AES CORP
Form 10-K/A
August 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the Fiscal Year Ended December 31, 2006

-OR-

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

COMMISSION FILE NUMBER 0-19281

The AES Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**54 1163725** (I.R.S. Employer Identification No.)
4300 Wilson Boulevard Arlington, Virginia (Address of principal executive offices)	**22203** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.01 per share	New York Stock Exchange
AES Trust III, $3.375 Trust Convertible Preferred Securities	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. o

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2006, the last business day after the Registrant s most recently completed second fiscal quarter (based on the closing sale price of $18.45 of the Registrant s Common Stock, as reported by the New York Stock Exchange on such date) was approximately $12.137 billion.

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, on July 31, 2007, was 668,613,428.

EXPLANATORY NOTE

The accompanying financial statements and managements discussion and analysis of financial condition and results of operations have been restated to reflect the correction of errors that were contained in the Company s 2006 Annual Report on Form 10-K**.** The adjustments relate to the accounting for certain Special Obligations in Brazil and accounting for leases at our Southland subsidiary and our subsidiaries in Pakistan, which are explained in further detail below. In addition, the Company reported discontinued operations in its Form 10-Q for the quarter ended March 31, 2007, as a result of the previously disclosed sales of EDC and Central Valley. As required by Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets,* presentation of the results of operations of these businesses through the date of sale is reported in this Form 10-K/A as *Income (Loss) from Operations of Discontinued Businesses* in the Consolidated Statement of Operations. The combined impact of all restatement adjustments and reclassifications of EDC and Central Valley into Discontinued Operations is set forth in Restatement of Consolidated Financial Statements and Reclassification of Certain Subsidiaries into Discontinued Operations discussed below.

The impact of the restatement adjustments for the three restatement items that have occurred since the Company filed its 2006 Form 10-K on May 23, 2007, Special Obligations in Brazil and accounting for leases at Southland and Pakistan, resulted in a decrease to previously reported income from continuing operations and net income of $57 million and $18 million for the years ended December 31, 2006 and 2005, respectively, and an increase of $4 million for the year ended December 31, 2004. These adjustments also resulted in a decrease to previously reported income from continuing operations and net income of $6 million; $13 million and $19 million for the three, six and nine months ending March 31, June 30 and September 30, 2006. For the three months ended March 31, 2007, the impact of these adjustments on income from continuing operations and net income was a decrease of $6 million. Additionally, the cumulative adjustment for all periods prior to 2004 resulted in an immaterial increase to retained deficit.

Other than information relating to the restatement and conforming the presentation of discontinued operations as described below, no attempt has been made in this 10-K/A to amend or update other disclosures originally presented in the Form 10-K. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K on May 23, 2007 or amend or update those disclosures. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-K.

THE AES CORPORATION
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PART I

In this Annual Report the terms AES, the Company, us, or we refer to The AES Corporation and all of its subsidiaries and affiliates, collectivel The term The AES Corporation refers only to the parent, publicly- held holding company, The AES Corporation, excluding its subsidiaries and affiliates.

FORWARD-LOOKING INFORMATION

In this filing and from time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot assure you that they will prove to be correct.

Forward-looking statements involve a number of risks and uncertainties, and there are factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. Some of those factors (in addition to others described elsewhere in this report and in subsequent securities filings) include:

- our ability to achieve expected rate increases in our Utility businesses;
- our ability to manage our operation and maintenance costs;
- the performance and reliability of our generating plants, including our ability to reduce unscheduled down-times;
- changes in the price of electricity at which our Generation businesses sell into the wholesale market and our Utility businesses purchase to distribute to their customers, and our ability to hedge our exposure to such market price risk;
- changes in the prices and availability of coal, gas and other fuels and our ability to hedge our exposure to such market price risk, and our ability to meet credit support requirements for fuel and power supply contracts;
- changes in and access to the financial markets, particularly those affecting the availability and cost of capital in order to refinance existing debt and finance capital expenditures, acquisitions, investments and other corporate purposes;
- changes in our or any of our subsidiaries corporate credit ratings or the ratings of our or any of our subsidiaries debt securities or preferred stock, and changes in the rating agencies ratings criteria;
- changes in inflation, interest rates and foreign currency exchange rates;
- our ability to purchase and sell assets at attractive prices and on other attractive terms;
- our ability to locate and acquire attractive greenfield projects and our ability to finance, construct and begin operating our greenfield projects on schedule and within budget;
- the expropriation or nationalization of our businesses or assets by foreign governments, whether with or without adequate compensation;
- changes in laws, rules and regulations affecting our business, including, but not limited to, deregulation of wholesale power markets and its effects on competition, the ability to recover net utility assets and other potential stranded costs by our utilities, the establishment of a regional transmission organization that includes our utility service territory, the application of market power criteria by the Federal Energy Regulatory Commission (FERC), changes in law resulting from new federal energy legislation, including the effects of the repeal of Public Utility

Holding

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Company Act (PUHCA), and changes in political or regulatory oversight or incentives affecting our alternative energy businesses, including tax incentives;

- changes in environmental, tax and other laws, including requirements for reduced emissions of sulfur nitrogen, carbon, mercury, and other substances;

- the economic climate, particularly the state of the economy in the areas in which we operate;

- variations in weather, especially mild winters and cooler summers in the areas in which we operate, and the occurrence of hurricanes and other storms and disasters;

- our ability to meet our expectations in the development, construction, operation and performance of our alternative energy businesses, which rely, in part, on actual wind volumes in areas affecting our existing and planned wind farms performing consistently with our expectations, and actual wind turbine performance operating consistently with our expectations, the continued attractiveness of market prices for carbon offsets under markets governed by the Kyoto Protocol, and consistent and orderly regulatory procedures governing the application, regulation, issuance of Certified Emission Reduction (CER) credits and the extension of such regulations beyond 2012;

- our ability to keep up with advances in technology;

- the potential effects of threatened or actual acts of terrorism and war;

- changes in tax laws and the effects of our strategies to reduce tax payments;

- the effects of litigation and government investigations;

- changes in accounting standards, corporate governance and securities law requirements;

- our ability to remediate and compensate for the material weaknesses in our internal controls over financial reporting; and

- our ability to attract and retain talented directors, management and other personnel, including, but not limited to, financial personnel in our foreign businesses that have extensive knowledge of United States Generally Accepted Accounting Principles (GAAP).

Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS AND RECLASSIFICATION OF CERTAIN SUBSIDIARIES INTO DISCONTINUED OPERATIONS

The accompanying financial statements and managements discussion and analysis of financial condition and results of operations have been restated to reflect the correction of errors that were contained in the Company s 2006 Annual Report on Form 10-K. In addition the Company has conformed certain financial information presented in this Form 10-K/A to the presentation of the discontinued operations in its first quarter 2007 Form 10-Q. Other than information relating to the restatement and conforming the presentation of discontinued operations as described below, no attempt has been made in this 10-K/A to amend or update other disclosures originally presented in the Form 10-K. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K on May 23, 2007 or amend or update those disclosures. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-K.

In this Form 10-K/A, the term August 2007 Restatement refers collectively to the errors related to special obligations liabilities at the AES Eletropaulo and AES Sul subsidiaries and the errors related to accounting for leases at the AES Southland and Pakistan subsidiaries and the reclassification of EDC and Central Valley into discontinued operations. The term May 2007 Restatement refers collectively to the errors that were previously discussed in our 2006 Annual Report on Form 10-K that was filed on May 23, 2007.

The combined impact of the August and May 2007 Restatements resulted in a decrease to previously reported net income of $57 million for the year ended December 31, 2006; a decrease of $43 million for the year ended December 31, 2005 and an increase of $6 million for the year ended December 31, 2004. It also resulted in a decrease to previously reported net income of $9 million for the three months ended March 31, 2006; a decrease of $3 million for the six months ended June 30, 2006; an increase of $11 million for the nine months ended September 30, 2006 and a decrease of $6 million for the three months ended March 31, 2007. Additionally, the cumulative adjustment for all periods prior to 2004 resulted in an increase to retained deficit of $50 million.

On July 31, 2007, the Financial Audit Committee of the Board of Directors determined that the Consolidated Financial Statements and the financial information in the Form 10-K filed on May 23, 2007 should no longer be relied upon. The determination was made after discussion with the Company s external auditors.

A. Adjustments and Reclassifications in Financial Statements

The following table details the impact of the August 2007 Restatement on the Company s Consolidated Statement of Operations for the year ended December 31, 2006:

	Year Ended December 31, 2006				
	2006	August 2007	Discontinued Operations		2006
	Form 10-K	Restatement	EDC	Central Valley	Form 10-K/A
Revenues:					
Regulated	$ 6,849	$	$ (651)	$	6,198
Non-Regulated	5,450	(48)		(36)	5,366
Total revenues	12,299	(48)	(651)	(36)	11,564
Cost of Sales:					
Regulated	(4,578)		465		(4,114)
Non-Regulated	(4,090)	(1)		38	(4,052)
Total cost of sales	(8,668)	(1)	465	38	(8,166)
Gross margin	3,631	(49)	(186)	2	3,398
General and administrative expenses	(305)				(305)
Interest expense	(1,802)		39		(1,763)
Interest income	443		(17)		426
Other expense	(308)	(139)	(2)		(449)
Other income	115		(9)		106
Gain (loss) on sale of investments	98				98
Loss on sale of subsidiary stock	(539)				(539)
Asset impairment expense	(29)		1		(28)
Foreign currency transaction losses on net monetary position	(77)		(11)		(88)
Equity in earnings of affiliates	72				72
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	1,299	(188)	(185)	2	928
Income tax expense	(403)	(1)	72	(2)	(334)
Minority interest expense	(610)	132	19		(459)
INCOME FROM CONTINUING OPERATIONS	286	(57)	(94)		135
Income (loss) from operations of discontinued businesses net of income tax	11		94		105
(Loss) gain from disposal of discontinued businesses net of income tax	(57)				(57)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	240	(57)			183
Income from extraordinary items net of income tax	21				21
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	261	(57)			204
Cumulative effect of change in accounting principle net of income tax					
Net income	$ 261	$ (57)	$	$	$ 204

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The following table details the impact of both the May 2007 Restatement and the August 2007 Restatement on the Company s Consolidated Statement of Operations for the year ended December 31, 2005:

	Year Ended December 31, 2005						
	As Originally Filed	**May 2007 Restatement**	**2006 Form 10-K**	**August 2007 Restatement**	**Discontinued Operations EDC**	**Central Valley**	**2006 Form 10-K/A**
Revenues:							
Regulated	$ 5,737	$ 515	$ 6,252	$	$ (635)	$	$ 5,617
Non-Regulated	5,349	(580)	4,769	(33)		(33)	4,703
Total revenues	11,086	(65)	11,021	(33)	(635)	(33)	10,320
Cost of Sales:							
Regulated	(4,500)	82	(4,418)		397		(4,021)
Non-Regulated	(3,408)	4	(3,404)	(1)		34	(3,371)
Total cost of sales	(7,908)	86	(7,822)	(1)	397	34	(7,392)
Gross margin	3,178	21	3,199	(34)	(238)	1	2,928
General and administrative expenses	(221)	(4)	(225)				(225)
Interest expense	(1,896)	3	(1,893)		67		(1,826)
Interest income	391	4	395		(20)		375
Other expense	19	(151)	(132)		22		(110)
Other income		171	171		(14)		157
Gain (loss) on sale of investments							
Loss on sale of subsidiary stock							
Asset impairment expense		(16)	(16)				(16)
Foreign currency transaction losses on net monetary position	(89)	(12)	(101)		(44)		(145)
Equity in earnings of affiliates	76	(6)	70		1		71
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	1,458	10	1,468	(34)	(226)	1	1,209
Income tax expense	(465)	(60)	(525)	(3)	46	(1)	(483)
Minority interest expense	(361)	(8)	(369)	19	26		(324)
INCOME FROM CONTINUING OPERATIONS	632	(58)	574	(18)	(154)		402
Income (loss) from operations of discontinued businesses net of income tax		34	34		154		188
(Loss) gain from disposal of discontinued businesses net of income							
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	632	(24)	608	(18)			590
Income from extraordinary items net of income tax							
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	632	(24)	608	(18)			590
Cumulative effect of change in accounting principle net of income tax	(2)	(1)	(3)				(3)
Net income	$ 630	$ (25)	$ 605	$ (18)	$	$	$ 587

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The following table details the impact of both the May 2007 Restatement and the August 2007 Restatement on the Company s Consolidated Statement of Operations for the year ended December 31, 2004:

	Year Ended December 31, 2004						
	As Originally Filed	May 2007 Restatement	2006 Form 10-K	August 2007 Restatement	Discontinued Operations EDC	Central Valley	2006 Form 10-K/A
Revenues:							
Regulated	$ 4,897	$ 275	$ 5,172	$	$ (619)	$	$ 4,553
Non-Regulated	4,566	(346)	4,220	10		(38)	4,192
Total revenues	9,463	(71)	9,392	10	(619)	(38)	8,745
Cost of Sales:							
Regulated	(3,781)	71	(3,710)		382		(3,328)
Non-Regulated	(2,900)	9	(2,891)	(3)		35	(2,859)
Total cost of sales	(6,681)	80	(6,601)	(3)	382	35	(6,187)
Gross margin	2,782	9	2,791	7	(237)	(3)	2,558
General and administrative expenses	(182)	1	(181)				(181)
Interest expense	(1,932)	12	(1,920)		104		(1,816)
Interest income	282	1	283		(29)		254
Other expense	12	(135)	(123)		10		(113)
Other income		157	157		(7)		150
Gain (loss) on sale of investments	(45)	44	(1)				(1)
Loss on sale of subsidiary stock		(24)	(24)				(24)
Asset impairment expense		(50)	(50)		1		(49)
Foreign currency transaction losses on net monetary position	(165)	29	(136)		27		(109)
Equity in earnings of affiliates	70	(7)	63				63
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	822	37	859	7	(131)	(3)	732
Income tax expense	(359)	(21)	(380)	(3)	18		(365)
Minority interest expense	(199)	(12)	(211)		16		(195)
INCOME FROM CONTINUING OPERATIONS	264	4	268	4	(97)	(3)	172
Income (loss) from operations of discontinued businesses net of income	34	(93)	(59)		97	3	41
(Loss) gain from disposal of discontinued businesses net of income		91	91				91
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	298	2	300	4			304
Income from extraordinary items net of income tax							
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	298	2	300	4			304
Cumulative effect of change in accounting principle net of income							
Net income	$ 298	$ 2	$ 300	$ 4	$	$	$ 304

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The following table details the impact of the August 2007 Restatement on the Company s Consolidated Balance Sheet as of December 31, 2006:

	As of December 31, 2006				
	2006	August 2007	Discontinued Operations		2006
	Form 10-K	Restatement	EDC	Central Valley	Form 10-K/A
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,575	$	$ (191)	$ (5)	$ 1,379
Restricted cash	548				548
Short term investments	640				640
Accounts receivable, net of reserves of $233	1,903		(129)	(5)	1,769
Inventory	518		(45)	(2)	471
Receivable from affiliates	81		(5)		76
Deferred income taxes current	213		(5)		208
Prepaid expenses	113		(4)		109
Other current assets	943		(16)		927
Current assets of held for sale and discontinued businesses	31		395	12	438
Total current assets	6,565				6,565
NONCURRENT ASSETS					
Property, Plant and Equipment:					
Land	950		(19)	(3)	928
Electric generation and distribution assets	23,990		(2,133)	(22)	21,835
Accumulated depreciation	(6,979)		427	7	(6,545)
Construction in progress	1,113		(133)	(1)	979
Property, plant and equipment, net	19,074		(1,858)	(19)	17,197
Other assets:					
Deferred financing costs, net of accumulated amortization of $188	285		(6)		279
Investments in and advances to affiliates	596		(1)		595
Debt service reserves and other deposits	524				524
Goodwill, net	1,419			(3)	1,416
Other intangible assets, net of accumulated amortization of $171	305		(6)	(1)	298
Deferred income taxes noncurrent	663		(59)	(2)	602
Other assets	1,627	28	(20)	(1)	1,634
Noncurrent assets of held for sale and discontinued businesses	105		1,950	36	2,091
Total other assets	5,524	28	1,858	29	7,439
TOTAL ASSETS	$ 31,163	$ 28	$	$ 10	$ 31,201
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES					
Accounts payable	$ 892		$ (96)	$ (1)	$ 795
Accrued interest	412		(8)		404
Accrued and other liabilities	2,227		(95)	(1)	2,131
Recourse debt-current portion					
Non-recourse debt-current portion	1,453		(42)		1,411
Current liabilities of held for sale and discontinued businesses	45		241	2	288
Total current liabilities	5,029				5,029
LONG-TERM LIABILITIES					
Non-recourse debt	10,102		(268)		9,834
Recourse debt	4,790				4,790
Deferred income taxes-noncurrent	790	9	(6)	10	803
Pension liabilities and other post-retirement liabilities	883		(39)		844
Other long-term liabilities	3,371	242	(57)	(2)	3,554
Long-term liabilities of held for sale and discontinued businesses	62		370	2	434
Total long-term liabilities	19,998	251		10	20,259
Minority Interest (including discontinued businesses of $175	3,100	(152)			2,948
Commitments and Contingent Liabilities (see Notes 10 and 11)					
STOCKHOLDERS EQUITY					
Common stock ($.01 par value, 1,200,000,000 shares authorized; 665,126,309 issued and outstanding at December 31, 2006	7				7
Additional paid-in capital	6,654				6,654
Accumulated deficit	(1,025)	(71)			(1,096)
Accumulated other comprehensive loss	(2,600)				(2,600)
Total stockholders equity	3,036	(71)			2,965
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 31,163	$ 28	$	$ 10	$ 31,201

The following table details the impact of both the May 2007 and the August 2007 Restatements on the Company s Consolidated Balance Sheet as of December 31, 2005:

	As of December 31, 2005						
	As Originally Reported	**May 2007 Restatement**	**2006 Form 10-K**	**August 2007 Restatement**	**Discontinued Operations EDC**	**Central Valley**	**2006 Form 10-K/A**
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 1,390	$ (69)	$ 1,321	$	$ (144)	$ (1)	$ 1,176
Restricted cash	420	57	477		(40)		437
Short-term investments	203	(4)	199				199
Accounts receivable, net of reserves of $260	1,615	33	1,648		(127)	(4)	1,517
Inventory	460	(3)	457		(34)	(2)	421
Receivable from affiliates	2	71	73		(2)		71
Deferred income taxes current	267	3	270		(12)		258
Prepaid expenses	119		119		(6)		113
Other current assets	756	(68)	688		(18)		670
Current assets of held for sale and discontinued businesses		35	35		383	7	425
Total current assets	5,232	55	5,287				5,287
NONCURRENT ASSETS							
Property, Plant and Equipment:							
Land	860		860		(20)	(3)	837
Electric generation and distribution assets	22,440	(139)	22,301		(2,014)	(21)	20,266
Accumulated depreciation	(6,087)	112	(5,975)		338	5	(5,632)
Construction in progress	1,441	(594)	847		(166)		681
Property, plant and equipment, net	18,654	(621)	18,033		(1,862)	(19)	16,152
Other assets:							
Deferred financing costs, net of accumulated amortization of 217	294	(19)	275		(7)		268
Investments in and advances to affiliates	670	(5)	665		(1)		664
Debt service reserves and other deposits	611	(65)	546				546
Goodwill, net	1,428	(15)	1,413			(3)	1,410
Other intangible assets, net of accumulated amortization of $127		284	284		(7)	(1)	276
Deferred income taxes noncurrent	807	(24)	783		(85)		698
Other assets	1,736	(327)	1,409	21	(16)	(7)	1,407
Noncurrent assets of held for sale and discontinued businesses		265	265		1,978	44	2,287
Total other assets	5,546	94	5,640	21	1,862	33	7,556
TOTAL ASSETS	$ 29,432	$ (472)	$ 28,960	$ 21	$	$ 14	$ 28,995
LIABILITIES AND STOCKHOLDERS EQUITY							
CURRENT LIABILITIES							
Accounts payable	$ 1,104	$ (13)	$ 1,091		$ (90)	$ (3)	$ 998
Accrued interest	382	(2)	380		(7)		373
Accrued and other liabilities	2,122	(15)	2,107		(67)	(3)	2,037
Recourse debt current portion	200		200				200
Non-recourse debt current portion	1,598	(151)	1,447		(79)	(1)	1,367
Current liabilities of held for sale and discontinued businesses		51	51		243	7	301
Total current liabilities	5,406	(130)	5,276				5,276
LONG-TERM LIABILITIES							
Non-recourse debt	11,226	(588)	10,638		(320)		10,318
Recourse debt	4,682		4,682				4,682
Deferred income taxes-noncurrent	721	56	777	6	(8)	14	789
Pension liabilities and other post-retirement liabilities	857	8	865		(36)		829
Other long-term liabilities	3,280	54	3,334	48	(43)	(2)	3,337
Long-term liabilities of held for sale and discontinued businesses		136	136		407	2	545
Total long-term liabilities	20,766	(334)	20,432	54		14	20,500
Minority Interest (including discontinued businesses of $122	1,611	15	1,626	(19)			1,607

Commitments and Contingent Liabilities (see Notes 10 and 11)							
STOCKHOLDERS EQUITY							
Common stock ($.01 par value, 1,200,000,000 655,882,836 shares issued and outstanding at December 31, 2005	7		7				7
Additional paid-in capital	6,517	44	6,561				6,561
Accumulated deficit	(1,214)	(72)	(1,286)	(14)			(1,300)
Accumulated other comprehensive loss	(3,661)	5	(3,656)				(3,656)
Total stockholders equity	1,649	(23)	1,626	(14)			1,612
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 29,432	$ (472)	$ 28,960	$ 21	$	$ 14	$ 28,995

B. Narrative Discussion of Adjustments and Reclassifications

The following narrative explains the combined restatement adjustments and reclassifications that have been presented in both the 2006 Form 10-K filed on May 23, 2007 and this Form 10-K/A. The narrative is presented in three subsections, Adjustments contained in the May 2007 Restatement; Adjustments presented in the August 2007 Restatement, which presents adjustments made since the May 2007 Restatement; and Reclassifications into Discontinued Operations presented in this Form 10-K/A.

1. Adjustments contained in the May 2007 Restatement

Background

The Company had previously identified certain material weaknesses related to its system of internal control over financial reporting. These material weaknesses, as described in the Company s previously filed Form 10-K for the year ended December 31, 2005 included the following general areas:

- Aggregation of control deficiencies at our Cameroonian subsidiary;
- Lack of U.S. GAAP expertise in Brazilian businesses;
- Treatment of intercompany loans denominated in other than the functional currency;
- Derivative accounting; and
- Income taxes.

In part, the continuing remediation of these material weaknesses resulted in the identification of certain material financial statement errors. The Company has restated its financial statements for the years ended prior to December 31, 2005 on March 30, 2005, January 19, 2006 and April 4, 2006 largely, as a result of material weaknesses. As part of the Company s plan to remediate these material weaknesses in internal control over financial reporting, the Company has embarked on a program, over a several year period, to improve the quality of its people, processes and financial systems. This has included a broad restructuring of the global finance organization to operate on a more centralized basis and the recruitment of additional accounting, financial reporting, income tax, internal control and internal audit staff around the world.

During the fourth quarter of 2006, in conjunction with these improvements, continued remediation of some of our material weaknesses and overall strengthening of controls across our businesses, the Company identified certain additional errors which required the restatement of previously issued consolidated financial statements for the years ended December 31, 2005 and December 31, 2004 and for the previously issued interim periods ended March 31, 2006, June 30, 2006 and September 30, 2006.

The Company s remediation efforts for certain material weaknesses reported as of December 31, 2005, as well as improvements to controls across the Company, resulted in the identification of errors included in the May 2007 Restatement. In addition, a number of immaterial errors were identified as a result of the continued strengthening of the global finance organization. The Company believes that the increase in technical tax and accounting expertise, increased staffing levels at certain of our businesses and at our corporate office, and a focused effort on increasing the number of financial audit activities have contributed to the overall improvement of the accuracy of our financial statements. It also resulted in the identification of material weaknesses in areas not previously reported, although not all weaknesses contributed to the need to restate the consolidated financial statements. For further discussion of our material weaknesses, see Item 9A of this Annual Report on Form 10-K/A.

The May 2007 Restatement adjustments included several key categories as described below:

Brazil Adjustments

Prior year errors related to certain subsidiaries in Brazil included the following:

- decrease of the U.S. GAAP fixed asset basis and related depreciation at Eletropaulo of $21 million in 2005 and $16 million in 2004 (the impact net of tax and minority interest is $4 million in 2005 and $4 million in 2004); and

- other errors identified through account reconciliation or review procedures.

The cumulative impact on net income was an increase of $6 million and $3 million for the years ended December 31, 2005 and 2004, respectively.

La Electricidad de Caracas (EDC)

Prior year errors related to the Company s Venezuelan subsidiary, EDC, included the following:

- $22 million revenue increase predominantly related to an error in updating the current tariff rates in the unbilled revenue calculation for 2005,

- $10 million increase in foreign currency transaction expense posted incorrectly to the balance sheet in 2005, and

- other errors identified through account reconciliation or review procedures.

The cumulative impact of all EDC adjustments on net income was an increase of $2 million for each of the years ended December 31, 2005 and 2004. The above noted adjustments related to EDC have been reclassified into discontinued operations for all periods presented in this Form 10-K/A.

Capitalization of Certain Costs

Certain errors were discovered with fixed asset balances at several of the Company s facilities related to capitalization of development costs, overhead and capitalized interest. The cumulative impact on net income for capitalization errors was a decrease of $4 million for the year ended December 31, 2005 and a decrease of $2 million for the year ended December 31, 2004.

Derivatives

Adjustments were identified resulting from the detailed review of certain prior year contracts and included the following:

- the evaluation of hedge effectiveness; and

- the identification and evaluation of derivatives.

The most significant adjustment involved a power sales agreement signed in 2002 between the Company s generation facility in Cartagena, Spain, an unconsolidated subsidiary accounted for using the equity method of accounting, and its power offtaker. The power sales agreement had a pricing component that was tied to the U.S. dollar, although the entity s own functional currency was the Euro and that of the offtaker was the Euro. In addition, a maintenance service agreement related to the Cartagena facility included a pricing mechanism that was tied to changes in the U.S. dollar, when the entity s functional currency was the Euro and the service provider s functional currency was the Yen.

Under the guidance of Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, these contracts contained embedded derivatives that

are required to be bifurcated from the contract and recorded at fair value with changes in fair value recognized in the results of operations. The net result of these adjustments was a decrease of $3 million and an increase of $4 million in equity in earnings of affiliates for the years ended December 31, 2005 and 2004, respectively.

The cumulative impact of all derivative adjustments on net income was a decrease of $4 million in 2005 and an increase of $5 million in 2004.

Income Tax Adjustments

Income tax adjustments related primarily to the following:

- A $20 million adjustment to correct income tax expense in the fourth quarter of 2005 as a result of an incorrect 2004 tax return to accrual adjustment, previously disclosed in the Company s Form 10-Q for September 30, 2006; and

- A $21 million adjustment to record income tax benefit in 2004 as a result of a change in local income tax reporting for leases in Qatar, offset by adjustments to correct income tax expense for certain state deferred tax assets and other miscellaneous items.

The net impact of individual income tax adjustments resulted in an increase to income tax expense of approximately $18 million in 2005 and $7 million in 2004. The cumulative impact on income tax expense as a result of all restatement adjustments was an increase of approximately $27 million for the year ended December 31, 2005 and an increase of approximately $24 million for the year ended December 31, 2004.

Other Adjustments

As a result of work performed in the course of our year end closing process, certain other adjustments were identified which decreased net income by $6 million for the year ended December 31, 2005 and increased net income by $1 million for the year ended December 31, 2004.

Balance Sheet Adjustments

Adjustments at certain businesses in Brazil

The Company s Brazilian business, Sul, records customer receipts used to provide line extensions as an offset against property, plant and equipment. These receipts. called special obligations were previously offset against property, plant and equipment. The increase to property, plant and equipment and increase to long-term regulatory liabilities was $93 million and $62 million at December 31, 2005 and 2004, respectively. See further discussion regarding additional pre-acquisition special obligations in August 2007 Restatement.

Cartagena Deconsolidation

Upon the Company s adoption of Financial Interpretation No.46, Variable Interest Entities (FIN No. 46R), as of January 1, 2004, the Company incorrectly continued to consolidate our business in Cartagena, Spain. An adjustment was made to deconsolidate the Cartagena balance sheet and statement of operations and to reflect AES share of the results of its operations using the equity method of accounting. This resulted in a decrease to investments in affiliates of $55 and $39 million; a decrease in net property, plant and equipment of $570 and $387 million; and a decrease in non-recourse debt of $579 and $497 million at December 31, 2005 and 2004, respectively.

Restricted Cash

Certain balance sheet reclassifications were recorded at December 31, 2005 and December 31, 2004 that were the result of errors in the presentation of restricted cash. These reclassifications resulted in a reduction in cash and cash equivalents and an increase in restricted cash by $63 million and $97 million, in 2005 and 2004, respectively.

Share-based Compensation

The Company recently concluded an internal review of accounting for share-based compensation (the LTC Review), which originally was disclosed in the Company s Form 8-K filed on February 26, 2007. As a result of the LTC Review, the Company identified certain errors in its previous accounting for share-based compensation. These errors required adjustments to the Company s previous accounting for these awards under the guidance of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), Financial Accounting Standards Board (FASB) Statement No. 123, *Accounting for Stock-Based Compensation* (FAS No. 123) and FASB Statement No. 123R (revised 2004), *Share-Based Payment* (FAS No. 123R). As described below, the Company is recorded adjustments to its prior financial statements that resulted in additional cumulative pre-tax compensation expense for the years 2000-2005 of $36 million ($26 million net of taxes). None of these adjustments, individually or in the aggregate, was quantitatively material to any period presented.

In addition, the Company identified accounting for share-based compensation as a material weakness and prepared a remediation plan to strengthen further its granting and accounting practices to avoid similar errors in the future. See Item 9A Disclosure Controls and Procedures of this Form 10-K/A for further explanation of the material weakness and the Company s remediation plans.

Background of the LTC Review

Beginning in mid-2006 the Company conducted limited assessments of its share-based compensation practices. Based on those assessments, it did not appear likely that the potential accounting adjustments relating to share-based compensation issues identified as of that time would be material to the Company s prior period financial statements. However, information subsequently developed by the Company s Internal Audit group indicated that there had been control deficiencies and inadequate oversight related to historical granting practices and accounting for share-based compensation.

Following consideration of this information, the Company determined that a more comprehensive review of prior period awards was warranted. Accordingly, in early February 2007, the Company requested that an outside consulting firm assist with the collection and processing of data relating to the Company s share-based compensation awards. The outside consulting firm also provided a team of forensic accountants to assist the Company with its: (i) evaluation of relevant SEC and FASB guidance relating to share-based compensation; (ii) implementation of procedures for review of electronic data, including e-mails; and (iii) analysis of the information used to determine measurement dates, strike prices and valuations required to reach the resulting accounting adjustments. The Company also asked an outside law firm to assist the Company with the LTC Review. This law firm had already been assisting the Company in responding to requests for documents and information from the SEC Staff principally relating to the Company s restatements for the years 2002-2005. As disclosed in a Form 8-K filed on March 19, 2007, the Financial Audit Committee of the Company s Board of Directors formed an Ad Hoc Committee of three independent directors to review the Company s procedures, conclusions and recommendations regarding the LTC Review, as described herein.

Purposes and Scope of the LTC Review

The LTC Review was designed and conducted principally to determine whether any adjustments to the Company s prior period financial statements were required as a result of incorrect accounting for share-based compensation, which includes stock options and restricted stock units. A secondary purpose of the LTC Review was to evaluate the Company s historical practices and procedures for making share-based compensation awards, including the conduct of individuals involved in the granting process.

The Company determined that a ten-year review period covering the years 1997-2006 (the Review Period) was appropriate. Supporting documentation was more readily available in more recent years and, in many instances, the Company experienced difficulty locating and/or gathering documentation for the years 1997-1999. Therefore, the Company determined that a review of years preceding 1997 was unlikely to result in information susceptible to meaningful analysis.

A significant accounting issue identified in the LTC Review related to the determination of the measurement date with respect to share-based compensation awards. During the Review Period, the Company had generally used the indicated grant date as the measurement date for accounting purposes, when in many cases the indicated grant date actually preceded the measurement date as correctly defined under Generally Accepted Accounting Principles (GAAP). The U.S. GAAP technical accounting literature in effect during the accounting periods under review defined the measurement date for purposes of determining share-based compensation expense as the date on which the Company finalized an individual s share-based award, to include the number of units awarded at a determinable strike price.

The Company gathered documentation and conducted analysis related to measurement dates with respect to all of the grants awarded in the Review Period, a total of approximately 29,600 stock option grants, representing approximately 45,380,000 options as well as approximately 4,000,000 restricted stock units for non-directors. These grants included both the Company s annual compensation awards, known as on-cycle grants, and all awards made at other times, referred to as off-cycle grants. The LTC Review was designed to assess the appropriate measurement date for each of the various types of grants awarded during the Review Period. The Company considered SEC guidance and GAAP in evaluating known facts and circumstances in an attempt reasonably to determine the date that the share-based compensation awards were final. The Company collected information through targeted searches of various sources, including human resources and accounting databases, paper and electronic files and servers, Board of Directors and Compensation Committee meeting minutes, payroll records, and acquisition and business development documentation. The Company also interviewed certain current and former employees, officers and directors.

Although there generally was less documentation readily available for the years 1997-1999, the Company did review grants in those years, and based on available information, attempted to make a reasonable assessment of the correct measurement dates and potential accounting adjustments for the purposes of assessing whether any charge from that period could be material to the Company s financial statements in those years. Based on this analysis, the Company determined that any errors identified during that period would not have resulted in a material impact to the Company s stockholders equity and no adjustments were made.

The Company s Accounting Adjustments

As a result of the LTC Review, the Company has determined that adjustments resulting in charges for share-based compensation should be recorded for the years 2000 through 2005. The additional cumulative pre-tax compensation expense totals $36 million ($26 million net of taxes). The effect of recognizing additional non-cash, share-based compensation expense resulting from the charges is as follows:

Fiscal Year Ended (in millions)	Pre-Tax Expense	After-Tax Expense
2000	$ 8	$ 6
2001	$ 15	$ 11
2002	$ 8	$ 5
2003	$ 4	$ 3
2004	$	$
2005	$ 1	$ 1

The Company also recorded a charge of $1 million (pre-tax) relating to the first three previously reported quarters of 2006, which primarily related to prior year grants in which expense was carried forward to 2006.

None of these adjustments, individually or in the aggregate, was quantitatively material to any period presented; however, the Company reflected these adjustments by reducing stockholders equity by $25 million as of January 1, 2004 for the cumulative effect of the correction of errors for the periods from January 1, 2000 through December 31, 2003. General and administrative expense were adjusted for the years ended December 31, 2004 and 2005 and the first three quarters of 2006 as outlined above.

Annual On-Cycle Awards. Compensation charges for annual on-cycle grants were determined based upon facts and circumstances relating to the dates the awards were final and the selection of the appropriate strike prices. The Company determined new measurement dates based on a determination of the date an award was final using the following methodology. Grants to Executive Officers and certain other senior executives (Senior Leaders) were considered to be final for accounting purposes upon Compensation Committee approval of a fixed number of options at a specific exercise price, or in certain years based on subsequent action by the Company establishing the grant date and strike price. Grants to all other employees were considered to be final for accounting purposes on the date that management completed its allocation of substantially all awards to the pool of employees receiving awards. In addition to measurement date changes, the LTC Review identified three years in which the Company had set the strike price for the annual on-cycle grants either as the opening price or as the intra-day low trading price of the Company s stock during a four-day period over which a Board meeting was held. To determine the fair market value of the stock on the re-determined measurement date for accounting purposes, the Company used the closing price of the stock on that date. Accordingly, for financial accounting purposes, the amount of compensation expense recorded by the Company reflected both measurement date changes and intrinsic value changes for annual on-cycle awards. The predominant causes of the charges relating to on-cycle grants were (i) with respect to Executive Officers and Senior Leaders, use of a grant date associated with an annual Board meeting, where the grant date and strike price had not been determined with finality until several days after the meeting; and (ii) with respect to all other employees, the failure to finalize a complete and accurate schedule of the awards to be made to the employees contemporaneously with the intended grant date.

Off-Cycle Grants. Compensation charges for off-cycle grants also were based primarily upon the dates the awards were final. The majority of the measurement date changes with respect to off-cycle grants related to the following five categories: (1) awards to newly hired employees; (2) awards upon promotions of existing employees or other change in status; (3) awards made in conjunction with transactions or other successful business development efforts; (4) Founders and other similar awards made in recognition of outstanding service, and (5) corrections to previous awards subsequently determined to have been erroneous.

The predominant cause of the measurement date errors in each of these categories of awards was the lack of adequate contemporaneous documentation supporting the intended grant. Accordingly, the amount of compensation expense recorded by the Company for these categories of off-cycle awards was based primarily upon measurement date changes. The adjustments reflected available evidence concerning the dates on which: (i) the recipients were entitled to receive the awards, (ii) the grants were intended to be made, and (iii) the terms of the grants were final.

In addition to the categories above, off-cycle grants also were defined to include modifications of prior grants. Compensation charges for grant modifications were based upon an analysis of changes to vesting and exercise periods. As a result of its review, the Company determined that certain modifications were calculated using an incorrect method and others were not communicated to appropriate accounting personnel. The most significant modification related to a grant to a former CEO that was erroneously accounted for by using an intrinsic value calculation instead of a fair value calculation following the Company s decision to adopt FAS 123 effective January 1, 2003. The Company is recorded a $3 million charge to account for this error for the year 2003.

Summary of Significant Charges By Grant Year

Set forth in this section is a summary of the charges resulting from grants awarded in the years 2000, 2001 and 2003, which make up more than 95% of the additional expenses that required adjustments to the prior period financial statements. This information is different than the discussion and table above, which described the effect of recognizing these additional charges over the applicable accounting periods in the Company s financial statements. For these years, further information concerning the type of grant (on-cycle or off-cycle), the categories of the recipients and the nature of the change resulting in the adjustment is set out below.

For grants made in 2000, the total charge resulting from the LTC Review was approximately $23 million. Of that amount, approximately $4 million resulted from the changes to the on-cycle grants to Executive Officers and Senior Leaders. Of the remaining amount, approximately $17 million resulted from the changes to the on-cycle grants to all other employees, and approximately $2 million resulted from off-cycle grants.

For grants made in 2001, the total charge resulting from the LTC Review was approximately $8.7 million. Of that amount, approximately $7 million resulted from the changes to on-cycle grants to Executive Officers and Senior Leaders. Of the remaining amount, approximately $250,000 resulted from the changes to the on-cycle grants to all other employees, and approximately $1 million resulted from off-cycle grants.

For grants made in 2003, the total charge was approximately $6 million. Of this amount, $3 million related to the modification to a grant to a former CEO as described above, and approximately $800,000 related to a grant to a director approved by shareholders where the grant date was recorded as having been finalized on the date of an earlier Board meeting. The remaining charges resulted from changes to certain on-cycle and off-cycle grants.

The Company s Review of Historic Practices

As noted, the primary purpose of the LTC Review was to conduct a comprehensive review of the Company s accounting for share-based compensation and to record any required adjustments in its financial statements. The LTC Review was not an independent investigation relating to historic practices and procedures. However, during the course of the LTC Review, the Company identified certain historical practices raising issues relating to share-based compensation and conducted a review of those practices, limited in scope as noted herein. Based on the information to date, the Company identified certain historical issues and practices of concern relating to the annual on-cycle and off-cycle grants, which fall within the following five categories: (1) with respect to the 1997-1998 annual on-cycle grants, reported ratification of undocumented prior on-cycle grants by the Compensation Committee; (2) with respect to the 1999-2001 annual grants, after-the-fact selection of low strike prices within the four-day period during which Board meetings were held, and inaccurate Compensation Committee meeting minutes relating to grant date and strike price selection; (3) issuance of off-cycle grants prior to 2004 based on apparent, but not actual, delegation of authority, as well as general deficiencies in administration of off-cycle grants; (4) failure to establish and/or comply with certain formal corporate governance procedures in periods through 2004; and (5) lack of and/or insufficient controls and procedures, and/or lack of knowledge of applicable accounting standards, in connection with administration of share-based compensation. The Company noted that the senior officers who were primarily involved in the selection of the prices of the annual on-cycle grants from 1999-2001 were the Company s President and CEO at the time, who retired in 2002; the Company s CFO at the time, who left full time employment with the Company in early 2006 (he remains under an employment agreement through March 2008, although he is not active in management); and the Company s General Counsel at the time, who presently is the Company s Executive Vice President and President, Alternative Energy and is no longer involved in the Company s legal functions or Board consideration or approval of share-based compensation.

The information developed in the LTC Review did not establish that any officer or director of the Company manipulated the selection of grant dates or strike prices with actual knowledge that they were violating or causing the Company to violate accounting principles or requirements of the Company s stock options plans, or that there was any effort to conceal information relating to the selection of grant dates or strike prices from the Company s outside auditors. However, all of the matters described herein with respect to the Company s general views and issues arising from the LTC Review are qualified by the fact that, in light of the limitations discussed herein, there may be additional documents, witnesses or other information not reviewed that might have indicated a different result

The limitations of the LTC Review include the fact that the Company did not review backups of data from the First Class System (First Class), the Company s e-mail system prior to January 1, 2002, when the Company switched to Microsoft Outlook. The Company also did not attempt to restore approximately 460 computer tapes (the Backup Tapes) that are stored by an off-site storage vendor. The Company believes that these tapes comprise backups of certain Company electronic data (including e-mail) backed up on certain dates from approximately late 2001 through early 2004, but the Company has not located an index identifying the contents of the tapes.

The Company decided not to attempt to restore and review First Class or the Backup Tapes because: (i) the Company was able to review certain electronic data, including for the years 1997-2002, as well as paper files and other available information relating to the majority of the grants made during the Review Period; (ii) the Company believes that it is unlikely that information from these sources would materially alter the accounting adjustments that were determined to be necessary; (iii) the Company has implemented or will implement measures necessary to provide effective controls and procedures in these areas; (iv) of the senior officers who were primarily involved in the selection of the prices of the annual on-cycle grants from 1999-2001, the former CEO is no longer with the Company, the former CFO is no longer an officer and is not active in the Company s management, and the former General Counsel has a different position in the Company that does not involve corporate legal responsibilities or participation in Board consideration or approval of share-based compensation; and (v) based on consultation with a reputable information technology vendor, the Company determined that neither First Class nor the Backup Tapes could be restored for review without causing substantial delays in the LTC Review. In addition, while the Company conducted more than twenty interviews with persons who, by virtue of their position or otherwise, were believed to be most likely to have relevant knowledge, the Company did not interview every director or employee who may have had any involvement with options grants or accounting for share-based compensation.

2. Adjustments presented in the August 2007 Restatement

Special Obligations in Brazil Subsidiaries

During October 2006, the National Agency for Electric Energy (ANEEL), which regulates our utility operations at AES Sul and AES Eletropaulo in Brazil, issued Normative Resolution 234 (the Resolution) requiring that utilities begin amortizing a liability called Special Obligations beginning with their second tariff reset cycle in 2007 or a later year as an offset to depreciation expense. This was followed by additional ANEEL guidance and clarifying communications. In February 2007, ANEEL issued Circular 236 and 296, both of which discussed the timing of when the amortization for Special Obligations liabilities should begin. In June 2007, ANEEL issued another resolution, Circular 1314, stating that two February 2007 resolutions (236 and 296) were no longer in force.

For AES Eletropaulo and AES Sul, the second tariff reset cycles start July 2007 and April 2008, respectively. Upon further review and interpretation of the resolution, the Company has determined that an adjustment should have been recorded to its financial statements for the year ended December 31, 2006 to reflect the Special Obligation requirements of the Resolution as a regulatory liability.

Special Obligations represent consumers contributions to the cost of expanding the electric power supply system. Property plant and equipment assets, regardless of the source of funds to acquire them, are depreciated based on the respective assets useful lives, as established by ANEEL for regulatory purposes. The Special Obligation liability was not previously amortized as a reduction of allowable costs for tariff or Brazilian Accounting Principles. The purpose of the Resolution is to adjust the tariff prospectively to offset the allowable cost for depreciation on these assets with amortization of the special obligation liability.

Upon issuance of the Resolution in October 2006 and throughout the subsequent clarifications issued through ANEEL, the Company evaluated the impact on its financial statements including discussing certain aspects of the issue with the Brazilian affiliate of its external audit firm. Accordingly, an adjustment was recorded in 2006 to its reported Special Obligations liability to reverse amortization at AES Sul to conform to its accounting for Special Obligations at AES Eletropaulo and with the reporting requirements of the ANEEL guidance. The Company consulted with the Brazilian affiliate of its external audit firm, in reaching this conclusion.

In 1997 and 1998, the Company acquired a 91% and 10% interest in AES Sul and AES Eletropaulo, respectively, under a concession agreement that allows AES to deliver service through 2027. Currently the Company owns a 100% and 16% acquired interest in AES Sul and AES Eletropaulo, respectively. At the time of acquisition, the fair value of Special Obligation liabilities (the pre-acquisition liability) was evaluated but was assigned a fair value of zero because it was not considered probable that the obligation would be required to be repaid or amortized as a reduction of allowable costs through the tariff. Given the Resolution, AES is required to establish the liability for U.S. GAAP purposes that would have existed as of the original purchase date, and then begin amortizing that liability in the future consistent with the prospective amortization for tariff purposes. The Company has recorded the establishment of this liability through a fourth quarter 2006 charge of $139 million to Other Expense. As a result of the Company s consolidation of AES Eletropaulo, there is an offsetting reduction of $108 million to Minority Interest Expense.

The Company considered the pre-acquisition liability that was fair-valued at zero at the time of acquisition to determine whether the Resolution was a triggering event that would now make this liability probable as a reduction of allowable cost under tariff. The Company consulted with the Brazilian affiliate of its external audit firm regarding the pre-acquisition liability and determined that as of May 23, 2007, the date of the filing of our 2006 Form 10-K, no industry positions or any other consensus had been reached regarding how ANEEL guidance should be applied at that date and accordingly, the Brazilian affiliate of its external audit firm was in agreement with the Company that no adjustments to the financial statements were made relating to Special Obligations in Brazil. Subsequent to May 23, 2007, industry discussions occurred and other Brazilian companies filed Forms 20-F with the SEC reflecting the impact of the Resolution in their December 31, 2006 financial statements. In the absence of any significant regulatory developments between May 23, 2007 and the date of these other filings, we now believe, and our auditors agree, that the October 2006 resolution issued by ANEEL required us to record an adjustment to our Special Obligations liability as of December 31, 2006.

While future cash flows will be reduced as a result of the offset to depreciation expense by the required amortization of the Special Obligation liability being included in the tariff, future gross margin and income from continuing operations will not be affected by this change.

Lease Accounting

In connection with the Company s continued remediation efforts related to internal controls over financial reporting, the Company noted the certain errors that were discovered relating to its accounting for leases at its AES Southland subsidiary, a wholly-owned North American Generations business and its Pakistan subsidiary, a majority-owned Asia Generation business.

Both AES Southland and AES Pakistan executed power purchase agreements (PPA s) with third party offtakers. Pursuant to the agreement at AES Southland, the third party offtaker calls on each unit as needed and in turn pays a fixed capacity payment and a variable payment for energy. Southland is not permitted to substitute dispatch from one unit to another. Capacity payments are specified in the agreement on a unit-by-unit basis and the variable energy payment is indexed to inflation. Pursuant to a settlement agreement between the offtaker and AES Pakistan, the offtaker agreed to resolve a historical capacity dispute, which recognized the right for AES to bill from both plants an additional available capacity above the previously determined Capped Capacity. This differential billing was to be billed on an amended rate schedule. The payments of the differential capacity per the amended rate schedule created a modification of the cashflows of the initial PPA agreement.

In accordance with EITF 01-08, Determining Whether an Arrangement Contains a Lease (EITF 01-08), an entity must reassess whether an arrangement requires lease accounting when certain changes including contractual terms; renewal or extension or changes in fulfillment of the arrangement exist. Upon reassessment of the arrangement and the subsequent modifications, the Company determined that the PPA with the third party offtakers in both cases qualified as a lease under the provisions of EITF 01-08. As a result, the revenue generated from the capacity payments should be accounted for on a straight-line basis. impact on net income as a result of the correction of these errors is an decrease of $26 million and $18 million and in 2006 and 2005, respectively and an increase of $4 million in 2004.

For these restatements the Company determined that the remediation efforts relative to its previously reported material weakness related to accounting for certain derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was in fact viewed more broadly by the Company in the context of controls related to the accounting for contracts in general; specifically, the material weakness was viewed as a lack of sufficient controls designed to ensure the adequate analysis and documentation at inception and on an ongoing basis of whether or not certain contracts were adequately accounted for in accordance with U.S. GAAP. As such, the Company revised the title and description of the previously disclosed Derivative Accounting material weakness to reflect the above described broader view. Accordingly, the Company determined that no revision to the related remediation plan, as previously disclosed in the Company 2006 Form 10-K, was needed.

The combined impact of the August and May 2007 Restatements resulted in a decrease to previously reported net income of $57 million for the year ended December 31, 2006; a decrease of $43 million for the year ended December 31, 2005 and an increase of $6 million for the year ended December 31, 2004. It also resulted in a decrease to previously reported net income of $9 million for the three months ended March 31, 2006; a decrease of $3 million for the six months ended June 30, 2006; an increase of $11 million for the nine months ended September 30, 2006 and a decrease of $6 million for the three months ended March 31, 2007. Additionally, the cumulative adjustment for all periods prior to 2004 resulted in an increase to retained deficit of $50 million.

3. Reclassifications into Discontinued Operations presented in this Form 10-K/A

The Company reported discontinued operations in its Form 10-Q for the quarter ended March 31, 2007, as a result of the previously disclosed sales of EDC and Central Valley. As required by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, presentation of the results of operations of these businesses through the date of sale are now reported in Income (Loss) from Operations of Discontinued Businesses in the Consolidated Statement of Operations. Correspondingly, the assets and liabilities of these businesses are reclassified to assets and liabilities held for sale in the Consolidated Balance Sheets. In accordance with SEC guidelines, when a company files or amends its annual financial statements as of a date on or after the date the company reports discontinued operations, the company must present the financial information in those prior period financial statements to reflect the discontinued operations. Accordingly, certain financial information presented in this Form 10-K/A has been conformed to the presentation of the discontinued operations in our first quarter 2007 Form 10-Q.

ITEM 1. BUSINESS

Overview

We are a global power holding company incorporated in Delaware in 1981. Through our subsidiaries, we operate a portfolio of electricity generation and distribution businesses and investments on five continents and in 27 countries.

Our Businesses

We operate two types of businesses. The first is our distribution business, which we refer to as Utilities, in which we operate electric utilities and sell power to customers in the retail (including residential), commercial, industrial and governmental sectors. These customers are typically end users of electricity. The second is our Generation business, where we sell power to wholesale customers such as utilities or other intermediaries. In addition to our traditional generation and distribution operations, we are also developing an alternative energy business. The revenues and earnings growth of both our Utilities and Generation businesses vary with changes in electricity demand.

Our Utilities business consists primarily of 13 distribution companies in seven countries with over 10 million end-use customers. All of these companies operate in a defined service area. This segment is comprised of:

- integrated utilities located in:
- the United States Indianapolis Power & Light (IPL);
- Cameroon AES SONEL; and
- distribution companies located in:
- Brazil AES Eletropaulo and AES Sul,

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- Argentina Empresa Distribuidora La Plata S.A. (EDELAP), Empresa Distribuidora de Energia Norte (EDEN) and Empresa Distribuidora de Energia Sure (EDES),

- El Salvador Compañia de Alumbrado Eléctrico de San Salvador, S.A. de C.V. (CAESS), Compañia, S. En C. de C.V. (AES CLESA), Distribuidora Electrica de Usulután, S.A. de C.V. (DEUSEM) and Empresa Electrica de Oriente (EEO) and

- Ukraine Kievoblenergo and Rivneenergo.

Performance drivers for these businesses include, among other things, reliability of service, management of working capital, negotiation of tariff adjustments, compliance with extensive regulatory requirements and, in developing countries, reduction of commercial and technical losses.

Utilities face relatively little direct competition due to significant barriers to entry which are present in these markets. In this segment, we primarily face competition in our efforts to acquire businesses. We compete against a number of other participants, some of which have greater financial resources, have been engaged in distribution related businesses for periods longer than we have, and have accumulated more significant portfolios. Relevant competitive factors for Utilities include financial resources, governmental assistance, regulatory restrictions and access to non-recourse financing. In certain locations our utilities face increased competition as a result of changes in laws and regulations which allow wholesale and retail services to be provided on a competitive basis. We can provide no assurance that deregulation will not adversely affect the future operations, cash flows and financial condition of our Utilities business. The results of operations of our Utilities business are sensitive to changes in economic growth and regulation, abnormal weather conditions in the area in which they operate, as well as the success of the operational changes that have been implemented (especially in emerging markets).

In our Generation business we generate and sell electricity primarily to wholesale customers. Performance drivers for our Generation business include, among other things, plant reliability, fuel costs and fixed-cost management. Growth in this business is largely tied to securing new power purchase agreements, expanding capacity in our existing facilities and building new power plants. Our Generation business includes our interests in 94 power generation plants totaling over 35 gigawatts of capacity installed in 21 countries.

Approximately 68% of the revenues from our Generation business are from plants that operate under power purchase agreements of five years or longer for 75% or more of the output capacity. These long-term contracts reduce the risk associated with volatility in the market price for electricity. We also reduce our exposure to fuel supply risks by entering into long-term fuel supply contracts or through fuel tolling contracts where the customer assumes full responsibility for purchasing and supplying the fuel to the power plant. As a result of these contractual agreements, these facilities have relatively predictable cash flows and earnings. These facilities face most of their competition prior to the execution of a power sales agreement, during the development phase of a project. Our competitors for these contracts include other independent power producers and equipment manufacturers, as well as various utilities and their affiliates. During the operational phase, we traditionally have faced limited competition due to the long-term nature of the generation contracts. However, since competitive power markets have been introduced and new market participants have been added, we have and will continue to encounter increased competition in attracting new customers and maintaining our current customers as our existing contracts expire.

The balance of our Generation business sells power through competitive markets under short-term contracts or directly in the spot market. As a result the cash flows and earnings