

CHARTER
COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF
THE AES CORPORATION
OCTOBER 2003

I. PURPOSE OF THE COMMITTEE

The purposes of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of The AES Corporation (the "Company") shall be to oversee the Company's compensation and employee benefit plans and practices, including its executive compensation plans and its incentive-compensation and equity-based plans; and to produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with all applicable rules and regulations.

II. COMPOSITION OF THE COMMITTEE

The Committee shall be comprised of three or more directors who qualify as independent directors ("Independent Directors") under the listing standards of the New York Stock Exchange (the "NYSE"). Members of the Committee shall also qualify as "non-employee directors" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and shall satisfy any other necessary standards of independence under the federal securities and tax laws.

The members of the Committee shall be nominated by the Nominating and Governance Committee and elected annually to one-year terms by majority vote of the Board at the first meeting of the Board to be held following the annual meeting of stockholders. Vacancies on the Committee shall be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the Independent Directors then in office.

III. MEETINGS AND PROCEDURES OF THE COMMITTEE

The Committee shall fix its own rules of procedure, which shall be consistent with the By-laws of the Company and this Charter. The Committee shall meet as provided by its rules, which shall be at least four times annually or more frequently as circumstances

require. The Board shall designate one member of the Committee as its Chairperson. The Chairperson of the Committee or a majority of the members of the Committee may also call a special meeting of the Committee. A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum.

The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate; *provided, however*, that no subcommittee shall consist of fewer than two members; and *provided further* that the Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Following each of its meetings, the Committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the Committee at the meeting. The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

IV. COMMITTEE RESPONSIBILITIES

A. Executive Compensation

The Committee shall have the following goals and responsibilities with respect to the Company's executive compensation plans:

- (a) To review at least annually the goals and objectives of the Company's executive compensation plans in light of the Company's stated strategy goal, and recommend that the Board amend, these goals and objectives if the Committee deems it appropriate.
- (b) To review at least annually the implementation of the Company's executive compensation plans in light of the Company's goals and objectives with respect to such plans, and, if the Committee deems it appropriate, recommend to the Board the adoption of, new, or the amendment of existing, executive compensation plans.
- (c) To evaluate annually the performance of the Chief Executive Officer, and generate an evaluation of the Chief Executive Officer's performance and a recommendation for his/her compensation level based on this evaluation. The Committee will then present its evaluation and compensation recommendation to the Independent

members of the Board for their approval. In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee shall consider all relevant factors, including the Company's performance and relative stockholder return, the value of similar awards to chief executive officers of comparable companies, and the awards given to the Chief Executive Officer of the Company in past years.

(d) To evaluate annually the performance of the members of the Executive Office of the Company, and recommend a compensation level of each based on this evaluation. In preparing such evaluation and recommendation, the Chief Executive Officer will present an evaluation and compensation recommendation for each of the executive officers to the Committee. The Committee will then review each of the evaluations and compensation recommendation by the Chief Executive Officer, make any adjustments the Committee deems appropriate, and then present the compensation recommendations to the Independent members of the Board for approval. To the extent that long-term incentive compensation is a component of such executive officer's compensation, the Committee shall consider all relevant factors in determining the appropriate level of such compensation, including at least the factors applicable with respect to the Chief Executive Officer.

(e) The Executive Office will have the responsibility for conducting the annual performance review and compensation determination for Business Leaders subject to general policy review by the Committee.

(f) To develop and review annually a short-term succession plan which delineates a temporary delegation of authority to certain officers of the Company if all, or a portion, of the senior officers should unexpectedly become unable to perform their duties.

(g) To develop, assist in the implementation and review annually a long-term Executive development program to assist in the development of management for the succession to the position of the Chief Executive Officer and other senior management positions.

(h) To review and approve any severance or termination arrangements to be made with any executive officer of the Company.

(i) To perform such duties and responsibilities as may be assigned to the Board or the Committee under the terms of any executive compensation plan.

(j) To review perquisites or other personal benefits to the Company's executive officers and recommend any changes to the Board.

(k) To produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with all applicable rules and regulations.

B. Incentive-Compensation and Equity-Based Plans

The Committee shall have the following responsibilities with respect to the Company's incentive-compensation and equity-based plans:

- (a) To review at least annually the goals, objectives and terms of the Company's incentive-compensation and equity-based plans, and recommend that the Board amend any or all of these goals, objectives or terms if the Committee deems it appropriate.
- (b) To perform such duties and responsibilities as may be assigned to the Board or the Committee under the terms of any incentive-compensation or equity-based plan.

C. Other Compensation and Employee Benefit Plans

- (a) To review at least annually the goals, objectives and terms of the Company's general compensation plans and other employee benefit plans, and recommend that the Board amend any or all of these goals, objectives or terms if the Committee deems it appropriate.
- (b) To perform such duties and responsibilities as may be assigned to the Board or the Committee under the terms of its general compensation plans and other employee benefit plans.

V. EVALUATION OF THE COMMITTEE

The Committee shall, on an annual basis, evaluate its performance under this Charter. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The Committee shall address all matters that the Committee considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall deliver to the Board a report setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Company's or the Board's policies or procedures.

VI. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISERS

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary. The Committee shall have the sole authority to retain or terminate a compensation consultant to assist the Committee in carrying out its responsibilities, including sole authority to approve the consultant's fees and other retention terms, such fees to be borne by the Company.