

**CHARTER**  
**FINANCIAL AUDIT COMMITTEE OF**  
**THE BOARD OF DIRECTORS OF**  
**THE AES CORPORATION**  
**DECEMBER 2003**

**I. PURPOSE OF THE COMMITTEE**

The Audit Committee is created by the Board of Directors of the Company to assist the Board in its oversight of the integrity of the financial statements of the Company, the qualifications, independence and performance of the Company's independent auditor, the performance of the Company's internal audit function, compliance by the Company with legal and regulatory requirements; and prepare the audit committee report that Securities and Exchange Commission rules require to be included in the Company's annual proxy statement.

**II. COMPOSITION OF THE COMMITTEE**

The Audit Committee shall consist of at least three members, comprised solely of independent directors meeting the independence and experience requirements of Section 10A of the Securities and Exchange Act of 1934, the rules promulgated thereunder and the rules of the New York Stock Exchange.

The Nominating and Corporate Governance Committee of the Company shall recommend nominees for appointment to the Audit Committee annually and as vacancies or newly created positions occur. Audit Committee members shall be appointed by the Board annually and may be removed by the Board at any time. A majority of the independent members of the Board shall designate the Chair of the Audit Committee.

**III. AUTHORITY AND RESPONSIBILITIES**

In addition to any other responsibilities which may be assigned from time to time by the Board, the Audit Committee is responsible for, the following matters.

*Independent Auditors*

The Audit Committee has the sole authority to retain and terminate the independent auditors of the Company (subject, if applicable, to shareholder ratification), including sole authority to approve all audit engagement fees and terms and all non-audit services to be provided by the independent auditors. The Audit Committee must pre-approve each such non-audit service to be provided by

the Company's independent auditors. The Audit Committee may consult with management in the decision making process, but may not delegate this authority to management. The Audit Committee may, from time to time, delegate its authority to approve non-audit services on a preliminary basis to one or more Audit Committee members, provided that such designees present any such approvals to the full Audit Committee at the next Audit Committee meeting.

The Audit Committee shall review and approve the scope and staffing of the independent auditors' annual audit plan(s) and evaluate the independent auditors' qualifications, performance and independence, and shall present its conclusions and recommendations with respect to the independent auditors to the full Board on at least an annual basis. As part of such evaluation, at least annually, the Audit Committee shall:

1. obtain and review a report from the Company's independent auditors describing: (i) the independent auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review or peer review of the independent auditor, or any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the auditing firm; and any steps taken to deal with any such issues; (iii) all relationships between the independent auditor and the Company; and (iv) assuring that Section 10A of the Securities Exchange Act of 1934 has not been implicated;
2. review and evaluate the senior members of the independent auditor team, particularly the lead audit partner and the auditor responsible for reviewing the audit;
3. consider whether the audit firm should be rotated in addition to the rotation of the lead audit partner and the auditor responsible for reviewing the audit as required by law, so as to assure continuing auditor independence; and
4. obtain the opinion of management and the internal auditors of the independent auditor's performance.

The Audit Committee shall establish policies for the Company's hiring of employees or former employees of the independent auditors.

#### *Internal Auditors*

At least annually, the Audit Committee shall evaluate the performance, responsibilities, budget and staffing of the Company's internal audit function and review the annual internal audit plan. Such evaluation shall include a review of the responsibilities, budget and staffing of the Company's internal audit function with the independent auditors. At least annually, the Audit Committee shall evaluate the performance of the senior internal auditing executive, and make

recommendations to the Board and management regarding the responsibilities, retention or termination of such executive.

*Financial Statements; Disclosure and Other Risk Management and Compliance Matters*

1. The Audit Committee shall review with management, the internal auditors and the independent auditor:

(a) the annual audited financial statements, including the Company's disclosures under "Management's Discussion and Analysis and Analysis of Financial Condition and Results of Operations", prior to the filing of the Company's Form 10-K and the quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis and Analysis of Financial Condition and Results of Operations", prior to the filing of the Company's Form 10-Q;

(b) any analyses or reports prepared by management, the internal auditors and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;

(c) the effect of regulatory and accounting initiatives or actions, off-balance sheet structures and related party transactions on the financial statements of the Company; and any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.

2. The Audit Committee shall review, in conjunction with management, the Company's policies with respect to the Company's earnings press releases and all financial information, such as earnings guidance, provided to analysts and rating agencies, including the types of information to be made. The Audit Committee may review any such press release or financial information as it deems appropriate.

3. The Audit Committee shall, in conjunction with the CEO and CFO of the Company, review the effectiveness of the Company's disclosure controls and procedures.

4. The Audit Committee shall review any significant changes in the Company's internal controls or other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

5. The Audit Committee shall review and discuss with the independent auditor those matters required by Statements on Auditing Standards, including but not limited to problems or difficulties regarding the substance of the audit that have been reported by management concerning the audit.

6. The Audit Committee shall review the Company's policies and practices with respect to risk assessment and risk management, including discussing with management and the internal auditors the Company's major financial risk exposures and the steps that have been taken to monitor and control such exposures.

7. The Audit Committee shall establish procedures for: the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters and review any such complaints and submissions.

8. The Audit Committee shall prepare the audit committee report that Securities and Exchange Commission rules require to be included in the Company's annual proxy statement.

#### *Reporting to the Board*

The Audit Committee shall report to the Board at each regularly scheduled Board meeting and more frequently if the Committee deems that such further reporting is necessary. This report shall include a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, the performance of the internal audit function and any other matters that the Audit Committee deems appropriate or is requested to be included by the Board.

At least annually, the Audit Committee shall review and assess the adequacy of this charter and recommend any proposed changes to the Board for approval.

At least annually, the Audit Committee shall evaluate its own performance and report to the Board on such evaluation.

#### **IV. PROCEDURES OF THE COMMITTEE**

The Audit Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this charter, but not less frequently than quarterly. The Chair of the Audit Committee, in consultation with the other committee members, shall determine the frequency and length of the committee meetings and shall set meeting agendas consistent with this charter.

The Audit Committee periodically shall meet separately with management, with internal auditors or other personnel responsible for the internal audit function and with the independent auditor.

The Audit Committee is authorized to retain special legal, accounting or other advisors and may request any officer or employee of the Company or the Company's outside counsel or independent auditor to meet with any members of, or advisors to, the Audit Committee. The Audit Committee may also meet with the Company's investment bankers or financial analysts who follow the Company.

The Audit Committee may delegate its authority to subcommittees of the Audit Committee when it deems appropriate and in the best interests of the Company.

## **V. LIMITATIONS INHERENT IN THE AUDIT COMMITTEE'S ROLE**

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the independent auditor.