants

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other than those owned by IPL are EWGs. Most of our EWGs also have been granted authorization by the FERC to sell wholesale power at market-based rates.

### *Electric utility industry restructuring proposals could have an adverse effect on us*

In response to increased competition in wholesale, and in some cases, retail electric markets, many U.S. utilities are seeking ways to lower their costs in order to become more competitive. These include the costs that utilities are required to pay under QF contracts. Many utilities are therefore seeking ways to lower these contract prices by renegotiating the contracts, or in some cases by litigation. The State of California and some investor owned utilities in the West have challenged contracts entered into during 2000 and 2001 in the West. Many of these have been settled, but some have been set for hearing at the FERC.

The FERC and many state utility commissions have implemented a number of proposals to restructure the electric utility industry in the United States. Such restructuring permits in many cases utility customers to choose their utility supplier in a competitive electric energy market. The FERC issued a final rule in April 1996 which requires utilities to offer wholesale customers and suppliers open access on utility transmission lines, on a comparable basis to the utilities' own use of the lines. The FERC issued another final rule in December 1999 encouraging the formation of regional transmission organizations to facilitate competitive wholesale electric markets. The FERC proposed a new regulation in August 2002 which would revise standards for "open access" electric transmission tariffs required to be filed by all transmission providers (other than those owned by certain government entities) and would set national standards for wholesale electric markets. The FERC's proposed rules are controversial, and we cannot predict whether they will be adopted or what their contents will be if adopted. Problems experienced in Western energy markets, particularly in California, during 2000 and 2001 and other factors have led some states to discontinue or roll back efforts to restructure electric markets. The FERC, however, has not indicated any inclination to roll back its efforts to improve competition in bulk power markets.

To the extent that there is increased competition at the wholesale or retail level, this may result in lower rates and less profit margin for United States electricity sellers. Prices for electricity determined in electricity spot markets can be very volatile, and the effect on us of this volatility cannot be predicted. Because of current market conditions, certain companies have reduced or eliminated their energy trading activities, which has made the wholesale electric markets in which we participate become less liquid.

The United States Congress is considering proposed legislation which would repeal the obligation under PURPA of utilities to purchase from QFs (with a "grandfather" provision for existing QF contracts) and repeal the limitation on the percentage ownership of QFs that may be held by utilities. Congress also is considering proposed legislation to repeal most of the substantive provisions of PUHCA. Repeal of PUHCA would allow power generators and vertically integrated utilities to acquire retail utilities in the United States that are geographically widespread,

as opposed to the current limitations of PUHCA which require that retail electric systems owned by a single holding company be capable of physical interconnection. In addition, holding companies that now are required to register under PUHCA would be free to acquire non-utility businesses, which they may not do now, with certain limited exceptions. In the event that PUHCA is repealed, competition would likely increase. Repeal or amendment of PURPA and/or PUHCA may or may not be enacted. The effect of any such repeal or amendment cannot be predicted, although any such repeal or amendment could have a material adverse effect on us.

***We are subject to material litigation and regulatory proceedings***

We and our affiliates are parties to material litigation and regulatory proceedings. Investors should review the descriptions of such matters contained in our Annual, Quarterly and Current Reports filed with the Securities and Exchange Commission and incorporated by reference herein. There can be no

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assurances that the outcome of such matters will not have a material adverse effect on our consolidated financial position.

***Our business is subject to stringent environmental regulations***

Our activities are subject to stringent environmental regulation by federal, state, local and foreign governmental authorities. These regulations generally involve emissions into the air, effluents into the water, the use of water, wetlands preservation, waste disposal, endangered species, and noise regulation, among others. Failure to comply with such regulations or to obtain any necessary environmental permits pursuant to such regulations could result in fines or other sanctions. Environmental laws and regulations affecting power generation and distribution are complex and have tended to become more stringent over time. Congress and other domestic and foreign governmental authorities have either considered or implemented regulatory proposals to restrict or tax certain emissions, particularly those involving air and water emissions. See the various descriptions of such regulatory proposals contained in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission and incorporated by reference herein. These proposals have imposed, and could impose in the future, additional costs on the operation of our power plants. We have made and will continue to make significant capital and other expenditures to comply with these and other environmental laws and regulations. There can be no assurance that we would be able to recover all or any increased environmental costs from our customers or that our business, financial condition or results of operations would not be materially and adversely affected by such expenditures or changes in domestic or foreign environmental laws and regulations.

***Shares eligible for future sale***

From time to time, our subsidiaries incur indebtedness that is secured by a pledge of shares of our common stock held by that subsidiary. Specifically, AES has a secured equity-linked loan ("SELLS Loan") of \$225 million due in 2004 issued by AES New York Funding, LLC. The SELLS Loan is secured by, among other things, approximately 218 million shares of common stock of AES held in the name of AES New York Funding, LLC. AES has no obligation to deliver any additional shares of common stock as collateral to secure the SELLS Loan. Upon the occurrence of an event of default under the SELLS Loan, the lenders are entitled to accelerate the maturity of the loan and to foreclose upon and sell the collateral, including the shares of common stock. The 218 million shares of common stock that secured the SELLS Loan are not considered outstanding for reporting purposes. The sale of a substantial number of such shares in the public market upon any foreclosure or otherwise could have an adverse effect on the market price of our common stock.

***Our stock is volatile.***

The price of our common stock has fluctuated substantially recently. Based on the trading history of our common stock and the nature of the market for publicly traded securities of companies in our industry, we believe that some factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially. The fluctuations could occur from day-to-day or over a long period of time. The factors that may cause such fluctuations include the items discussed in the risk factors described herein and in "Item 1 Business Cautionary Statements and Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2002.

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**SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

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This prospectus supplement and the accompanying prospectus include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions related to AES, including, those set forth under the caption "Risk Factors" in this prospectus supplement and those set forth under the caption "Cautionary Statements and Risk Factors" in our annual report on Form 10-K which is incorporated by reference herein.

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

### USE OF PROCEEDS

The net proceeds (before expenses) from this offering of common stock are estimated to be \$291,217,500 million (\$334,900,125 million if the underwriter's overallotment option is exercised in full). We are obligated to use \$162.5 million of the net proceeds from this offering to repay (i) \$75 million of the secured equity-linked loan due 2004 issued by AES New York Funding LLC and (ii) \$87.5 million of our tranche C term loan facility. We are obligated to use one half of the net proceeds from this offering in excess of \$162.5 million to repay our obligations under our senior secured credit facilities other than our revolving credit facility. We may seek a waiver to postpone or eliminate our obligation to prepay our senior secured credit facilities (including our tranche C term loan facility) with the proceeds of this offering as we are also exploring the possibility of refinancing our senior secured credit facilities with new facilities. We intend to use any net proceeds remaining from this offering (after we make any required prepayments) for general corporate purposes, including potential repayment or repurchases of our debt although we have not yet identified which debt we would repay or repurchase. For a description of our outstanding debt see Note 9 to our consolidated financial statements as of and for the year ended December 31, 2002, included in our Current Report on Form 8-K filed on June 13, 2003.

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### COMMON STOCK PRICE RANGES AND DIVIDENDS

Our common stock is traded on the New York Stock Exchange under the symbol "AES". The following table sets forth for the periods indicated the intra-day high and low sale prices for the common stock as reported on the Composite Tape.

	<u>High</u>	<u>Low</u>
2001		
First Quarter	\$ 60.15	\$ 41.30
Second Quarter	52.25	39.95
Third Quarter	44.50	12.00
Fourth Quarter	17.80	11.60
2002		
First Quarter	\$ 17.92	\$ 3.40
Second Quarter	9.21	3.47
Third Quarter	5.48	1.16
Fourth Quarter	3.99	0.92
2003		
First Quarter	\$ 4.30	\$ 2.63
Second Quarter (through June 13, 2003)	8.49	3.51

No cash dividends have been paid on our common stock since December 22, 1993. Under the terms of our senior secured credit facilities entered into with a commercial bank syndicate, we are not allowed to pay cash dividends. In addition, we are precluded from paying cash dividends on our common stock under the terms of a guaranty to the utility customer in connection with the AES Thames project in the event certain net worth and liquidity tests of the Company are not met.

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

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**MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR  
NON-U.S. HOLDERS OF COMMON STOCK**

The following is a general discussion of the material U.S. federal income and estate tax consequences of the ownership and disposition of common stock by a beneficial owner thereof that is a "Non-U.S. Holder" and that does not own, and is not deemed to own, more than 5% of the Company's common stock. A "Non-U.S. Holder" is a person or entity that, for U.S. federal income tax purposes, is a non-resident alien individual, other than certain former citizens and residents of the United States subject to tax as expatriates; a foreign corporation; or a foreign estate or trust.

A "Non-U.S. Holder" does not include an individual who is present in the United States for 183 days or more in the taxable year of disposition and is not otherwise a resident of the United States for U.S. federal income tax purposes. Such an individual is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of common stock.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated or proposed under the Code, published rulings and administrative and judicial interpretations of the Code and Treasury Regulations, all as of the date hereof, all of which are subject to change, including changes with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders (including Non-U.S. Holders who are pass-through entities) in light of their particular circumstances and does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction. This discussion also does not address any tax consequences to foreign persons who own common stock indirectly through domestic partnerships or other domestic pass-through entities. Prospective holders are urged to consult their tax advisors with respect to the particular tax consequences to them of owning and disposing of our common stock, including the consequences under the laws of any state, local or foreign jurisdiction.

**Dividends**

Subject to the discussion below, dividends paid to a Non-U.S. Holder of common stock generally will be subject to U.S. Federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. In order to obtain a reduced rate of withholding, a Non-U.S. Holder will be required to provide an Internal Revenue Service Form W-8BEN certifying its entitlement to benefits under a treaty.

There will be no withholding tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States if a certification on a prescribed form stating that the dividends are so connected is provided. Instead, the effectively connected dividends will be subject to regular U.S. federal income tax in the same manner as if the Non-U.S. Holder were a U.S. resident unless a specific treaty exemption applies. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional "branch profits tax" which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of the non-U.S. corporation's effectively connected earnings and profits, subject to certain adjustments.

Generally, we must report to the Internal Revenue Service the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or certain other agreements, the Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid to a Non-U.S. Holder at an address within the United States may be subject to backup withholding currently imposed at a rate of 28% if the Non-U.S. Holder fails to establish that it

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is entitled to an exemption or to provide a correct taxpayer identification number and certain other information to us or our paying agent.

**Gain On Disposition Of Common Stock**

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of common stock unless (1) the gain is effectively connected with a trade or business of such holder in the United States, subject to an applicable treaty providing otherwise, or (2) we are or have been a U.S. real property holding corporation, as defined below, at any time within the five-year period preceding the disposition or the Non-U.S. Holder's holding period, whichever period is shorter, and our common stock has

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ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs. The Company believes that it is not, and does not anticipate becoming, a U.S. real property holding corporation.

### Information Reporting Requirements And Backup Withholding On Disposition Of Common Stock

Information returns will be filed with the Internal Revenue Service in connection with payments of dividends and the proceeds from a sale or other disposition of common stock. You may have to comply with certification procedures to establish that you are not a United States person in order to avoid information reporting and backup withholding tax requirements. The certification procedures required to claim a reduced rate of withholding under a treaty will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, *provided* that the required information is furnished to the Internal Revenue Service in a timely manner.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the Internal Revenue Service.

### U.S. Federal Estate Tax

An individual Non-U.S. Holder who at death is treated as the owner of, or has made certain lifetime transfers of, an interest in the common stock will be required to include the value of the stock in his or her gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

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## UNDERWRITING

We intend to offer the shares of common stock through the underwriters named below (the "underwriters"), for which Banc of America Securities LLC and Lehman Brothers are acting as joint book-running managers (the "lead managers"). Subject to the terms and conditions contained in an underwriting agreement between us and the underwriters (the "underwriting agreement"), we have agreed to sell to the underwriters and the underwriters severally have agreed to purchase from us the shares of common stock listed opposite their names below.

Underwriter	Number of Shares
Banc of America Securities LLC	14,190,000
Lehman Brothers	14,190,000
Citigroup Global Markets Inc.	4,300,000
Deutsche Bank Securities, Inc.	4,300,000
UBS Securities LLC	4,300,000
Credit Lyonnais Securities (USA) Inc.	860,000
SG Cowen Securities Corporation	860,000
Total	43,000,000

The underwriting agreement provides that the obligation of the underwriters to purchase our common stock included in this offering is subject to approval of certain legal matters by counsel and other conditions. The underwriters are obligated to take and pay for all of the shares of common stock (other than those covered by the overallotment option described below) if any are taken.

The underwriters have advised us that they propose initially to offer such shares of common stock to the public at the price to public set forth on the cover page of this prospectus supplement. After the initial public offering, the public offering price may be changed.

We have granted to the underwriters an option, exercisable for 30 days from the date hereof, to purchase up to an additional 6,450,000 shares of common stock at the price to public less the underwriting discount set forth on the cover page of this prospectus supplement. The underwriters may exercise such option to purchase solely for the purpose of covering overallotments, if any, made in connection with the



offering.

We and certain of our directors and executive officers are agreeing that, with certain exceptions (including issuances by us as consideration for acquisitions or as collateral for loans related to acquisitions or pursuant to the exercise or conversion of or in exchange for outstanding securities), without the prior written consent of the underwriters, we and certain of our directors and executive officers will not, directly or indirectly, offer to sell, contract to sell, sell or otherwise dispose of, or announce the offering of any shares of common stock or securities convertible into or exchangeable or exercisable for shares of common stock for a period of 60 days after the date of the underwriting agreement, provided that, beginning 30 days after the date of the underwriting agreement, such officers and directors may sell limited amounts of shares per day up to a total of 500,000 shares (taken in the aggregate and as a group) and may enter into a plan designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934 (provided that the amount of shares sold pursuant to such plan during such period complies with the foregoing 500,000 share limitation).

We have agreed to indemnify the underwriters against, or contribute to payments that the underwriters may be required to make in respect of, certain liabilities, including liabilities under the Securities Act of 1933, as amended.

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The lead managers may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids or purchasers for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934:

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum;

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the lead managers to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the lead managers will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

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The prospectus supplement and the accompanying prospectus (hereinafter, the "prospectus") in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the lead managers on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of

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which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Because more than 10% of the proceeds of this offering, not including underwriting compensation, will be received by entities who are affiliated with National Association of Securities Dealers, Inc. members who are participating in this offering, this offering is being conducted in compliance with the NASD Conduct Rule 2710(c)(8). Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, as a bona fide independent market (as defined in the NASD Conduct Rules) exists in the common shares. The underwriters have informed AES that they will not confirm sales to accounts over which they exercise discretionary authority without the prior written approval of the customer.

We estimate that the total expenses of this offering payable by us will be \$300,000.

The common stock is listed on the New York Stock Exchange under the symbol "AES".

From time to time in the ordinary course of their respective businesses, the underwriters and their affiliates have engaged in and may in the future engage in commercial and/or investment banking transactions with AES and our affiliates, for which they have or will receive customary fees for such services.

### LEGAL MATTERS

The validity of the shares offered hereby and certain matters relating thereto and certain U.S. federal income taxation matters will be passed upon for us by Davis Polk & Wardwell, New York, New York. Certain legal matters will be passed upon for the underwriters by Shearman & Sterling LLP, New York, New York. From time to time, Shearman & Sterling LLP represents The AES Corporation and its subsidiaries.

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### PROSPECTUS

**\$5,000,000,000**

## **The AES Corporation Debt Securities**

**Preferred Stock  
Depository Shares  
Common Stock  
Stock Purchase Contracts  
Stock Purchase Units  
Warrants**

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We will offer debt securities, preferred stock, depository shares, common stock, stock purchase contracts, stock purchase units or warrants from time to time. Specific terms of these securities will be provided in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest.

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**Our common stock trades on the New York Stock Exchange under the symbol "AES".**

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**Investing in these securities involves certain risks. See "Risk Factors" beginning on page 3.**

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These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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**The date of this prospectus is July 18, 2001.**

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission utilizing a "shelf" registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$5,000,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus

supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information."

## RISK FACTORS

*Purchasers of the Securities should read this entire Prospectus carefully. Ownership of the Securities involves certain risks. The following factors should be considered carefully in evaluating AES and its business before purchasing the Securities offered by this Prospectus.*

*Our high degree of leverage could affect our ability to fulfill our obligations under our securities.* We had approximately \$20,816 million of outstanding indebtedness at March 31, 2001. As a result, we might be significantly limited in our ability to meet our debt service obligations, to finance the acquisition, development or completion of additional projects, to compete effectively or to operate successfully under adverse economic conditions. As of March 31, 2001, we had a consolidated ratio of total debt to total book capitalization (including current debt) of approximately 71%.

*Holders of our Debt Securities will be subordinated to many of our other creditors.* The Senior Subordinated Debt Securities will be subordinated to all Senior Debt. The Junior Subordinated Debt Securities will be subordinated to all of our Senior and Senior Subordinated Debt. As of March 31, 2001, we had approximately \$3,802 million in aggregate principal amount of Senior Debt (which includes \$542 million of letters of credit) and \$4,871 million in aggregate principal amount of Senior and Senior Subordinated Debt.

Upon any payment or distribution of assets to creditors upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or any bankruptcy, insolvency or similar proceedings, the holders of Senior Debt will be entitled to receive payment in full of all amounts due under all Senior Debt before the holders of the Senior Subordinated Debt Securities will be entitled to receive any payment in respect of the Senior Subordinated Debt Securities; holders of Senior and Senior Subordinated Debt will be entitled to receive payment in full of all amounts due under all Senior and Senior Subordinated Debt before the holders of the Junior Subordinated Debt Securities will be entitled to receive any payment in respect of the Junior Subordinated Debt Securities.

No payments in respect of the Senior Subordinated Debt Securities or Junior Subordinated Debt Securities may be made

if a default has occurred and is continuing in a payment under the Senior Debt or Senior and Senior Subordinated Debt, respectively, or

during certain periods when an event of default under certain Senior Debt or Senior and Senior Subordinated Debt, respectively, permits the respective lenders thereunder to accelerate the maturity thereof.

See "Description of Debt Securities Subordination of Senior Subordinated Debt Securities" and "Description of Debt Securities Subordination of Junior Subordinated Debt Securities."

The Debt Securities will be effectively subordinated to the indebtedness and other obligations (including trade payables) of our subsidiaries. At March 31, 2001, the indebtedness and obligations of our subsidiaries aggregated approximately \$19,957 million. Our ability to pay principal of, premium, if any, and interest on the Debt Securities will be dependent upon the receipt of funds from our subsidiaries by way of dividends, fees, interest, loans or otherwise. Most of our subsidiaries with interests in power generation facilities currently are obligated, pursuant to loan agreements or indentures, to satisfy certain restricted payment covenants before they may make distributions to us. Moreover, unless otherwise provided in the prospectus supplement, the Indentures for the Debt Securities will permit our subsidiaries to maintain or add to such restrictions. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Debt Securities or to make any funds available therefor, whether by dividends, loans or other payments, and do not guarantee the payment of interest on or principal of the Debt

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Securities. Any right we have to receive any assets of any of our subsidiaries upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Debt Securities to participate in the distribution of, or to realize proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's creditors (including trade creditors and holders of debt issued by such subsidiary).

*We do a significant amount of our business outside the United States which presents significant risks.* Our involvement in the development of new businesses and the acquisition of existing plants in locations outside the United States is increasing and a large portion of our current development and acquisition activities are for projects and plants outside the United States.

The financing, development and operation of projects outside the United States entail significant political and financial uncertainties (including, without limitation, uncertainties associated with first-time privatization efforts in the countries involved, currency exchange rate fluctuations, currency repatriation restrictions, regulation of the electricity business, currency inconvertibility, tax law, political instability, civil unrest, and expropriation) and other credit quality, liquidity or structuring issues that have the potential to cause substantial delays in respect of or material impairment of the value of the project being developed or operated, which we may not be capable of fully insuring or hedging against. The ability to obtain financing on a commercially acceptable non-recourse basis in developing nations has become more difficult. Even when such non-recourse financing is available, lenders may require us to make higher equity investments than historically have been the case. In addition, financing in countries with less than investment grade sovereign credit ratings may also require substantial participation by multilateral financing agencies. There can be no assurance that such financing can be obtained when needed.

The uncertainty of the legal environment in certain countries in which we are or in the future may be developing, constructing or operating could make it more difficult for us to enforce our respective rights under agreements relating to such businesses. In addition, the laws and regulations of certain countries may limit our ability to hold a majority interest in some of the businesses that we may develop or acquire. International businesses we own may, in certain cases, be expropriated by applicable governments. Although we may have legal recourse in enforcing our rights under agreements and recovering damages for breaches thereof, there can be no assurance that any such legal proceedings will be successful or resolved in a timely manner.

*Global competition is increasing and could adversely affect us.* The global power production market is characterized by numerous strong and capable competitors, many of whom may have extensive and diversified developmental or operating experience (including both domestic and international experience) and financial resources similar to or greater than ours. Further, in recent years, the power production industry has been characterized by strong and increasing competition with respect to both obtaining power sales agreements and acquiring existing power generation assets. In certain markets, these factors have caused reductions in prices contained in new power sales agreements and, in many cases, have caused higher acquisition prices for existing assets through competitive bidding practices. The evolution of competitive electricity markets and the development of highly efficient gas-fired power plants have also caused, or are anticipated to cause, price pressure in certain power markets where we sell or intend to sell power. There can be no assurance that the foregoing competitive factors will not have a material adverse effect on us.

*Development uncertainties.* The majority of the projects that we develop are large and complex and the completion of any such project is subject to substantial risks. Development can require us to expend significant sums for preliminary engineering, permitting, legal and other expenses in preparation for competitive bids which we may not win or before it can be determined whether a project is feasible, economically attractive or capable of being financed. Successful development and construction is

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contingent upon, among other things, negotiation of satisfactory engineering, construction, fuel supply and power sales contracts with other project participants, receipt of required governmental permits and consents and timely implementation and satisfactory completion of construction. There can be no assurance that we will be able to obtain new power sales contracts, overcome local opposition, if any, obtain the necessary site agreements, fuel supply and ash disposal agreements, construction contracts, steam sales contracts, licenses and certifications, environmental and other permits and financing commitments necessary for the successful development of our projects. There can be no assurance that development efforts on any particular project, or our efforts generally, will be successful. If these development efforts are not successful, we may abandon a project under development. At the time of abandonment, we would expense all capitalized development costs incurred in connection therewith and could incur additional losses associated with any related contingent liabilities. Our future growth is dependent, in part, upon the demand for significant amounts of additional electrical generating capacity and our ability to obtain contracts to supply portions of this capacity. Any material unremedied delay in, or unsatisfactory completion of, construction of our projects could, under certain circumstances, have an adverse effect on our ability to meet our obligations, including the payment of principal of, premium, if any, and interest on Debt Securities. We may also be faced with certain development uncertainties arising out of doing business outside of the United States. See " We do a significant amount of our business outside the United States which presents significant risks."

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*Our acquisitions may not perform as expected.* We have achieved a majority of our growth through acquisitions and expect that we will continue to grow, in part, through acquisitions. Although each of the acquired businesses had a significant operating history at the time we acquired them, we have a limited history of owning and operating many of these businesses. In addition, most of these businesses were government owned and some were operated as part of a larger integrated utility prior to their acquisition. There can be no assurances that we will be successful in transitioning these to private ownership, that such businesses will perform as expected or that the returns from such businesses will support the indebtedness incurred to acquire them or the capital expenditures needed to develop them.

*We may not be able to raise sufficient capital to fund acquisitions and greenfield projects or refinance existing debt.* Each of our projects under development and those independent power facilities we have committed to acquire or may seek to acquire may require substantial capital investment. Continued access to capital with acceptable terms is necessary to assure the success of future projects and acquisitions, and may be necessary to refinance certain existing debt. We have utilized project financing loans to fund the capital expenditures associated with constructing and acquiring our electric power plants and related assets to the extent possible. Project financing borrowings have been substantially non-recourse to our other subsidiaries and affiliates and to us as the parent company and are generally secured by the capital stock, physical assets, contracts and cash flow of the related project subsidiary or affiliate. We intend to continue to seek, where possible, such non-recourse project financing. However, depending on market conditions and the unique characteristics of individual projects, such financing may not be available or our traditional providers of project financing, particularly multinational commercial banks, may seek higher borrowing spreads and increased equity contributions.

Furthermore, because of the reluctance of commercial lending institutions to provide non-recourse project financing (including financial guarantees) in certain less developed economies, we have sought and will continue to seek, in such locations, direct or indirect (through credit support or guarantees) project financing from a limited number of multilateral or bilateral international financial institutions or agencies. As a precondition to making such project financing available, these institutions may also require governmental guarantees of certain project and sovereign related risks. Depending on the policies of specific governments, such guarantees may not be offered and as a result, we may determine that sufficient financing will ultimately not be available to fund the related project. In addition, we are frequently required to provide more sponsor equity for projects that sell their electricity into the merchant market than for projects that sell their electricity under long term contracts.

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In addition to the project financing loans, if available, we provide a portion, or in certain instances all, of the remaining long-term financing required to fund development, construction, or acquisition. These investments have generally taken the form of equity investments or loans, which are subordinated to the project financing loans. The funds for these investments have been provided by cash flows from operations and by the proceeds from borrowings under our short-term credit facilities and issuances of senior notes, senior subordinated notes, convertible debentures, convertible trust preferred securities and common stock.

Our ability to arrange for financing on either a fully recourse or a substantially non-recourse basis and the costs of such capital are dependent on numerous factors, including general economic and capital market conditions, the availability of bank credit, rating agency ratings, investor confidence, the continued success of current projects and provisions of tax and securities laws which are conducive to raising capital in this manner. Should future access to capital not be available, we may decide not to build new plants or acquire existing facilities. While a decision not to build new plants or acquire existing facilities would not affect the results of operations of our currently operating facilities or facilities under construction, such a decision would affect our future growth.

*The performance of our generation business is dependent to a large degree on certain of our larger projects and their customers.* The nature of most of our generation plants (based on revenues) is such that each facility generally relies on one power sales contract with a single customer for the majority, if not all, of its revenues over the life of the power sales contract. The prolonged failure of any significant customer to fulfill its contractual obligations could have a substantial negative impact on these revenues. We have sought to reduce this risk in part by entering into power sales contracts with utilities or other customers of strong credit quality and by locating its plants in different geographic areas in order to mitigate the effects of regional economic downturns.

*Our revenues are becoming less predictable.* Our business primarily consists of businesses with long-term contracts or retail concessions. However, an increasing proportion of our current and expected future revenues are derived from businesses without significant long-term revenue contracts. Our increasing reliance on non-contract businesses could cause our results of operations to become more volatile.

*Our distribution businesses are subject to significant regulatory scrutiny.* Our distribution businesses face increased regulatory and political scrutiny in the normal conduct of their operations. This scrutiny may adversely impact our results of operations, to the extent that such scrutiny or pressure prevents us from reducing losses as quickly as we planned or denies us a rate increase called for by our concession agreements. In general, these businesses have lower margins and are more dependent on regulation to ensure expected annual rate increases for inflation and increased power costs, among other things. There can be no assurance that these rate reviews will be granted, or occur in a timely

manner.

*We are subject to significant government regulation.* Our generation business in the United States is subject to the provisions of various laws and regulations, including the Public Utility Regulatory Policies Act of 1978, as amended, commonly referred to as PURPA, and the Public Utility Holding Company Act, as amended, commonly referred to as PUHCA. PURPA provides to qualifying facilities, commonly referred to as QFs, certain exemptions from substantial federal and state legislation, including regulation as public utilities. PUHCA regulates public utility holding companies and their subsidiaries. It is necessary for us to obtain approval under PUHCA in order to maintain majority ownership in our domestic power plants that are QFs. Currently a material portion of our domestic revenues are received from QFs. Moreover, all of our domestic non-QF plants are Exempt Wholesale Generators, commonly referred to as EWGs. An EWG is a facility that has been authorized by the U.S. Federal Energy Regulatory Commission, commonly referred to as the FERC, to sell wholesale power at market-based rates. We enjoy exemptions under PUHCA related to our foreign utility acquisitions and holdings. We cannot ensure that we will be able to maintain appropriate PUHCA exemptions for all of

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our businesses. We believe that, upon the occurrence of an event that would threaten the QF status of one of our domestic plants, we would be able to react in a manner that would avoid the loss of QF status (such as by replacing the steam customer). In the event we were unable to avoid the loss of such status for one of our plants, to avoid public utility holding company status, we could apply to the FERC to obtain status as an EWG, or could restructure the ownership of the project subsidiary. EWGs, however, are subject to broader regulation by FERC and may be subject to state public utility commissions regulation regarding non-rate matters. In addition, any restructuring of a project subsidiary could result in, among other things, a reduced financial interest in such subsidiary, which could result in a gain or loss on the sale of the interest in such subsidiary, the removal of such subsidiary from our consolidated income tax group or our consolidated financial statements, or an increase or decrease in our results of operations.

*Pending electric utility industry restructuring proposals could have an adverse effect on us.* Several states have passed legislation that allows electricity customers to choose their electricity supplier in a competitive electricity market (so-called "retail access" or "customer choice" laws), and all but two of the remaining states are considering such legislation. In addition to state restructuring legislation, some members of Congress have proposed new Federal legislation to encourage customer choice and recovery of stranded assets. Several bills have been submitted to Congress on electricity restructuring. In anticipation of restructuring legislation, many U.S. utilities are seeking ways to lower their costs in order to become more competitive. These include the costs that utilities are required to pay under QF contracts. Many utilities are therefore seeking ways to lower these contract prices by renegotiating the contracts, or in some cases by litigation.

The FERC and many state utility commissions are currently studying a number of proposals to restructure the electric utility industry in the United States. Such restructuring would permit utility customers to choose their utility supplier in a competitive electric energy market. The FERC issued a final rule in April 1996 which requires utilities to offer wholesale customers and suppliers open access on utility transmission lines, on a comparable basis to the utilities' own use of the lines. The final rule is subject to rehearing and may become the subject of court litigation. Many utilities have already filed "open access" tariffs. The utilities contend that they should recover from departing customers their fixed costs that will be "stranded" by the ability of their wholesale customers (and perhaps eventually, their retail customers) to choose new electric power suppliers. The FERC final rule endorses the recovery of legitimate and verifiable "stranded costs." These may include the costs utilities are required to pay under many QF contracts which the utilities view as excessive when compared with current market prices. Many utilities are therefore seeking ways to lower these contract prices or rescind the contracts altogether, out of concern that their shareholders will be required to bear all or part of such "stranded" costs. Some utilities have engaged in litigation against QFs to achieve these ends.

In addition, future United States electric rates may be deregulated in a restructured United States electric utility industry and increased competition may result in lower rates and less profit margin for United States electricity sellers. Falling electricity prices, the introduction of commodity markets for electricity and uncertainty as to the future structure of the industry has rendered the long-term power purchase contracts obsolete. As a result, in the generation business we are increasingly dependent upon prices for electricity determined in electricity spot markets. Such prices can be very volatile and the effect on us of this volatility cannot be predicted.

The United States Congress is considering proposed legislation which would repeal PURPA entirely, or at least repeal the obligation of utilities to purchase from QFs. There is strong support for grandfathering existing QF contracts if such legislation is passed, and also support for requiring utilities to conduct competitive bidding for new electric generation if the PURPA purchase obligation is eliminated. Various bills have also proposed repeal of PUHCA. Repeal of PUHCA would allow power generators and vertically integrated utilities to acquire retail utilities in the United States that are geographically widespread, as opposed to the current limitations of PUHCA which require that retail

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electric systems be capable of physical interconnection. In addition, registered holding companies would be free to acquire non-utility businesses, which they may not do now, with certain limited exceptions. In the event that PUHCA is repealed, competition would likely increase. Repeal of PURPA and/or PUHCA may or may not be part of comprehensive legislation to restructure the electric utility industry, allow retail competition, and deregulate most electric rates. The effect of any such repeal cannot be predicted, although any such repeal could have a material adverse effect on us.

*From time to time we are subject to material litigation and regulatory proceedings.* From time to time, we and our affiliates are parties to litigation and regulatory proceedings. Investors should review the descriptions of such matters contained in our Annual, Quarterly and Current Reports filed with the Securities and Exchange Commission and incorporated by reference herein. There can be no assurances that the outcome of such matters will not have a material adverse effect on our consolidated financial position.

*Litigation and investigations relating to our activities in California may adversely affect our business.* A number of federal and state initiatives addressing the issues of the California electric power industry are ongoing and may result in restructuring of various markets in California and elsewhere. Allegations have also been made that the wholesale price increase resulted from the exercise of market power, collusion of the power generators and sellers, including AES. These allegations have resulted in multiple state and federal investigations as well as the filing of class action lawsuits, in certain of which AES is a named defendant. In May 2001, the Department of Justice commenced an antitrust investigation relating to an agreement between one of our subsidiaries, AES Southland, and a subsidiary of The Williams Companies alleging that the agreement limits the expansion of electric generating capacity at or near the AES Southland plants that are subject to a long-term tolling agreement between Williams and AES. In connection with that investigation, the Department of Justice issued a Civil Investigative Demand to AES Southland requesting answers to certain interrogatories and the production of documents. We are cooperating with the investigation. In addition, the Attorney General of California has announced the formation of a grand jury to begin in July 2001. Most of these initiatives, investigations and proceedings are in their preliminary stages and their likely outcome cannot be predicted. There can be no assurance that these initiatives, investigations and proceedings will not have a material adverse effect on our results of operations or financial condition.

*Our business is subject to stringent environmental regulations.* Our activities are subject to stringent environmental regulation by federal, state, local and foreign governmental authorities. These regulations generally involve effluents into the water, emissions into the air, the use of water, wetlands preservation, waste disposal, endangered species, and noise regulation, among others. Congress and other foreign governmental authorities also may consider proposals to restrict or tax certain emissions. These proposals, if adopted, could impose additional costs on the operation of our power plants. There can be no assurance that we would be able to recover all or any increased costs from our customers or that our business, financial condition or results of operations would not be materially and adversely affected by future changes in domestic or foreign environmental laws and regulations. We have made and will continue to make capital and other expenditures to comply with environmental laws and regulations. There can be no assurance that such expenditures will not have a material adverse effect on our financial condition or results of operations.

*Our directors and officers have significant ownership interests in us and can exert significant influence or control over matters requiring stockholder approval.* As of February 2, 2001 our two founders, Roger W. Sant and Dennis W. Bakke, and their immediate families together owned beneficially approximately 14.8% of our outstanding Common Stock. As a result of their ownership interests, Messrs. Sant and Bakke may be able to significantly influence or exert control over our affairs, including the election of our directors. As of February 2, 2001, all of our officers and directors and their immediate families together owned beneficially approximately 19.7% of our outstanding Common Stock. To the extent that

they decide to vote together, these stockholders would be able to significantly influence or control the election of our directors, our management and policies and any action requiring stockholder approval, including significant corporate transactions.

*Our adherence to our "shared principles" could have an adverse impact on our results of operations.* A core part of our corporate culture is a commitment to "shared principles": to act with integrity, to be fair, to have fun and to be socially responsible. We seek to adhere to these principles not as a means to achieve economic success, but because adherence is a worthwhile goal in and of itself. However, if we perceive a conflict between these principles and profits, we will try to adhere to our principles even though doing so might result in diminished or foregone opportunities or financial benefits.

*Shares eligible for future sale.* From time to time, our subsidiaries incur indebtedness that is secured by a pledge of shares of our common stock held by that subsidiary. The sale of a substantial number of such shares in the public market upon any foreclosure or otherwise could have



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an adverse effect on the market price of our common stock.

*Risk of fraudulent transfer.* Various fraudulent conveyance laws have been enacted for the protection of creditors and may be applied by a court on behalf of any unpaid creditor or a representative of our creditors in a lawsuit to subordinate or avoid Debt Securities in favor of our other existing or future creditors. Under applicable provisions of the U.S. Bankruptcy code or comparable provisions of state fraudulent transfer or conveyance laws, if we at the time of issuance of Debt Securities,

incurred such indebtedness with intent to hinder, delay or defraud any of our present or future creditors or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others or

received less than reasonably equivalent value or fair consideration for issuing Debt Securities and we:

were insolvent,

were rendered insolvent by reason of the issuance of the Debt Securities,

were engaged or about to engage in business or a transaction for which our remaining assets constitute unreasonably small capital to carry on our business, or

intended to incur, or believed that we would incur, debts beyond our ability to pay such debts as they mature,

then, in each case, a court of competent jurisdiction could void, in whole or in part, the Debt Securities.

Among other things, a legal challenge of the Debt Securities on fraudulent conveyance grounds may focus on the benefits, if any, realized by us as a result of our issuance of the Debt Securities.

The measure of insolvency for purposes of the foregoing will vary depending upon the law applied in such case. Generally, however, we would be considered insolvent if the sum of our debts, including contingent liabilities, were greater than all of our assets at fair valuation or if the present fair market value of our assets were less than the amount that would be required to pay the probable liability on our existing debts, including contingent liabilities, as they become absolute and mature. There can be no assurance that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the holders of the Debt Securities.

Management believes that, for purposes of all such insolvency, bankruptcy and fraudulent transfer or conveyance laws, the Debt Securities are being incurred without the intent to hinder, delay or defraud creditors and for proper purposes and in good faith, and that we, after the issuance of the

Debt Securities, will be solvent, will have sufficient capital for carrying on our business and will be able to pay our debts as they mature. There can be no assurance, however, that a court passing on such questions would agree with management's view.

*There is no prior public market for many of the securities that may be offered pursuant to this prospectus as a result there could be significant price volatility for such securities.* Prior to the offering, there has been no public market for many of the securities that may be offered pursuant to this prospectus. There can be no assurance that an active trading market for any of such securities will develop or be sustained. If such a market were to develop, such securities could trade at prices that may be higher or lower than their initial offering price depending upon many factors, including prevailing interest rates, our operating results and the markets for similar securities.

### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document that we file at the public reference rooms of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549; 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. You may obtain information on the operation of the public reference rooms by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an Internet site at <http://www.sec.gov>, from where you can access our filings.

This prospectus constitutes part of a Registration Statement on Form S-3 filed with the Securities and Exchange Commission under the Securities Act of 1933 (the "Securities Act"). It omits some of the information contained in the Registration Statement, and reference is made to the Registration Statement for further information on AES and the securities offered hereby. Any statement contained in this prospectus concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the Securities and Exchange Commission is not necessarily complete, and in each instance reference is made to the copy of the document filed.

### INCORPORATION OF DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the Securities and Exchange Commission will automatically update and supersede this information. In particular, our annual filing on Form 10-K will supersede all previously filed annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. We incorporate by reference the documents listed below and any future filings made with the Securities and Exchange Commission under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until we sell all of the securities:

- (a) Annual Report on Form 10-K for the year ended December 31, 2000;
- (b) Quarterly Report on Form 10-Q for the quarter ended March 31, 2001;
- (c) Current Reports on Form 8-K filed on June 19, 2001, June 8, 2001, June 5, 2001 (two reports, one of which includes the audited financial statements of The AES Corporation as of December 31, 2000 and 1999, and for each of the three years in the period ending December 31, 2000), April 27, 2001, April 10, 2001, March 16, 2001, February 21, 2001, February 8, 2001, February 2, 2001, and January 30, 2001.

You may request a copy of these filings at no cost, by writing or telephoning the office of William R. Luraschi, Vice President and Secretary, The AES Corporation, 1001 North 19th Street, Arlington, Virginia, telephone number (703) 522-1315.

### SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions related to AES, including those set forth under "Risk Factors" in this prospectus and those set forth under the caption "Cautionary Statements and Risk Factors" in our annual report on Form 10-K, which is incorporated by reference in this prospectus.

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

**USE OF PROCEEDS**

Unless otherwise indicated in a prospectus supplement, proceeds from the sale of the securities will be used by us for general corporate purposes and may be temporarily invested in short-term securities.

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**RATIO OF EARNINGS TO FIXED CHARGES**

Our ratio of earnings to fixed charges is as follows:

	Year Ended December 31,					Three Months Ended March 31,
	1996	1997	1998	1999	2000	2001
Ratio of earnings to fixed charges	2.15	1.63	1.78	1.61	1.81	1.36

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and minority interest, plus depreciation of previously capitalized interest, plus fixed charges, less capitalized interest, less excess of earnings over dividends of less-than-fifty-percent-owned companies, less minority interest in pre-tax income of subsidiaries that have not incurred fixed charges, less preference security dividend requirements of a consolidated subsidiary. Fixed charges consist of interest (including capitalized interest) on all indebtedness, amortization of debt discount and capitalized expenses, preference security dividend requirements of a consolidated subsidiary, and that portion of rental expense which we believe to be representative of an interest factor.

During the period from January 1, 1996 until March 31, 2001, no shares of preferred stock were issued or outstanding, and during that period we did not pay any preferred stock dividends.

**THE COMPANY**

We are a global power company committed to serving the world's needs for electricity and other services in a socially responsible way. Our electricity "generation" business consists of sales to wholesale customers (generally electric utilities, regional electric companies or wholesale commodity markets known as "power pools") for further resale to end-users. We also sell electricity directly to end-users such as commercial, industrial, governmental and residential customers through our "distribution" business.

Sales within our generation business are made under long-term contracts from power plants owned by our subsidiaries and affiliates, as well as directly into power pools. We own new plants constructed for such purposes ("greenfield" plants) as well as older power plants acquired through competitively bid privatization initiatives or negotiated acquisitions.

Electricity sales by our distribution businesses, including affiliates, are generally made pursuant to the provisions of long-term electricity sale concessions granted by the appropriate governmental authorities. In certain cases, these distribution companies are "integrated", in that they also own electric power plants for the purpose of generating a portion of the electricity they sell.

**DESCRIPTION OF CAPITAL STOCK**

Under our certificate of incorporation (the "Certificate of Incorporation"), we are authorized to issue 1,200,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, no par value.

The following summary contains a description of certain general terms of the common stock and the preferred stock to which any prospectus supplement may relate. Certain terms of any series of preferred stock offered by a prospectus supplement will be described in the prospectus supplement relating thereto. If indicated in the prospectus supplement, the terms of any series may differ from the terms set forth below. The description of certain provisions of the common stock and the preferred stock is subject to and qualified by reference to the

provisions of our certificate of incorporation, and, in the case of the preferred stock, to the certificate of designation (the "Certificate of Designation")

relating to each particular series of preferred stock which will be filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

**Common Stock**

As of May 1, 2001 there were 532,074,637 shares of common stock outstanding.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably dividends as may be declared from time to time by our board of directors out of funds legally available to pay dividends. If we liquidate our business, the holders of common stock are entitled to share ratably in all assets after we pay our liabilities and the liquidation preference of any outstanding preferred stock. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable, and any shares of common stock in respect of which this prospectus is being delivered will be fully paid and non-assessable.

The transfer agent for our common stock is EquiServe.

**Price Range of AES Common Stock and Common Stock Dividends**

Our common stock began trading on the New York Stock Exchange on October 16, 1996 under the symbol "AES." The following table sets forth for the periods indicated the intra-day high and low sale prices for the common stock as reported on the Composite Tape. In April 2000, we announced a two-for-one stock split, in the form of a stock dividend, for holders of record on May 1, 2000 of our common stock, par value \$.01 per share, which was paid on June 1, 2000. The prices set forth below reflect adjustment for such stock split.

	<u>High</u>	<u>Low</u>
<b>1999</b>		
First Quarter	\$ 49.25	\$ 32.81
Second Quarter	59.75	36.75
Third Quarter	66.69	53.06
Fourth Quarter	76.38	50.44
<b>2000</b>		
First Quarter	\$ 89.44	\$ 68.50
Second Quarter	92.50	40.15
Third Quarter	70.25	45.13
Fourth Quarter	72.81	45.00
<b>2001</b>		
First Quarter	\$ 60.15	\$ 41.30
Second Quarter (through June 29, 2001)	52.25	40.08

No cash dividends have been paid on common stock since December 22, 1993 in order to provide capital for our equity investments in projects.

Our ability to declare and pay dividends is dependent, among other things, on

the ability of our project subsidiaries to declare and pay dividends and otherwise distribute cash to us;

our ability to service our parent company debt and

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our ability to meet certain criteria for paying dividends under our corporate credit facility and under existing indentures of our debt securities.

The ability of our subsidiaries to declare and pay dividends and otherwise distribute cash to us is subject to certain limitations in the project loans and other documents entered into by our project subsidiaries. These limitations permit the payment of dividends out of current cash flow for quarterly, semi-annual or annual periods only at the end of these periods and only after payment of principal and interest on project loans due at the end of these periods.

Cash dividend payments on common stock are limited to a certain percentage of cash flow under our corporate credit agreement. The indentures relating to our existing senior subordinated notes preclude the payment of cash dividends if:

at the time of a payment of cash dividends or after giving effect thereto an event of default occurred;

an event that would become an event of default occurred and is continuing;

certain fixed charge coverage ratios are not met or

if the payment of dividends, together with other restricted payments, would exceed certain limits.

#### **Preferred Stock**

As of May 1, 2001, there were no shares of Preferred Stock outstanding.

Our board of directors has the authority to issue preferred stock in one or more classes or series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any class or series or the designation of such class or series, without any further action by the stockholders. Preferred stock, if issued, will not be entitled to any preemptive or similar rights. The prospectus supplement will describe the terms of any preferred stock being offered, including:

the specific designation, number of shares, seniority and purchase price;

any liquidation preference per share;

any date of maturity;

any redemption, repayment or sinking fund provisions;

any dividend rate or rates and the dates on which any such dividends will be payable (or the method by which such rates or dates will be determined);

any voting rights;

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if other than the currency of the United States, the currency or currencies including composite currencies in which such preferred stock is denominated and/or in which payments will or may be payable;

the method by which amounts in respect of such preferred stock may be calculated and any commodities, currencies or indices, or value, rate or price, relevant to such calculation;

whether such preferred stock is convertible or exchangeable and, if so, the securities or rights into which such preferred stock is convertible or exchangeable, and the terms and conditions upon which such conversions or exchanges will be effected including conversion or exchange prices or rates, the conversion or exchange period and any other related provisions;

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the place or places where dividends and other payments on the preferred stock will be payable; and

any additional voting, dividend, liquidation, redemption and other rights, preferences, privileges, limitations and restrictions.

All shares of preferred stock offered hereby, or issuable upon conversion, exchange or exercise of securities, will, when issued, be fully paid and non-assessable. Any shares of preferred stock that are issued would have priority over the common stock with respect to dividend or liquidation rights or both.

The transfer agent for each series of preferred stock will be described in the applicable prospectus supplement.

### **Description of Certain Provisions of Our Certificate of Incorporation and By-Laws**

Our Certificate of Incorporation and By-Laws contain several provisions that may make the acquisition of control of the AES through a tender offer, open market purchases, a proxy fight or otherwise more difficult. Below is a description of certain of these provisions in the Certificate of Incorporation and By-Laws.

*Special Meetings of Stockholders.* Our By-Laws provide that, unless otherwise prescribed by law, special meetings of stockholders may be called by a resolution adopted by a majority of the entire board of directors, by the chairman of the board of directors or by the president. Only business as specified in the notice of stockholders of the special meeting shall be considered.

*Stockholder Nomination of Directors.* Our By-Laws contain a procedure for stockholder nomination of directors. The By-Laws provide that any record owner of stock entitled to be voted generally in the election of directors may nominate one or more persons for election as a director at a stockholders meeting only if written notice is given to our secretary of the intent to make a nomination. The notice must be given, with respect to an annual meeting, not later than 90 days in advance of the annual meeting. With respect to a special meeting, the notice must be given not later than the close of business on the seventh day following the earlier of

the date on which notice of such special meeting is first given to stockholders and

the date on which a public announcement of such meeting is first made.

Each notice must include:

the name and address of each stockholder who intends to appear in person or by proxy to make the nomination and of the person or persons to be nominated;

a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming them) pursuant to which the nomination is to be made by the stockholder;

other information regarding each nominee proposed as would have been included in a proxy statement filed pursuant to Rule 14a-8 under the Exchange Act and

the consent of each nominee to serve if elected.

The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with this procedure.

The procedure for stockholder nomination of directors described above may have the effect of precluding a nomination for election of directors at a particular meeting if the required procedure is not followed.

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*Elimination of Liability; Indemnification.* Except as described below, the Certificate of Incorporation eliminates the liability of members of our board of directors to us or our stockholders for monetary damages resulting from breaches of their fiduciary duties as directors. Directors remain liable for breaches of their duty of loyalty to us or our stockholders, as well as for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law and transactions from which a director derives improper personal benefit. The Certificate of Incorporation also does not release directors of liability under Section 174 of the Delaware General Corporation Law (the "GCL"), which makes directors personally liable for unlawful dividends or unlawful stock repurchases or redemptions if the unlawful conduct is willful or results from negligence.

Under our By-Laws, and in accordance with Section 145 of the GCL, we shall indemnify to the fullest extent permitted by the GCL any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding. These include civil, criminal, administrative or investigative proceedings by reason of the fact that the person is or was a director or officer of or employed by us, or is or was serving in that capacity or as an agent at the request of us for another entity. Our indemnification covers expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with the defense or settlement of an action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe was unlawful. We will indemnify persons in a derivative action under the same conditions, except that no indemnification is permitted without judicial approval if the person is adjudged to be liable to us in the performance of his or her duty. Derivative actions are actions by us or in the right of us to procure a judgment in our favor. Agents of ours may be similarly indemnified at the discretion of the board of directors.

Under Section 145 of the GCL, a similar duty of care is applicable in the case of derivative actions, except that indemnification only extends to expenses incurred in connection with the defense or settlement of a derivative action and then, where the person is adjudged to be liable to us, only if and to the extent that the Court of Chancery of the State of Delaware or the court in which the action was brought determines that the person is fairly and reasonably entitled to the indemnity and only for those expenses as the court deems proper.

Pursuant to our By-Laws, a person eligible for indemnification may have the expenses incurred in connection with any matter described above paid in advance of a final disposition by us. However, these advances will only be made if the indemnified person undertakes to repay all advanced amounts if it is determined that the person is not entitled to indemnification.

In addition, under our By-Laws, we may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of us or of another corporation against any liability arising out of the person's status as director, officer, employee or agent of us whether or not we would have the power to indemnify such person against such liability under the provisions of our By-Laws. We maintain directors' and officers' insurance.

### **Depositary Shares**

*General.* We may, at our option, elect to offer fractional shares of preferred stock, rather than full shares of preferred stock. If we exercise this option, we will issue to the public receipts for depositary shares, and each of these depositary shares will represent a fraction (to be set forth in the application prospectus supplement) of a share of a particular series of preferred stock.

The shares of any series of preferred stock underlying the depositary shares will be deposited under a deposit agreement between us and a bank or trust company selected by us. The depositary will have its principal office in the United States and a combined capital and surplus of at least \$50,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in

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proportion, to the applicable fraction of a share of preferred stock underlying that depositary share, to all the rights and preferences of the preferred stock underlying that depositary share. Those rights include dividend, voting, redemption and liquidation rights.

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock underlying the depositary shares, in accordance with the terms of the offering. Copies of the forms of deposit agreement and depositary receipt will be filed as exhibits to the registration statement. The following summary of the deposit agreement, the depositary shares and the depositary receipts is not complete. You should refer to the forms of the deposit agreement and depositary receipts that will be filed with the Securities and Exchange Commission in connection with the offering of the specific depositary shares.

Pending the preparation of definitive engraved depositary receipts, the depositary may, upon our written order, issue temporary depositary receipts substantially identical to the definitive depositary receipts but not in definitive form. These temporary depositary receipts entitle their holders to all the rights of definitive depositary receipts which are to be prepared without unreasonable delay. Temporary depositary receipts will then be exchangeable for definitive depositary receipts at our expense.

*Dividends and Other Distributions.* The depositary will distribute all cash dividends or other cash distributions received with respect to the preferred stock to the record holders of depositary shares relating to the preferred stock in proportion to the number of depositary shares owned by those holders.

If there is a distribution other than in cash, the depositary will distribute property received by it to the record holders of depositary shares that are entitled to receive the distribution, unless the depositary determines that it is not feasible to make the distribution. If this occurs, the depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the applicable holders.

*Redemption of Depositary Shares.* If a series of preferred stock represented by depositary shares is subject to redemption, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption, in whole or in part, of that series of preferred stock held by the depositary. The redemption price per depositary share will be equal to the applicable redemption fraction of the redemption price per share payable with respect to that series of the preferred stock. Whenever we redeem shares of preferred stock that are held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing the shares of preferred stock so redeemed. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by lot or pro rata as may be determined by the depositary.

*Voting the Preferred Stock.* Upon receipt of notice of any meeting at which the holders of the preferred stock are entitled to vote, the depositary will mail the information contained in such notice to the record holders of the depositary shares underlying the preferred stock. Each record holder of the depositary shares on the record date (which will be the same date as the record date for the preferred stock) will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the amount of the preferred stock represented by such holder's depositary shares. The depositary will then try, as far as practicable, to vote the number of shares of preferred stock underlying those depositary shares in accordance with such instructions, and we will agree to take all actions which may be deemed necessary by the depositary to enable the depositary to do so. The depositary will not vote the shares of preferred stock to the extent it does not receive specific instructions from the holders of depositary shares underlying the preferred stock.

*Amendment and Termination of the Depositary Agreement.* The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be

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amended by agreement between us and the depositary. However, any amendment which materially and adversely alters the rights of the holders of depositary shares will not be effective unless the amendment has been approved by the holders of at least a majority of the depositary shares then outstanding. The deposit agreement may be terminated by us or by the depositary only if (a) all outstanding depositary shares have been redeemed or (b) there has been a final distribution of the underlying preferred stock in connection with our liquidation, dissolution or winding up and the preferred stock has been distributed to the holders of depositary receipts.



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*Charges of Depositary.* We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will also pay charges of the depositary in connection with the initial deposit of the preferred stock and any redemption of the preferred stock. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and those other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the deposit agreement to be for their accounts.

*Miscellaneous.* The depositary will forward to holders of depositary receipts all reports and communications from us that we deliver to the depositary and that we are required to furnish to the holders of the preferred stock.

Neither we nor the depositary will be liable if either of us is prevented or delayed by law or any circumstance beyond our control in performing our respective obligations under the deposit agreement. Our obligations and those of the depositary will be limited to performance in good faith of our respective duties under the deposit agreement. Neither we nor the depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. We and the depositary may rely upon written advice of counsel or accountants, or upon information provided by persons presenting preferred stock for deposit, holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

*Resignation and Removal of Depositary.* The depositary may resign at any time by delivering notice to us of its election to resign. We may remove the depositary at any time. Any resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of the appointment. The successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

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### DESCRIPTION OF DEBT SECURITIES

The debt securities may consist of Senior Debt Securities, Subordinated Debt Securities or Junior Subordinated Debt Securities. The Senior Debt Securities will be issued under an indenture (the "Senior Debt Indenture") between AES, as issuer, and either Bank One, National Association (formerly known as The First National Bank of Chicago) or The Bank of New York, as trustee. The Senior Subordinated Debt Securities will be issued under an indenture (the "Senior Subordinated Debt Indenture") between AES, as issuer, and either Bank One, National Association (formerly known as The First National Bank of Chicago) or The Bank of New York, as trustee. The Junior Subordinated Debt Securities will be issued under an indenture (the "Junior Subordinated Debt Indenture") between AES, as issuer, and either Bank One, National Association (formerly known as The First National Bank of Chicago) or The Bank of New York, as trustee. The Senior Debt Indenture, the Senior Subordinated Debt Indenture and the Junior Subordinated Debt Indenture are collectively referred to herein as the "Indentures."

The Indentures have been incorporated by reference or included herein as exhibits to the registration statement of which this Prospectus is a part and are also available for inspection at the office of the trustee. The Indentures are subject to and governed by the Trust Indenture Act of 1939 (the "Trust Indenture Act"). Section references contained herein are applicable to each of the Indentures. The following summaries of the Indentures are not complete. Where reference is made to particular provisions of the Indentures, these provisions, including definitions of certain terms, are incorporated by reference. The Indentures are substantially identical except for provisions relating to subordination.

#### General

None of the Indentures limits the amount of debt securities which may be issued thereunder. Each Indenture provides that debt securities issuable thereunder may be issued up to the aggregate principal amount which may be authorized by us from time to time. The prospectus supplement will describe the terms of any debt securities being offered (the "Offered Debt Securities") including:

the designation, aggregate principal amount and authorized denominations of the Offered Debt Securities;

the date or dates on which the Offered Debt Securities mature;

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the rate or rates per annum at which the Offered Debt Securities will bear interest and the method of calculating interest rates, if any;

the dates on which any interest will be payable and the record dates for any interest payments;

any mandatory or optional redemption terms or prepayment, conversion, sinking fund or exchangeability provisions;

the place where the principal of and interest on the Offered Debt Securities will be payable;

if other than denominations of \$1,000 or multiples thereof, the denominations in which the Offered Debt Securities will be issuable;

whether the Offered Debt Securities will be issued in the form of Global Securities (as defined below) or certificates;

additional provisions, if any, relating to the defeasance of the Offered Debt Securities;

the currency or currencies, if other than the currency of the United States, in which payment of the principal of and interest on the Offered Debt Securities will be payable;

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whether the Offered Debt Securities will be issuable in registered form or bearer form ("Bearer Securities") or both and, if Bearer Securities are issuable, any restrictions applicable to the exchange of one form for another and the offer, sale and delivery of Bearer Securities;

any applicable United States federal income tax consequences, including whether and under what circumstances we will pay additional amounts on Offered Debt Securities held by a person who is not a U.S. Person (as defined in each prospectus supplement relating to any particular series of debt securities offered thereby) in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether we will have the option to redeem these Offered Debt Securities rather than pay the additional amounts;

the dates on which premium, if any, will be payable;

our right, if any, to defer payment of interest and the maximum length of any deferral period;

any listing on a securities exchange;

the initial public offering price and

other specific terms, including any additional events of default or covenants provided for with respect to the Offered Debt Securities.

As described in each prospectus supplement relating to any particular series of debt securities offered thereby, the indenture may contain covenants limiting:

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the incurrence of debt by us;

the incurrence of debt by subsidiaries of us;

the making of certain payments by us and our subsidiaries;

subsidiary mergers;

business activities of us and our subsidiaries;

the issuance of preferred stock of subsidiaries;

asset dispositions;

transactions with affiliates;

liens and

mergers and consolidations involving AES.

### **Book-Entry Systems**

If so specified in any prospectus supplement relating to debt securities, debt securities of any series may be issued under a book-entry system in the form of one or more global securities (each, a "Global Security"). Each Global Security will be deposited with, or on behalf of, a depository, which will be The Depository Trust Company, New York, New York (the "Depository"). The Global Securities will be registered in the name of the Depository or its nominee.

The Depository has advised us that the Depository is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York banking law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include

securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own the Depository. Access to the Depository's book-entry system is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

When a Global Security is issued in registered form, the Depository will credit, on its book-entry registration and transfer system, the respective principal amounts of the debt securities represented by each Global Security to the participants' accounts. The accounts to be credited will be designated by the underwriters, dealers, or agents, if any. If debt securities are offered and sold directly by us, we will designate the accounts to be credited. Ownership of beneficial interests in the Global Security will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests by participants in the Global Security will be shown on, and the transfer of that ownership interest will be effected only through, the participants' records. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of the securities in definitive form. These laws may impair the ability to transfer beneficial interests in a Global Security.

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So long as the Depositary or its nominee is the owner of record of a Global Security, we consider the Depositary or its nominee the sole owner or holder of the debt securities represented by the Global Security for all purposes under the Indenture under which the debt securities are issued. Except as set forth below, owners of beneficial interests in a Global Security will not be entitled to have the debt security represented by the Global Security registered in their names, and will not receive or be entitled to receive physical delivery of the Debt Securities in definitive form and will not be considered the owners or holders thereof under the Indenture under which these debt securities are issued. Accordingly, each person owning a beneficial interest in a Global Security must rely on the procedures of the Depositary. Persons who are not participants must rely on the procedures of the participant through which they own their interest. We understand that under existing industry practices, if we request any action of holders or if any owner of a beneficial interest in a Global Security desires to give or take any action which a holder is entitled to give or take under the applicable Indenture, the Depositary would authorize the participants holding the relevant beneficial interests to give or take such action, and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instruction of beneficial owners holding through them.

Payments of principal, premium, if any, and interest on debt securities represented by a Global Security registered in the name of the Depositary or its nominee will be made to the Depositary or nominee, as the registered owner. None of AES, the trustee or any other agent of us or agent of the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Security or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests.

We have been advised by the Depositary that the Depositary will credit participants' accounts with payments of principal, premium, if any, or interest on the payment date thereof in amounts proportionate to their respective beneficial interests in the principal amount of the Global Security as shown on the records of the Depositary. We expect that payments by participants to owners of beneficial interests in the Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in "street name," and will be the responsibility of such participants.

A Global Security may not be transferred except as a whole:

by the Depositary to a nominee or successor of the Depositary or

by a nominee of the Depositary to another nominee of the Depositary.

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A Global Security representing all but not part of an offering of debt securities hereby is exchangeable for debt securities in definitive form of like tenor and terms if:

The Depositary notifies us that it is unwilling or unable to continue as depositary for the Global Security or if at any time the Depositary is no longer eligible to be in good standing as a clearing agency registered under the Exchange Act, and we do not appoint a successor depositary within 90 days after we receive notice or become aware of the ineligibility or

We in our sole discretion at any time determine not to have all of the debt securities represented in an offering of Offered Debt Securities by a Global Security and notify the trustee thereof.

A Global Security exchangeable pursuant to the preceding sentence shall be exchangeable for debt securities registered in the names and in the authorized denominations as the Depositary for the Global Security shall direct. The debt securities of a series may also be issued in the form of one or more bearer global debt securities (a "Bearer Global Security") that will be deposited with a common depositary for Euroclear and Clearstream, or with a nominee for that depositary identified in the prospectus supplement relating to the series. The specific terms and procedures, including the specific terms of the depositary arrangement, with respect to any portion of a series of debt securities to be represented by a Bearer Global Security will be described in the prospectus supplement.

### Senior Debt Securities

The payment of principal, premium, if any, and interest on the Senior Debt Securities will, to the extent and in the manner set forth in the Senior Debt Indenture, rank equally with all unsecured and unsubordinated debt.

**Subordination of Senior Subordinated Debt Securities**

The payment of principal, premium, if any, and interest on the Senior Subordinated Debt Securities will, to the extent and in the manner set forth in the Senior Subordinated Debt Indenture, be subordinated in right of payment to the prior payment in full, in cash equivalents, of all Senior Debt.

Upon any payment or distribution of assets to our creditors upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or any bankruptcy, insolvency or similar proceedings, the holders of all Senior Debt will first be entitled to receive payment in full of all amounts due or to become due thereon before the holders of the Senior Subordinated Debt Securities will be entitled to receive any payment in respect of the principal, premium, if any, or interest on the Senior Subordinated Debt Securities.

No payments of principal, premium, if any, or interest in respect of the Senior Subordinated Debt Securities may be made by us if a default in any payment with respect to Senior Debt has occurred and is continuing. In addition, during the continuance of any other event of default (other than a payment default) with respect to Designated Senior Debt pursuant to which the maturity thereof may be accelerated, no payments of principal, premium, if any, or interest in respect of the Senior Subordinated Debt Securities may be made by us for a period (the "Payment Blockage Period") beginning on the date of delivery of written notice of the holders and ending 179 days thereafter (unless the Payment Blockage Period shall be terminated by written notice to the trustee from the holders of Designated Senior Debt or from an agent of these holders, or the event of default has been cured or waived or has ceased to exist). Only one Payment Blockage Period may be commenced with respect to the Senior Subordinated Debt Securities during any period of 360 consecutive days. No event of default which existed or was continuing on the date of the beginning of any Payment Blockage Period shall be the basis for the beginning of any subsequent Payment Blockage Period by the holders

of Designated Senior Debt, unless such event of default shall have been cured or waived for a period of not less than 90 days.

Due to this subordination, in the event of insolvency, funds that would otherwise be payable to holders will be paid to the holders of Senior Debt to the extent necessary to pay the Senior Debt in full, and we may be unable to meet fully our obligations with respect to the Senior Subordinated Debt Securities.

"Debt" is defined to mean, with respect to any person at any date of determination (without duplication):

all indebtedness for borrowed money;

all obligations evidenced by bonds, debentures, notes or other similar instruments;

all obligations in respect of letters of credit or bankers' acceptance or other similar instruments (or reimbursement obligations with respect thereto);

all obligations to pay the deferred purchase price of property or services, except trade payables;

all obligations as lessee under capitalized leases;

all Debt of others secured by a lien on any asset of the person, whether or not the Debt is assumed by that person; provided that, for purposes of determining the amount of any Debt of the type described in this clause, if recourse with respect to that Debt is limited to that asset, the amount of that Debt shall be limited to the lesser of the fair market value of the asset or the amount of the Debt;

all Debt of others guaranteed by that person to the extent that Debt is guaranteed by such person;

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all redeemable stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and,

to the extent not otherwise included in this definition, all obligations under currency agreements and interest rate agreements.

"Designated Senior Debt" is defined to mean:

Debt under the Credit Agreement dated as of March 31, 2000 (the "Credit Agreement") among The AES Corporation and certain banks named on the signature pages thereof, as such Credit Agreement has been and may be amended, restated, supplemented or otherwise modified from time to time; and

Debt constituting Senior Debt which, at the time of its determination

has an aggregate principal amount of at least \$30 million; and

is specifically designated by us as "Designated Senior Debt."

"Senior Debt" is defined to mean the principal of, premium, if any, and interest on all of our Debt whether created, incurred or assumed before, on or after the date of the Senior Subordinated Debt Indenture; provided that Senior Debt shall not include:

our 8.875% Senior Subordinated Debentures due 2027, 8.50% Senior Subordinated Notes due 2007, 8.375% Senior Subordinated Notes Due 2007 and our 10.25% Senior Subordinated Notes due 2006 which rank equally with the Senior Subordinated Debt Securities;

our Debt to any affiliate;

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Debt of ours that, when incurred, and without respect to any election under Section 1111(b) of Title 11, U.S. Code, was without recourse;

any other Debt of ours which by the terms of the instrument creating or evidencing the same are specifically designated as not being senior in right of payment to the Senior Subordinated Debt Securities; and

our redeemable stock.

### **Subordination of Junior Subordinated Debt Securities**

The payment of principal, premium, if any, and interest on the Junior Subordinated Debt Securities will, to the extent and in the manner set forth in the Junior Subordinated Debt Indenture, be subordinated in right of payment to the prior payment in full, in cash or cash equivalents, of all our Senior and Subordinated Debt.

Upon any payment or distribution of assets to our creditors upon any liquidation, dissolution, winding up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or any bankruptcy, insolvency or similar proceedings, the holders of all Senior and Subordinated Debt will first be entitled to receive payment in full of all amounts due or to become due thereon before the holders

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of the Junior Subordinated Debt Securities will be entitled to receive any payment in respect of the principal, premium, if any, or interest on the Junior Subordinated Debt Securities.

No payments of principal, premium, if any, or interest in respect of the Junior Subordinated Debt Securities may be made by us if a default in any payment with respect to Senior and Subordinated Debt has occurred and is continuing. In addition, during the continuance of any other event of default (other than a payment default) with respect to Designated Senior and Subordinated Debt pursuant to which the maturity thereof may be accelerated, no payments on account of principal, premium, if any, or interest may be made by us during a Payment Blockage Period in respect of these Junior Subordinated Debt Securities (unless the Payment Blockage Period is terminated by written notice to the trustee from the holders of Designated Senior and Subordinated Debt or from an agent of such holders, or the event of default has been cured or waived or has ceased to exist). Only one Payment Blockage Period may be commenced with respect to the Junior Subordinated Debt Securities during any period of 360 consecutive days. No event of default which existed or was continuing on the date of the beginning of any Payment Blockage Period with respect to the Designated Senior and Subordinated Debt initiating the Payment Blockage Period shall be the basis for the beginning of any subsequent Payment Blockage Period by the holders of such Designated Senior and Subordinated Debt, unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days.

Due to this subordination, in the event of insolvency, funds that would otherwise be payable to holders of Junior Subordinated Debt Securities will be paid to the holders of Senior and Subordinated Debt to the extent necessary to pay the Debt in full, and we may be unable to meet fully our obligations with respect to the Junior Subordinated Debt Securities.

"Designated Senior and Subordinated Debt" is defined to mean

Debt under the Credit Agreement; and

Debt constituting Senior and Subordinated Debt which, at the time of its determination

has an aggregate principal amount of at least \$30 million; and

is specifically designated in the instrument as "Designated Senior and Subordinated Debt" by us.

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"Senior and Subordinated Debt" is defined to mean the principal, premium, if any, and interest on all of our Debt whether created, incurred or assumed before, on or after the date of the Junior Subordinated Debt Indenture; provided that Senior and Subordinated Debt shall not include

our Debt to any affiliate;

Debt of ours that, when incurred and without respect to any election under Section 1111(b) of Title 11, U.S. Code, was without recourse;

any other Debt of ours which by the terms of the instrument creating or evidencing the same are specifically designated as not being senior in right of payment to the Junior Subordinated Debt Securities, and in particular the Junior Subordinated Debt Securities shall rank equally with all other debt securities and guarantees issued to an AES Trust or any other trust, partnership or other entity affiliated with us which is a financing vehicle of ours in connection with an issuance of preferred securities by that financing entity and

our redeemable stock.

### Events of Default

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An Event of Default, as defined in the Indentures and applicable to debt securities issued thereunder, will occur with respect to the debt securities of any series issued under the Indentures if:

1. we default in paying principal or premium, if any, on any debt security when due, upon acceleration, redemption, mandatory repurchase, or otherwise;
2. we default in paying interest on any debt security when it becomes due, and the default continues for a period of 30 days;
3. we default in performing or breach any other covenant or agreement in the Indentures and the default or breach continues for a period of 60 consecutive days after written notice by the trustee or by the holders of 25% or more in aggregate principal amount of the debt securities of all series issued under an Indenture;
4. a court having jurisdiction enters a decree or order for

relief in respect of AES or any of our Material Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect;

appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official of AES or any of our Material Subsidiaries or for all or substantially all of the property and assets of AES or any of our Material Subsidiaries or

the winding up or liquidation of the affairs of AES or any of our Material Subsidiaries and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

5. AES or any of its Material Subsidiaries

commences a voluntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law,

consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official of AES or any of its Material Subsidiaries or for all or substantially all of the property and assets of AES or any of its Material Subsidiaries or

effects any general assignment for the benefit of creditors; or

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6. any other Events of Default set forth in the applicable prospectus supplement occur.

If an Event of Default (other than an Event of Default specified in clause (4) or (5) with respect to AES) occurs with respect to the debt securities of any series and continues, then the trustee or the holders of at least 25% in principal amount of the outstanding debt securities may, by written notice to us, and the trustee at the request of at least 25% in principal amount of the outstanding debt securities will, declare the principal, premium, if any, and accrued interest on the outstanding debt securities to be immediately due and payable. Upon a declaration of acceleration, the principal, premium, if any, and accrued interest shall be immediately due and payable.

If an Event of Default specified in clause (4) or (5) above occurs with respect to AES, the principal, premium, if any, and accrued interest on the debt securities shall be immediately due and payable, subject to the prior payment in full of all Senior Debt, without any declaration or other act on the part of the trustee or any holder. The holders of at least a majority in principal amount of the outstanding debt securities may, by



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written notice to us and to the trustee, waive all past defaults with respect to debt securities and rescind and annul a declaration of acceleration with respect to debt securities of that series and its consequences if:

all existing Events of Default applicable to debt securities of that series, other than the nonpayment of the principal, premium, if any, and interest on the debt securities that have become due solely by that declaration of acceleration, have been cured or waived and

the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

For information as to the waiver of defaults, see " Modification and Waiver."

The holders of at least a majority in principal amount of the outstanding debt securities may direct the time, method, and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee. However, the trustee may refuse to follow any direction that conflicts with law or the applicable Indenture, that may involve the trustee in personal liability, or that the trustee determines in good faith may be unduly prejudicial to the rights of holders of debt securities who did not join in giving that direction and the trustee may take any other action it deems proper that is not inconsistent with the direction received from holders of outstanding debt securities. A holder may not pursue any remedy with respect to the applicable Indenture or the debt securities of any series unless:

the holder gives the trustee written notice of a continuing Event of Default;

the holders of at least 25% in principal amount of outstanding debt securities make a written request to the trustee to pursue the remedy;

the holder or holders offer and, if requested, provide the trustee indemnity satisfactory to the trustee against any costs, liability or expense;

the trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and

with that 60-day period, the holders of at least a majority in principal amount of the outstanding debt securities do not give the trustee a direction that is inconsistent with the request.

However, these limitations do not apply to the right of any holder of a debt security to receive payment of the principal, premium, if any, or interest on, that debt security or to bring suit for the enforcement of any payment, on or after the due date expressed in the debt securities, which right shall not be impaired or affected without the consent of the holder.

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Each of the Indentures requires that certain of our officers certify, on or before a date not more than four months after the end of each fiscal year, that to the best of those officers' knowledge, we have fulfilled all our obligations under the Indenture. We are also obligated to notify the trustee of any default or defaults in the performance of any covenants or agreements under any of the Indentures.

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

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which a majority of the capital stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person.

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

**Modification and Waiver**

The Indentures may be amended or supplemented without the consent of any holder of debt securities to:

cure ambiguities, defects, or inconsistencies;

comply with the terms in "Restriction on Mergers, Consolidations and Sales of Assets" described below;

comply with any requirements of the Securities and Exchange Commission in connection with the qualification of the Indentures under the Trust Indenture Act of 1939;

evidence and provide for the acceptance of appointment with respect to the debt securities by a successor Trustee;

establish the form or forms of debt securities of any series;

provide for uncertificated debt securities and to make all appropriate changes for such purpose; and

make any change that does not adversely affect the rights of any holder.

Other modifications and amendments of the Indentures may be made with the consent of the holders of not less than a majority in principal amount of the outstanding debt securities of each series affected by the amendment (all such series voting together as a single class). However, no modification or amendment may, without the consent of each holder affected:

change the stated maturity of the principal of, or any sinking fund obligation or any installment of interest on, any debt security;

reduce the principal amount, premium, if any, or interest on, any debt security;

reduce the above-stated percentage of outstanding debt securities, the consent of whose holders is necessary to modify or amend that Indenture with respect to the debt securities of any series issued under that Indenture;

reduce the percentage or principal amount of outstanding debt securities, the consent of whose holders is necessary for waiver of compliance with certain provisions of that Indenture or for waiver of certain defaults.

A supplemental indenture which changes or eliminates any covenant or other provision of an Indenture which has expressly been included solely for the benefit of one or more particular series of debt securities issued under an Indenture, or which modifies the rights of holders of debt securities of that series with respect to that covenant or provision, shall be deemed not to affect the rights under the applicable Indenture of the holders of debt securities of any other series issued under the Indenture or of the coupons appertaining to those debt securities. It is not necessary for the consent of the holders under this section of an Indenture to approve the particular form of any proposed amendment, supplement, or waiver, but it is sufficient if the consent approves the substance thereof. After an amendment, supplement, or waiver under this section of an Indenture becomes effective, we will give to the holders affected thereby a notice briefly describing the amendment, supplement, or waiver. We will mail supplemental indentures to holders upon request. Any failure of us to mail a notice, or any defect therein, will not affect the validity of any supplemental indenture or waiver.

**Restriction on Mergers, Consolidations and Sales of Assets**

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Pursuant to the Indentures, we may not consolidate with, merge with or into, or transfer all or substantially all of our assets to any Person unless:

AES shall be the continuing Person, or, if AES is not the continuing Person, the Person formed by such consolidation or into which we merged or to which properties and assets of ours are transferred is a solvent corporation organized and existing under the laws of the United States or any State thereof or the District of Columbia and expressly assumes in writing all the obligations of ours under the Notes,

immediately after giving effect to such transaction no Event of Default has occurred and is continuing and

other conditions as may be established in connection with the issuance of the applicable Debt Securities are met.

### Defeasance and Discharge

The Indentures provide that we are deemed to have paid and will be discharged from all obligations in respect of the debt securities of any series on the 123rd day after the deposit referred to below has been made, and that the provisions of an Indenture will no longer be in effect with respect to the debt securities issued thereunder (except for, among other matters, certain obligations to register the transfer or exchange of the Debt Securities of such series, to replace stolen, lost or mutilated Debt Securities of such series, to maintain paying agencies and to hold monies for payment in trust) if, among other things,

we have deposited with the trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof, will provide money in an amount sufficient to pay the principal, premium, if any, and accrued interest on the applicable debt securities, on the due date thereof or earlier redemption (irrevocably provided for under arrangements satisfactory to the trustee), as the case may be, in accordance with the terms of the Indenture and the applicable debt securities,

we have delivered to the trustee

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an opinion of counsel to the effect that holders will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of our option under this "Defeasance" provision and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred, which opinion of counsel must be based upon a ruling of the Internal Revenue Service to the same effect unless there has been a change in applicable federal income tax law or related treasury regulations after the date of the Indenture that a ruling is no longer required or

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a ruling directed to the trustee received from the Internal Revenue Service to the same effect as the aforementioned opinion of counsel and

an opinion of counsel to the effect that the creation of the defeasance trust does not violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the U.S. Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law,

immediately after giving effect to that deposit on a pro forma basis, no Event of Default has occurred and is continuing on the date of the deposit or during the period ending on the 123rd day after the date of the deposit, and the deposit will not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which we are a party or

by which we are bound,

we are not prohibited from making payments in respect of the applicable debt securities by the subordination provisions contained in an Indenture and

if at that time the applicable debt securities are listed on a national securities exchange, we have delivered to the trustee an opinion of counsel to the effect that the debt securities will not be delisted as a result of a deposit, defeasance and discharge.

As more fully described in the prospectus supplement, the Indentures also provide for defeasance of certain covenants.

### **DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS**

We may issue Stock Purchase Contracts, which represent contracts obligating holders to purchase from us a specified number of shares of common stock at a future date or dates. The price per share of common stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula described in the stock purchase contracts. The stock purchase contracts may be issued separately or as a part of units ("Stock Purchase Units") consisting of a stock purchase contract and debt securities or debt obligations of third parties, including U.S. Treasury securities, securing the holders' obligations to purchase the common stock under the stock purchase contracts. The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and these payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner.

The prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units. The description in the prospectus supplement will not be complete and will be qualified by reference to the stock purchase contracts, and, if applicable, additional arrangements, relating to the stock purchase contracts or stock purchase units.

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### **DESCRIPTION OF SECURITIES WARRANTS**

We may issue securities warrants for the purchase of debt securities, preferred stock or common stock. Securities warrants may be issued independently or together with debt securities, preferred stock or common stock and may be attached to or separate from any offered securities. Each series of securities warrants will be issued under a separate warrant agreement to be entered into between us and a bank or trust company, as warrant agent. The securities warrant agent will act solely as our agent in connection with the securities warrants and will not assume any obligation or relationship of agency or trust for or with any registered holders of securities warrants or beneficial owners of securities warrants. This summary of some provisions of the securities warrants is not complete. You should refer to the securities warrant agreement, including the forms of securities warrant certificate presenting the securities warrants, relating to the specific securities warrants being offered for the complete terms of the securities warrant agreement and the securities warrants. That securities warrant agreement, together with the terms of securities warrant certificate and securities warrants, will be filed with the Securities and Exchange Commission in connection with the offering of the specific securities warrants.

The particular terms of any issue of securities warrants will be described in the prospectus supplement relating to the issue. Those terms may include:

the designation, aggregate principal amount, currencies, denominations and terms of the series of debt securities purchasable upon exercise of securities warrants to purchase debt securities and the price at which the debt securities may be purchased upon exercise;

the designation, number of shares, stated value and terms (including, without limitation, liquidation, dividend, conversion and voting rights) of the series of preferred stock purchasable upon exercise of securities warrants to purchase shares of preferred stock and the price at which such number of shares of preferred stock of such series may be purchased upon such exercise;

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the number of shares of common stock purchasable upon the exercise of securities warrants to purchase shares of common stock and the price at which such number of shares of common stock may be purchased upon such exercise;

the date on which the right to exercise the securities warrants will commence and the date on which the right will expire;

United States Federal income tax consequences applicable to the securities warrants; and

any other terms of the securities warrants.

Securities warrants for the purchase of preferred stock and common stock will be offered and exercisable for U.S. dollars only. Securities warrants will be issued in registered form only. The exercise price for securities warrants will be subject to adjustment in accordance with the applicable prospectus supplement.

Each securities warrant will entitle its holder to purchase the principal amount of debt securities or the number of shares of preferred stock or common stock at the exercise price set forth in, or calculable as set forth in, the applicable prospectus supplement. The exercise price may be adjusted upon the occurrence of certain events as set forth in the prospectus supplement. After the close of business on the expiration date, unexercised securities warrants will become void. We will specify the place or places where, and the manner in which, securities warrants may be exercised in the applicable prospectus supplement.

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Prior to the exercise of any securities warrants to purchase debt securities, preferred stock or common stock, holders of the securities warrants will not have any of the rights of holders of the debt securities, preferred stock or common stock purchasable upon exercise, including:

in the case of securities warrants for the purchase of debt securities, the right to receive payments of principal of, any premium or interest on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture; or

in the case of securities warrants for the purchase of preferred stock or common stock, the right to vote or to receive any payments of dividends on the preferred stock or common stock purchasable upon exercise.

### **PLAN OF DISTRIBUTION**

We may sell the securities in any of three ways (or in any combination thereof):

through underwriters or dealers;

directly to a limited number of purchasers or to a single purchaser; or

through agents.

The prospectus supplement will set forth the terms of the offering of such securities, including

the name or names of any underwriters, dealers or agents and the respective amounts of securities underwritten or purchased by each of them,

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the initial public offering price of the securities and the proceeds to us and any discounts, commissions or other items constituting compensation from us and any discounts, commissions or concessions allowed or reallocated or paid to dealers and any securities exchanges on which the securities may be listed.

Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Unless otherwise described in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions and the underwriters will be obligated to purchase all of the securities if any are purchased.

If a dealer is utilized in the sale of any offered securities, we will sell those securities to the dealer, as principal. The dealer may then resell the offered securities to the public at varying prices to be determined by the dealer at the time of resale.

Offered Securities may be sold directly by us or through agents designated by us from time to time. Any agent involved in the offer or sale of Offered Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by us to such agent will be set forth, in the Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the

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future. These contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

Agents and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

### LEGAL MATTERS

The legality of the Securities offered hereby will be passed upon for us by Davis Polk & Wardwell, New York, New York.

### EXPERTS

The financial statements of AES and our consolidated subsidiaries, except C.A. La Electricidad de Caracas and Corporation EDC, C.A. and their subsidiaries, or EDC, as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, incorporated in this registration statement by reference from our Current Report on Form 8-K filed June 5, 2001, have been audited by Deloitte & Touche LLP. The financial statements of EDC have been audited by Piernavieja, Porta, Cachefeiro y Asociados, a member firm of Arthur Andersen, for the year ended December 31, 2000, as stated in their report incorporated by reference. The financial statements of AES and our consolidated subsidiaries are incorporated herein by reference in reliance upon the respective reports of these firms based upon their authority as experts in accounting and auditing. All of the foregoing firms are independent auditors.

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