TABLE OF CONTENTS

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NOTICE TO RECIPIENTS

This confidential Information Memorandum (the "Information Memorandum") has been prepared solely for informational purposes from information provided by AES Cayman Guaíba Ltda. ("AES Guaíba" or the "Borrower"). AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company") and AES Guaíba II Empreendimentos Ltda ("AES Guaíba II" and together with AES Sul, the "Guarantors"), and is being furnished by BankBoston N.A. ("BankBoston"), Bank of America Securities LLC ("BAS"), Westdeutsche Landesbank Girozentrale ("WestLB") and União de Bancos Brasileiros S.A. ("Unibanco") (BankBoston, BAS, WestLB and Unibanco collectively the "Joint Arrangers") solely for use by prospective participants in considering participation in a US$300,000,000 Senior Secured Term Loan (the "Facility") with political risk insurance, divided into two equal tranches with 3 and 5 year maturities.

The information contained herein has been prepared to assist interested parties in making their own evaluation of the Borrower, the Guarantors and the Facility, and is not intended to be complete or to contain all that a prospective participant in the transaction described herein may require. By accepting this Information Memorandum, each recipient acknowledges that it will make its own independent investigation and analysis of the transaction and the creditworthiness of the Borrower and the Guarantors, without reliance upon the Joint Arrangers and based upon such documents and information as it, in its sole discretion, has deemed appropriate. The information contained herein does not substitute for your independent evaluation and analysis.

Neither the Joint Arrangers nor any of their respective affiliates have independently verified any of the information and/or data contained herein. The Joint Arrangers and their respective affiliates make no representation or warranty as to the accuracy or completeness of such information and by accepting this Information Memorandum each recipient agrees that the Joint Arrangers and their respective affiliates shall have no liability for any representation or warranty (express or implied) or other statement or information contained in this Information Memorandum, or for any omission from this Information Memorandum, or for any other written or oral communications to you from the Joint Arrangers, their respective affiliates and/or the Borrower or the Guarantors, or for any other information provided for your evaluation of the proposed transaction.

This Information Memorandum includes certain statements, estimates and projections provided by AES Sul's management with respect to the anticipated future performance of AES Sul. Such statements, estimates and projections reflect various assumptions by AES Sul's management concerning anticipated results and have been included solely for illustrative purposes. No representations are made as to the accuracy of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the projected results contained herein.

In furnishing this Information Memorandum, the Joint Arrangers, the Borrower and the Guarantors reserve the right to amend or replace the information at any time but undertake no obligation to update, correct or supplement any information contained herein or to provide the recipient with access to any additional information regarding the Borrower or the Guarantors.

The information and data contained herein are confidential and may not be divulged to any person or entity or reproduced, disseminated or disclosed, in whole or in part, except as set forth in the Confidentiality Agreement under which the information contained in this Information Memorandum is provided.

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CONFIDENTIALITY AGREEMENT

In connection with your discussions with the BankBoston N.A. (“BankBoston”), Bank of America Securities LLC (“BAS”), Westdeutsche Landesbank Girozentrale (“WestLB”), União de Bancos Brasileiros S.A. (“Unibanco”) (BankBoston, BAS, WestLb and Unibanco collectively the “Joint Arrangers”) regarding a US$ 300,000,000 Senior Secured Term Loan (the “Facility”) with political risk insurance, divided into two equal tranches with 3 and 5 year maturities. The Borrower, the Guarantors and the Joint Arrangers are providing you with certain confidential information regarding the Facility, and certain of the parties thereto.

As used herein, "Confidential Information" means any information relating to the Facility, including but not limited to the structure, that of the Borrower, the Guarantors or the Joint Arrangers furnish you with, whether written or oral and whether furnished before or after the date hereof, and all other documents that contain or otherwise reflect such information.

You agree that, without the prior written consent of the Borrower, the Guarantors and the Joint Arrangers, you will not disclose any of the Confidential Information to any person or use the Confidential Information for any purpose other than in connection with your evaluation of the Facility and the funding therefor, provided, however, that you may make disclosure of such Confidential Information to your directors, officers, employees, agents, counsel, auditors, advisors and representatives (collectively, the "Representatives") if such information is necessary for the purpose of your evaluation of the Facility and the funding therefor (it being understood that such Representatives shall be informed by you of the confidential nature of such information and shall be directed by you to treat such information in accordance with the terms of this Agreement). You agree to be responsible for any breach of this Agreement that results from the actions or omissions of your Representatives.

Notwithstanding the foregoing, you shall have no obligation hereunder with respect to any Confidential Information to the extent that such information: (i) is or becomes generally available to the public other than as a result of a disclosure by you in violation of this Agreement; (ii) was within your possession, as evidenced by your written records, prior to it being furnished to you pursuant hereto, provided that the source of such information was not known by you to be bound by a confidentiality agreement or other contractual, legal, or fiduciary obligation of confidentiality to the Borrower, the Guarantors, the Joint Arrangers or any other party with respect to such information; (iii) is or becomes available to you on a non-confidential basis from a source other than the Borrower, the Guarantors or the Joint Arrangers or their respective Representatives, provided that such source is not known by you to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower, the Guarantors, the Joint Arrangers or any other party with respect to such information; or (iv) is required to be disclosed pursuant to applicable law, regulation or court order; provided in the case of this item (iv) that (x) such disclosure is made subject to all available measures to protect the confidentiality of such Confidential Information and (y) that you have given reasonable advance notice of such disclosure to the Borrower, the Guarantors and the Joint Arrangers.

You agree that, if you do not participate in the Facility, you will promptly deliver all of the Confidential Information to the Joint Arrangers, or destroy and confirm such destruction in writing to the Joint Arrangers, including all copies, summaries, analyses or extracts thereof or based thereon in your possession or in the possession of any of your Representatives.

You agree that money damages would not be a sufficient remedy for breach of this Agreement, and that in addition to all other remedies available at law or in equity, the Borrower, the Guarantors and the Joint Arrangers shall be entitled to equitable relief, including injunction and specific performance, without proof of actual damage.

This Agreement embodies the entire understanding and agreement between the parties with respect to the Confidential Information and supersedes all prior understandings and agreements relating thereto.

This Agreement shall be governed by and construed in accordance with the law of the State of New York, without regard to principles of conflicts of law.

If you are not prepared to accept the terms set forth herein you must immediately return the enclosed Information Memorandum without making any copies thereof or extracts therefrom. Your acceptance of the enclosed Information Memorandum will constitute your agreement to be bound by this Agreement.

AUTHORIZATION LETTER

February 2001

Bank Boston N.A.
100 Federal St
Boston, MA 02110

BankBoston N.A. Nassau Branch
100 Rustcraft Rd. MADED 74-02-02D
Dedham, MA 02026

Attention: Marcos Soares de Camargo, Director

Subject: AES Cayman Guaíba Ltd. Confidential Information Memorandum

We refer to the Confidential Information Memorandum (the "Memorandum") dated February 2001 which includes information on AES Cayman Guaíba Ltd. ("AES Guaíba" or "the Borrower"), AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company") and AES Guaíba II Empreendimentos Ltda. ("AES Guaíba II"; and, together with AES Sul, the "Guarantors"), which you propose to send to prospective lenders for their evaluation to participate in the Facility for the Borrower, such Facility being arranged by yourselves.

We have reviewed a copy of the Memorandum and we confirm that (i) the information contained therein has either been supplied or reviewed by us or been obtained from publicly available information; (ii) to our knowledge the information contained in the Memorandum concerning the business, properties and operation of the Borrower and the Guarantors is true and complete in all material aspects as of the date hereof; (iii) the forecasts included therein have been prepared based upon assumptions which are reasonable in the opinion of the Borrower and the Guarantors; and (iv) to the best of our knowledge, information concerning the financial condition (except for the forecasts) of the Guarantors presents fairly the financial condition and results of operations for the periods therein indicated.

Accordingly, we authorize you to distribute the Memorandum to prospective lenders under the Facility to use in their evaluation of the Borrower and the Guarantors, and therefore allow BankBoston N.A. to gauge their interest in participating in the Facility.

Sincerely,

AES Cayman Guaíba Ltd.

By: _____ By: _____

Title: Vice President Title: _____

Date: 2/13/01 Date: _____

AES Sul Distribuidora Gaúcha de Energia S.A.

By: _____ By: _____

Title: _____ Title: _____

Date: _____ Date: _____

AES Guaíba II Empreendimentos Ltda.

By: _____ By: _____

Title: _____ Title: _____

Date: _____ Date: _____

FORM OF COMMITMENT ADVICE

[LENDER LETTERHEAD]

Form of Commitment Advice
Month Date, 2001

Bank Boston N.A.
100 Federal St
Boston, MA 02110

BankBoston N.A. Nassau Branch
100 Rustcraft Rd. MADED 74-02-02D
Dedham, MA 02026

Attention:
Marcos S. de Camargo
Director
Corporate Finance

Tel: (55) (11) 3118-5790
Fax (55) (11) 3118-5042

Subject: U.S.$300,000,000 Senior Secured Term Loan Facility (the "Facility") to AES Cayman Guaíba Ltd. ("AES Guaíba" or the "Borrower") Guaranteed by AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company") and AES Guaíba II Empreendimentos Ltda. ("AES Guaíba II"; and, together with AES Sul, the "Guarantors").

Ladies and Gentlemen:

_____ (the "Lender") hereby confirms its commitment to lend the Borrower an aggregate principal amount of US$_____ (the "Commitment Amount") as part of the above-referenced transaction. Terms and conditions will be substantially as set forth in the Summary of Terms and Conditions included in the Information Memorandum dated February 2001. This commitment is subject to our satisfactory review of the credit documentation.

The Lender acknowledges that it has independently, without reliance upon BankBoston N.A., Bank of America Securities LLC, Westdeutsche Landesbank Girozentrale and União de Bancos Brasileiros S.A. (the "Joint Arrangers") and based on financial statements of the Borrower and the Guarantors and other such documents and information as the Lender has deemed appropriate, made its own credit analysis and decision to enter into this commitment.

The Lender understands that a fee will be paid at the time this transaction is closed and is based upon commitment levels and calculated on the final allocated amount. The Lender further understands that the Joint Arrangers reserve the right to allocate final commitments in their sole discretion. The Joint Arrangers shall have no liability or responsibility to the Lender if such Facility is not entered into. The Lender understands and agrees that the proposed Commitment Amount is subject to the acceptance by the Borrower and Joint Arrangers, and that the Joint Arrangers will notify the Lender at the end of the syndication period of the amount of the Lender's accepted commitment.

Sincerely,

Authorized Officer:

Title:

Lender:

Telephone Number:

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LENDER INFORMATION FORM

To: BankBoston N.A., Nassau Branch *Month Date, 2001*
Nassau Branch of BankBoston, N.A.
100 Rustcraft Rd. MADED 74-02-02D
Dedham, MA 02026

Attn.:

Lee Shay	or	Valeria Garcia
Tel: (781) 467-2136		Tel.: (781) 467-2985
Fax: (781) 467-2094		Fax: (781) 467-2094

From: _____
(enter Lender Name above)

Date: _____

Subject: Up to U.S.$300,000,000 Senior Secured Term Loan Facility (the "Facility") to AES Cayman Guaíba Ltd. ("AES Guaíba" or the "Borrower") Guaranteed by AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company") and AES Guaíba II Empreendimentos Ltda. ("AES Guaíba II"; and, together with AES Sul, the "Guarantors").

1) LEGAL NAME OF ENTITY FOR SIGNATURE PAGE:

_____

2) MARKETING NAME OF ENTITY FOR ADVERTISING (such as tombstone):

_____

3) APPLICABLE LENDING OFFICE:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

4) MAILING ADDRESS FOR CREDIT DOCUMENTS AND FINANCIAL INFORMATION

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

5) BUSINESS AND/OR CREDIT MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

6) LEGAL MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

7) ADMINISTRATIVE AND/OR OPERATIONAL MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

8) NAME OF BANK WHERE PAYMENT OF FUNDS ARE TO BE TRANSFERRED:

_____

9) ROUTING TRANSIT/ABA NUMBER OF BANK WHERE FUNDS ARE TO BE TRANSFERRED:

_____

10) NAME OF ACCOUNT, IF APPLICABLE:

_____

11) ACCOUNT NUMBER:

_____

12) ADDITIONAL INFORMATION:

_____

If you have any questions, please call:

Lee Shay or Valeria Garcia
Tel: (781) 467-2136 Tel.: (781) 467-2985

_____ _____

Authorized Signature Date

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CONTACT LIST

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Pedro Paulo Schmidt Investor Relation Director	Tel : (55)(51) 316-1475 Fax: (55)(51) 316-1476 Email: festeves@aessul.com.br

AES-Corporation

Michael F. Rodrigues Director New Business Developments	Tel : (55)(51) 316-1400 Fax: (55)(51) 316-1476 Email1: mrodrigues@aesc.com Email2: mrodrigu@attglobal.net

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Av. das Nações Unidas, 12551 – 17º andar
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TRANSACTION TIMETABLE

TIMELINE

February 2001						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

March 2001						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Major US Holiday
Major Brazilian Holiday

	Syndicated Loan
Date 2001:	**Action:**
February 5	✓ Bank meeting in São Paulo. Cocktail 5:00 PM at Intercontinental Hotel. ✓ Participation of AES Corp. Representatives. ✓ Initiate general syndication process.
February 8	✓ Bank meeting in New York, lunch at 12:15 p.m. at the Hotel Parker Meridien, located at 118 West 57th Street – 42nd Floor – New York City.
February 20	✓ Deliver Documentation Package to potential Lenders preseting strong interest in the transaction.
February 28	✓ Comments due on final documents (Credit Documents + PRI documention).
March 1	✓ Final commitments due.
March 2	✓ Signing and Closing.
March 5	✓ Libor setting date for the short first coupon of 48 days. Coupon will be quarterly thereafter. ✓ Confirmation of funding.
March 7	✓ Disbursement.

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EXECUTIVE SUMMARY

Company Overview

AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company") is an electricity distribution company which was indirectly acquired by AES Corporation ("AES") for US$1.37 billion on October 21st, 1997 in the privatization process conducted by the government of the State of Rio Grande do Sul. Currently, AES owns 100% of AES Cayman Guaíba Ltd ("AES Cayman") that owns 99.99% of AES Guaíba II Empreendimentos Ltda which in turn owns 96.6% of AES Sul's total capital.

Ownership

AES, the end shareholder of AES Sul, is the largest independent power company in the world, having a diversified portfolio of projects with 122 power plants in sixteen countries and fourteen distribution systems in operation in eight countries, with 43,321MW of total generation capacity and 118,597GWh of total distribution capacity. AES consolidated financial performance as per September 2000 shows net sales of US$5.9 billion, operating income of US$1.4 billion, net income of US$531 million, total debt to total capitalization of 70% and total recourse-debt to total capitalization of 14%.

AES is the largest investor in the Brazilian energy sector with investments of over US$4.0 billion spread over Eletropaulo Metropolitana, Light, Cemig, Tietê, AES Uruguaiana and AES Sul. AES Sul represents an important component of AES's strategy for Latin America since AES Sul's location, the state of Rio Grande do Sul, borders Argentina making it easier for AES to integrate its Brazilian and Argentine operations.

The acquisition of AES Sul was financed by a US$680 million equity contribution by AES and US$730 million of Notes issued under a Note Purchase Agreement dated March 13, 1998. To obtain withholding tax exemption, the Notes were issued with an 11-year term. By making use of the put option mechanism, an 18-month bridge loan was granted to AES Sul under the FRN program and a bond takeout was planned to take place at maturity. However, due to the Asian Crisis and unfavorable capital market conditions, the takeout plan was postponed.

In January 1999, the devaluation of the Real, negatively impacted the capital structure of AES Sul. As a result, in April 1999 upon the refinancing, AES injected US $320 million additional equity thus improving the company´s capital structure. The existing bank group refinanced the remaining US$410 million debt for an additional three year period (maturing in April 2002) at the AES Cayman level. In order to enable AES Sul to retain certain tax benefits associated with the Notes, the US$320 million equity was injected at the AES Cayman level since a prepayment of the FRN's would trigger a substantial retroactive withholding tax. The US$320 million equity plus the US$410 million three year senior secured loan was used by AES Cayman, to acquire the whole US$730 millon Notes. Currently, AES Cayman is the sole holder of the US$730 million Notes and the banks have a Senior Secured loan to AES Cayman, covered by a comprehensive security package that will remain in place for the new Facility, herein presented. Although AES injected US$320 million in new equity, in AES Cayman, this amount is not reflected in AES Sul's balance sheet due to fiscal reasons (i.e. withholding tax). The US$730 million FRN remains in place. The US$320 million equity injection at AES Cayman generated an effective subordination of the same amount at the AES Sul balance sheet therefore, creating a senior debt of US$410 million at the AES Sul level.

AES Sul's Economics

AES Sul's concession area covers approximately 99,512 km2 (approximately 35% of the State), with approximately 3.3 million inhabitants and an energy demand growth rate that has historically outpaced the Brazilian GDP. In September 2000 (YTD) the company distributed 5,636 GWh to 919,112 consumers: industrial (48%), residential (23%), commercial (10%), rural (11%) and others. Energy suppliers were Gerasul (41%), Itaipu (26%), CEEE (11%) and CGTEE (9%), COPEL (3%), AES Uruguaiana (1%) and short term market (9%). As of September 2000, energy losses were at 8.68%, including non-technical losses of 1.38%, which is at the optimum curve for companies with its concession area density. Tariffs are regulated by a formula that guarantees the pass-through to end consumers of non-manageable costs such as taxes, energy purchases and inflation. The anniversary date for AES Sul tariffs is every April.

AES Sul's Financials

After being harmed in 1999 by the devaluation of the Real which caused leverage to increase and coverage ratios to deteriorate, and by the high prices of the spot market in 1Q2000, AES Sul has been recovering its margins and improving cash generation during the last quarters. Below are Management's projections which forecast a steady improvement in financial performance:

AES Sul's Projection Highlights
Brazilian Reais in millions (R$)

	2000F	2001F	2002F	2003F	2004F	2005F	2006F
Net Revenues [1]	**737,0**	**852,9**	**910,1**	**1.002,5**	**1.070,4**	**1.155,4**	**1.242,6**
(-) Operating Expenses	**(95,3)**	**(94,5)**	**(99,8)**	**(102,4)**	**(105,4)**	**(108,8)**	**(112,5)**
EBITDA	**168,6**	**225,6**	**244,7**	**282,2**	**295,7**	**310,3**	**348,0**
Interest Expenses over Sr. Debt	(117,4)	(115,0)	(115,7)	(108,3)	(54,2)	(33,2)	(17,1)
Interest Expenses over sub. Debt	(108,4)	(167,3)	(173,4)	(99,2)	(138,0)	(163,5)	(178,7)
Net Income	**(192,3)**	**(151,5)**	**(167,1)**	**6,3**	**41,1**	**35,9**	**67,2**
Total Assets	**2.073,3**	**2.123,8**	**2.222,2**	**2.300,7**	**2.076,3**	**2.061,4**	**2.252,7**
Fixed Assets	**1.600,4**	**1.615,3**	**1.605,1**	**1.592,6**	**1.575,9**	**1.562,5**	**1.549,3**
Total Liabilities	**2.073,3**	**2.123,8**	**2.222,2**	**2.300,7**	**2.076,3**	**2.061,4**	**2.252,7**
Total Debt	**1.635,3**	**1.822,8**	**2.072,3**	**2.146,6**	**1.867,3**	**1.820,4**	**1.929,4**
Total Senior Debt	832,8	867,8	894,8	841,1	415,5	198,4	115,8
Total Subordinated Debt	802,5	955,0	1.177,5	1.305,5	1.451,8	1.621,9	1.813,6
Net Worth	**44,7**	**(106,9)**	**(274,0)**	**(267,7)**	**(226,6)**	**(190,7)**	**(123,5)**

Source: AES Sul

The Summary of Projected Financial Data above, which covers a period of seven years, from the year 2000 to 2006, is derived from management's Financial Projections included herein. In the opinion of the Company's management the unaudited credit statistics present the best of management's knowledge and belief, the expected results of operations for the periods presented below. There will be differences between the projections and actual results achieved because events and circumstances frequently do not occur as expected.

The Refinancing

AES Sul is seeking to refinance its existing US$410 million 3 year loan to improve its capital structure through:(i) extending maturity; (ii) reducing interest expenses; (iii) mitigating devaluation and foreign exchange risk; and (iv) diversifying funding sources.

BankBoston, together with BAS, Unibanco and WestLB, collectively the Joint Arrangers, have structured a financing package consisting of : (i) a R$250 million 3-year Debenture to be issued in the local capital markets and (ii) a US$300 million Senior Secured Term Loan (the "Facility"), with political risk insurance, divided into two equal tranches with 3 and 5 year maturities. Both tranches are amortizing and will be disbursed upon the successful placement of the R$250 million 3- year Brazilian Debenture. The proceeds of the Brazilian Debentures and the Senior Secured Term Loan will provide funds for the refinancing and for related expenses.

The Facility will maintain a comprehensive security package including pledge of the US$730 million FRN's, pledge of the shares of AES Sul, AES Guaíba II and AES Cayman, guarantee of AES Sul and AES Guaíba II. In addition, AES will provide a contingent US$50 million guarantee for principal and interest. Financial covenants have been structured to closely monitor the company's financial performance on a quarterly basis and include: maximum total senior debt to EBITDA, minimum EBITDA to senior interest, maximum capex, and restricted cash distributions to shareholders.

The Brazilian Debentures have been rated 'brA' by S&P and 'brA1' by Moody's. Political Risk Insurance for the Facility will be provided by private insurance companies rated by S&P as follows: Zurich (AA+), Citi Gulf (AA), Unistrat (AA-) and Sovereign (Parent Companies A+/AA). The funding date for both the Brazilian Debentures and the Facility is scheduled for March 7th, 2001.

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INVESTMENT CONSIDERATIONS

Concession Area with Strong Economic Fundamentals

AES Sul's concession area is located in the center-west region of the State of Rio Grande do Sul. Rio Grande do Sul is Brazil's fourth largest economy and the third largest exporter. The main industries located in the service area are petrochemical, tobacco, leather, shoes and metallurgy. The service area also includes the cities of Canoas, Novo Hamburgo and São Leopoldo, which constitute very important and densely populated urban areas located near the Capital City of Porto Alegre.

This broad and diverse consumer base had historically high and relatively stable growth rates, consistently beating Brazilian GDP growth rate. The estimated compounded annual growth rate for energy demand in AES Sul's concession area in the last five years has been 5.1% vs. 1.9% for Brazilian GDP. Since the introduction of the Plano Real, residential and commercial demand has increased constantly, as a result of the increase in new connections as well as the higher average usage per consumer. The macroeconomic changes occurring throughout Brazil, and particularly within the state of Rio Grande do Sul, should provide the basis for continued growth in demand in the short and medium term.

Experienced Operator, Tangible Improvements after the Privatization

AES is an experienced operator in the electricity sector with worldwide presence and has an established culture of global investments. It is among the largest global power companies and is the largest investor in the Brazilian energy sector.

AES has implemented significant improvements in AES Sul after privatization. The Company has reduced its workforce by 15% by streamlining management layers and has focused on improving its structure in order to be competitive in a deregulated market. The Company's information, control and customer service systems have been upgraded and now provide information that was previously unavailable . The Company is also investing in the full automation of its transformer sub-stations and has improved maintenance team logistics. This has allowed the Company to improve customer service quality and reduce distribution network down-time. The Company has improved its planning ability and is now in a better position to allocate its resources more efficiently.

As a result, the Company is now benefiting from lower energy losses, improved indicators and has also improved efficiency ratios such as Clients/Employee, MWh/Employee and EBITDA/Employee.

Favorable Competitive Environment

The Company has exclusive power distribution rights in its concession area until 2027. Certain customers (see Business Description – Distribution) representing approximately 30% of the company's sales, are free to choose another energy supplier upon 36 month notification. AES Sul is engaged in providing value added services (power reliability, quality, continuity and safety) in an effort to maintain its current industrial customer base. In the event the Company looses some of its larger customers to other suppliers, the expected impact on the Company's financials will be limited since these customers are buying energy with lower margins. Moreover, AES Sul will be re[illegible]ated by these clients for the use of its distribution network covering maintenance costs.

Since the Brazilian power market continues to experience a shortage in generation capacity, any surplus energy can be redirected to the MAE (Electric Power Exchange).

Regulatory Environment

The regulatory environment in the Brazilian electricity sector is intended to provide stability and fair competition. To ensure this, the Government created an independent agency ANEEL (Agência Nacional de Energia Elétrica) which is responsible for regulating the provision of most electricity services, including generation, distribution and transmission.

One of ANEEL's fundamental concepts underlying all regulatory framework for the sector is the "economic equilibrium" of privatized companies since they provide essential services to the population. In order to assure this, concession contracts guarantee the passthrough of all non-manageable expenses (such as taxes, inflation and energy purchases) to clients, and also require ANEEL's consent to effect any transactions with affiliated companies such as inter-company loans or service contracts.

In order to avoid exposure to volatile spot energy prices, distributors are required to purchase at least 85% of their energy requirements through long-term contracts.

Improving Business Trend

Since privatization in 1997, the Company has benefited from lower operating costs and ever increasing energy demand from its customers. After the Real devaluation in 1999, the Company has been able to maintain its operating margins as a consequence of an efficient tariff structure that allows the pass through of non-manageable costs (in this case, energy purchases from Itaipú). After having faced high prices at the spot market during the 1Q2000, which damaged its margins, AES Sul had sound 2Q and 3Q2000 results.

For 2001 and 2002, the Company has already secured the supply of energy to meet its clients' growing demand through the establishment of long term contracts, as well as from one third of Uruguaiana thermal plant power production . This will result in lower energy acquisition costs compared to buying in the spot market and improved margins. The Company is currently in the process of refinancing its bank debt in order to reduce its cost, lengthen the term, mitigate devaluation and foreign exchange risk and reduce refinancing risk, which coupled to the improving margins described above, should result in an improved financial performance.

Conservative Covenants, Measured Quarterly, and Strong Collateral Package

The Facility benefits from conservative financial covenants including Senior Debt/EBITDA, EBITDA/Senior interest, maximum CAPEX. Other covenants include: ownership clause, limitations on mergers and acquisitions and payment restriction to AES Corp.

The Facility has the following collateral package: (i) the pledge on the US$730 million Fixed Rate Note issued by AES Sul and held by the Borrower; (ii) Pledge of the Borrowers's shares; (iii) Pledge of 99.99 of the Quotas of AES Guaiba II; (iv) Pledge of 96.6% of the shares of on AES Sul's; (v) AES Sul guarantee; and (vi) AES Gauiba II guarantee. .

In addition to the collateral describe above, Lenders will have a US$50 million contingent guarantee from AES covering Interest and Principal in case of default.

Reduced Refinancing Risk

The Facility and the issuance of the Brazilian Debentures will considerably reduce AES Sul's refinancing risk due to extended tenor and the mitigation of FX exposure. According to management's base case projections, Tranche A is expected to have approximately R$ 130 million in refinancing needs. This amount is manageable given the Company's expected financial ratios. Tranche B is expected to be fully amortized through internal cash flow generation.

Country Risk Mitigation

The Facility will have political risk insurance coverage provided by reputable private insurance agencies. The political risk insurance will cover currency inconvertibility and transfer risk plus, expropriation.

Devaluation and FX Risk Mitigation

The introduction of a local debenture tranche will partially mitigate devaluation and FX risk.

Restricted Payments to AES

Restricted Payments mechanism improves senior lenders credit risk profile.

Strong Sponsorship

US$1 billion in equity investments by AES.

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SUMMARY OF TERMS AND CONDITIONS

US$300,000,000 SENIOR SECURED TERM LOAN FACILITY
AES CAYMAN GUAÍBA LTD.
GUARANTEED BY
AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A. AND AES GUAÍBA II EMPREENDIMENTOS LTDA.

BANKBOSTON, BANK OF AMERICA, UNIBANCO AND WESTLB MAKE NO REPRESENTATIONS OR WARRANTY AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN. THE INFORMATION THAT FOLLOWS DOES NOT PURPORT TO BE ALL INCLUSIVE OR TO CONTAIN ALL INFORMATION THAT A PROSPECTIVE LENDER MAY DESIRE. BY ACCEPTANCE OF THIS SUMMARY OF TERMS AND CONDITIONS, PROSPECTIVE LENDERS RECOGNIZE AND ACCEPT THE NEED TO CONDUCT THEIR OWN THOROUGH INVESTIGATION AND DUE DILIGENCE WITH RESPECT TO AES SUL AND ITS AFFILIATES, BASED ON SUCH INFORMATION AS THEY DEEM RELEVANT, WITHOUT RELIANCE ON BANKBOSTON, BANK OF AMERICA, UNIBANCO OR WESTLB BEFORE ACQUIRING A LOAN HEREIN.

Facility:	US$ 300,000,000 Senior Secured Term Loan Facility (the "Facility"), with Political Risk Insurance Coverage ("PRI").
Borrower:	AES Cayman Guaíba Ltd. ("AES Guaíba" or the "Borrower").
Joint-Arrangers:	BankBoston, N.A. ("BankBoston"), Banc of America Securities, LLC ("BAS"), UNIBANCO -União de Bancos Brasilieros S.A. ("Unibanco"), and Westdeutsche Landesbank Girozentrale, New York Branch ("WestLB") acting directly or indirectly through any of their affiliates as deemed appropriate in their sole discretion (collectively, the "Joint-Arrangers").
Administrative and Documentation Agent:	BankBoston ("Agent").
Syndication Agent:	BankBoston ("Syndication Agent"), BAS, WestLB and Unibanco collectively ("Co-Syndication Agent").
Lenders:	The Joint-Arrangers will syndicate the Facility among a group of financial institutions reasonably acceptable to the Joint-Arrangers.
Facility Amount:	Up to US$300,000,000, equally divided among Tranches A and B: Tranche A Uncovered: US$ To be determined. Tranche A PRI: US$ To be determined. Total Tranche A: US$150,000,000 Tranche B PRI: US$150,000,000 Commitments and allocations to Tranches A and B will be done on a pro-rata basis.
Guarantors:	AES Guaíba II Empreendimentos Ltda. ("AES Guaíba II") and AES Sul Distribuidora Gaúcha de Energia S.A. ("AES Sul" or the "Company"). The Borrower owns 99.99% of the quotas of AES Guaíba II, which owns 96.6% of the capital stock of AES Sul.

Maturity Date:	Tranche A Uncovered and Tranche A PRI:	Three years from the Closing Date.
	Tranche B PRI:	Five years from the Closing Date.
Repayment of Principal:	Repayment of Tranche A will be as follows: 20% payable in month 24; 20% payable in month 30; and 60% payable in month 36. Repayment of Tranche B PRI will be in 4 equal semi-annual installments commencing 42 months after the Closing Date.	
Collateral:	To include pledge (first priority security interest) of: (i) outstanding capital stock of the Borrower, outstanding quotas of AES Guaíba II, outstanding capital stock of AES Sul owned by AES Guaíba II, US$729,234,450 of Senior Secured Notes due 2009 issued by AES Sul (the "FRNs"), Borrower's right, title and interest in and to the NPA (as defined below), a collateral assignment of the rights of AES Corporation ("AES") and the Borrower to receive certain payments from AES Sul under the Operator Agreement and the Subrogation Agreement, and the Account Collateral Agreement, in each case pledged to the Agent for the benefit of the Lenders and the Agent (the "Secured Parties") and (ii) all proceeds related to or arising from any of the foregoing.	
NPA:	Note Purchase Agreement, pursuant to which the FRNs were issued, as amended and restated as of April 26, 1999.	
Use of Proceeds:	To repay and satisfy certain obligations of the Borrower outstanding under the Borrower's US$410,000,000 Credit Agreement, dated April 9, 1999.	
AES Sponsor Agreement and the Limited US$50,000,000 Guarantee:	In addition to the Collateral described above, AES provides an additional guarantee in the form of the AES Sponsor Agreement, which includes a conditional guarantee of principal and interest limited to US$50,000,000. AES' conditional guarantee will no longer apply if, (x) the Debt to EBITDA Ratio for any two consecutive Reporting Periods is not greater than 3.50:1.00, and the Interest Coverage Ratio for any two consecutive Reporting Periods is not less than 2.50:1.00, and (y) the obligations under the AES Sul Brazilian Debentures, Tranche A Uncovered loans and Tranche A PRI loans shall have been paid in full.	
Subject AES Parties:	Each of the Borrower, AES Guaíba II, AES Sul, AES Cayman Pampas Ltd., AES International Holdings II, Ltd. (collectively, the "Subject AES Parties").	
Ranking:	Each Subject AES Party's obligations under the Facility Documents constitute direct, unconditional and unsubordinated obligations of such Subject AES Party.	

Closing Date:	Date on which all of the conditions precedent to closing are fulfilled by, or on behalf of, the Borrower to the satisfaction of the Joint-Arrangers and the Agent (the "Closing Date"). The target date for the disbursement of the Facility is March 7, 2001.
Availability:	One single disbursement on the Closing Date.
Interest Rate:	Accrued interest will be payable quarterly at the end of each interest period, from the disbursement date until maturity, calculated on the basis of a 360-day year, as follows: Tranche A Uncovered: LIBOR plus (i) 2.875% and (ii) cost of PRI. Tranche A PRI: LIBOR plus 2.875% Tranche B PRI: LIBOR plus 3.25% It is expected that the first coupon will be shorter than quarterly, payable on April 24, 2001; thereafter, interest will be paid on a quarterly basis.
Default Rate:	Amounts outstanding under the Facility after an Event of Default (and any other amount not paid when due) will bear interest at a rate equal to the Interest Rate plus 2.00% p.a.
PRI Coverage:	Tranche A PRI and Tranche B PRI will be insured by PRI. The cost of PRI will be borne by the Borrower. The PRI will provide indemnity for principal payments (nominal fixed US dollar amount) due under Tranche A PRI and Tranche B PRI covering the following customary risk events: (a) Currency Inconvertibility which includes transferability risk; and (b) Expropriation The indemnities above will be set out more fully in the Lenders Insurance Policy. Appropriate representations, covenants and other provisions relating to the PRI shall be included in such Lenders Insurance Policy. The PRI is expected to be provided by a panel of international private insurance companies, which are reasonably acceptable to the Joint-Arrangers (the "PRI Providers"). The PRI Providers will be leading companies in the industry.
Optional Prepayments:	The Facility may be prepaid, in whole or in part, without penalty on the last day of an Interest Period, with five business days' notice and in minimum amounts of US$10,000,000 (or integral multiples of US$ 1,000,000 thereof). If any amount of the Facility is prepaid, no part thereof may be re-borrowed.
Mandatory Prepayment:	A. The Borrower shall prepay the Facility with 100% of the net proceeds received by the Borrower, AES Guaíba II or AES Sul from, without limitation, (i) the issuance by the Borrower, AES Guaíba II, or AES Sul of any of its capital stock (other than the issuance of any such capital stock as to which the proceeds are contributed, directly or indirectly, to the capital of AES Sul), (ii) the sale by the Borrower, of capital stock of any Subject AES Parties, and (iii) the sale by the Borrower of, or the receipt by the Borrower of, any principal payment, prepayment or purchase price in respect of, any of the FRNs.

B. In addition to the mandatory prepayments set forth above, simultaneously with making any Restricted Payment and in accordance with the conditions set forth under the heading "Restricted Payments" herein, the Borrower shall prepay the Facility in an amount not less than the amount of such Restricted Payment. Any prepayment under this subsection B will be applied in the inverse order of maturity.

Yield Protection: The Facility will contain customary provisions satisfactory to the Joint-Arrangers relating to increased costs, reserve requirements, capital adequacy protection, break funding costs, withholding and other taxes and illegality.

Taxes: All payments under the Facility to the Lenders will be made free and clear of any taxes, duties, withholding or other deductions whatsoever. Any and all taxes, levies or contributions imposed by taxing authorities in any jurisdiction relating to the Facility or its extension to the Borrower, will be borne and paid by the Borrower and grossed up, where appropriate.

Conditions Precedent to Disbursement: The disbursement under the Facility will be subject to satisfaction of the following conditions and such additional conditions as shall be appropriate for this transaction, including, without limitation:

1. The documentation for the Facility, in form and substance satisfactory to the Lenders, including, without limitation, the Credit Agreement, the Notes, the Collateral Documents, the Sponsor Agreement and the Political Risk Support Agreement (the "Facility Documents") shall have been duly executed by the parties thereto.
2. The Agent on behalf of the Secured Parties has a first priority, validly perfected security interest in the Collateral and all filings and recording fees and taxes shall have been duly paid and all regulatory agencies which have direct legal authority to grant such approval shall have approved the pledge of such Collateral.
3. AES Sul shall have completed the issuance of the AES Sul Brazilian Debentures in an aggregate principal amount equal to the lesser of (x) R$250,000,000 Reais or (y) the equivalent in Brazilian local currency of US$120,000,000 (the "AES Sul Brazilian Debentures").
4. The PRI policies shall be duly executed and in full force and effect in form and substance acceptable to the Joint-Arrangers.
5. The Borrower shall have made arrangements satisfactory to the Agent to apply the proceeds of the Financing and the AES Sul Brazilian Debentures to repay and satisfy those certain obligations existing under the Borrower's US$410,000,000 Credit Agreement, dated April 9, 1999.
6. Since the Closing Date, no event or events shall have occurred and be continuing, in the sole discretion of the Joint-Arrangers, that could reasonably be expected to have a material adverse change in the business condition, operations, performance, properties or prospects of the Borrower, AES Sul or AES Guaiba II or a material adverse effect on the rights and remedies of the Agent or any Lender under any Facility Document or the ability of the Borrower, AES Sul or AES Guaiba II to perform its respective obligations under any Facility Document.

7. There shall not have occurred any material change or disruption, or any development involving a prospective change or disruption, in United States, Cayman Islands, Brazilian or international financial, political or economic conditions, or currency exchange rates or controls applicable to the Dollar or the Real or the loan syndication markets, in each case, which could reasonably be expected to impair a successful syndication of the Facility in the sole opinion of the Joint-Arrangers.
8. Payment of all fees and expenses required to be paid on or prior to the Closing Date.
9. The Agent has received all necessary governmental and third party consents, approvals and authorizations required in connection with the Facility Documents and the AES Sul Brazilian Debentures, including Central Bank and the Comissao de Valores Mobiliarios ("CVM").
10. The Agent has received and accepted legal opinions reasonably acceptable to the Joint-Arrangers.
11. Each Subject AES Party and AES shall be existing and duly constituted and all the documents relating to their formation and their organizational structures are under terms and conditions acceptable to the Joint-Arrangers.
12. The Borrower has timely delivered a properly completed notice of borrowing.
13. No Default or Event of Default has occurred and is continuing under the Facility Documents and the representations and warranties in the Facility Documents shall be true and correct in all material respects.
14. There exist no action, suit, investigation or litigation in any court or governmental instrumentality that would have a material adverse effect.
15. The Agent has received evidence that the agents for service of process have accepted such appointments.
16. The Agent shall have completed due diligence investigations in scope and with results satisfactory to the Joint-Arrangers.
17. The Agent shall have delivered notice to the Joint-Arrangers that all the Conditions Precedent have been met.

Representations and Warranties:

Customary for this type of financing, including, but not limited to:

1. Confirmation of corporate status, power and authority of each of the Subject AES Parties.

2. No government or regulatory approvals, authorizations, licenses, permits or other third-party consents required (other than those already obtained and in full force and effect or, as to collateral pledges, that has to be obtained within 20 days of Closing Date).

3. The Borrower has good title to the Collateral and its material properties and other assets free and clear of all liens (other than permitted liens).

4. Legality, validity, binding effect and enforceability of the Facility Documents.

5. No pending or threatened action, proceeding, governmental investigation or arbitration is likely to have any material adverse effect or affects the legality or enforceability of any Facility Document.

6. Compliance with all governmental approvals, laws and contracts, including all environmental, labor and tax laws.

7. No Subject AES Party is a party to any indenture, loan or credit agreement or any other agreement that could reasonably be expected to have a material adverse effect.

8. Obligations of each Subject AES Parties under the Facility Documents are direct, unconditional and unsubordinated and rank at least *pari passu* with all its other senior secured indebtedness.

9. Each Subject AES Parties is subject to civil and commercial law; absence of immunity.

10. Each of the Facility Documents is in proper legal form for enforcement in Brazil.

11. Complete and accurate disclosure of all debt and liens of each Subject AES Party.

12. Payment of taxes and no tax, levy, deduction or withholding imposed by Brazil or Cayman Islands or any political subdivision thereof, except for such taxes as have been paid or shall be paid in due course by the Borrower.

13. Completeness and accuracy of financial statements and other information.

Covenants:

Customary for this type of financing, including, but not limited to:

1. Delivery of (i) annual and quarterly consolidated financial statements of the Borrower and AES Sul, (ii) quarterly reports with respect to capital improvement programs of AES Sul, (iii) within 90 days after the end of each fiscal year, a budget of AES Sul for such fiscal year, (iv) within 10 days of any failure by the Borrower or any subsidiary to make a material contribution to a foreign employee benefit plan, notice of such failure, (v) together with the financial statements listed above, a certificate signed by an appropriate officer of the Borrower as to absence of Defaults or Events of Defaults, (vi) copies of all information and reports, if any, which AES Sul shall file with the CVM, (vii) notice of any Default or Event of Default or filing of any proceeding by any governmental authority against the Borrower which could have a material adverse effect, and (viii) notice of the occurrence of a material adverse effect.
2. Compliance with laws and obligations under material contracts and other agreements.
3. Maintenance of facilities, properties and insurance on properties, and all material authorizations, approvals, consents, licenses and permits.
4. Preservation of corporate existence and proper use of proceeds.
5. Allow inspection of books and records.
6. Limitation on asset dispositions, mergers and consolidations.
7. Cause the proceeds of the Facility to be used only for purposes permitted under the Facility Documents.
8. Take such actions and do such things as may be necessary to create and maintain the effectiveness, perfection and priority of the Collateral as contemplated by the Facility Documents.
9. Limitation on liens.

10. Limitation on debt as to the Borrower and AES Guaíba II; Limitation on debt as to AES Sul pursuant to the Financial Covenants.

11. Limitation on investments.

12. Limitation on transactions with affiliates.

13. Comply with the provisions of any material contract.

14. Change the organizational documents of any Subject AES Party in a manner that restricts or limits the payment of dividends or any of their obligations under the Facility Documents.

15. Limitations on the FRNs and the NPA.

16. Comply with the PRI policies.

17. Limitations on line of business.

Financial Covenants:

Financial covenants of AES Sul, measured in Brazilian GAAP, to be tested at the end of each calendar quarter:

1. Senior Debt to EBITDA Ratio:

Up to June 30, 2001, no greater than 4.25:1.00;

From June 30, 2001 to June 30, 2002, no greater than 4.00:1.00;

From June 30, 2002 to December 31, 2002, no greater than 3.75:1.00; and

From December 31, 2002 until maturity, no greater than 3.50:1.00

2. Interest Coverage Ratio (based solely on interest on Senior Debt):

Up to June 30, 2001, no less than 1.75:1.00;

From June 30, 2001 to June 30, 2002, no less than 1.875:1.00;

From June 30, 2002 to December 31, 2002, no less than 2.25:1.00; and

From December 31, 2002 until maturity, no less than 2.50:1.00

3. Capital Expenditures not to exceed US$40,000,000 in 2001 and US$35,000,000 in any calendar year thereafter.

Restricted Payments:

The Facility will contain certain conditions restricting the Borrower's, AES Sul's and AES Guaiba II's ability to make Restricted Payments.

The Borrower, AES Guaíba II and AES Sul may make Restricted Payments, to the extent that, at the time of such Restricted Payment and after giving effect thereto, (i) no Default or Event of Default has occurred and is continuing (ii) the Debt to EBITDA Ratio for any two consecutive Reporting Periods shall not be greater than 3.50:1.00, (iii) the Interest Coverage Ratio for any two consecutive Reporting Periods shall not be less than 2.50:1.00, (iv) the obligations under the Tranche A Uncovered loans, Tranche A PRI loans and the AES Sul Brazilian Debentures shall have been paid in full, and (v) the Agent shall have received a certificate from an officer of the Borrower stating that each of the conditions listed in clauses (i) through (iv) have been satisfied and certifying compliance and projected compliance (on a pro forma basis) with the financial covenants; provided, further, to the extent that the foregoing conditions have been met and the Borrower or any of its subsidiaries incurs any additional Debt, the: (x) the first principal payment of such Debt is no earlier than the then final maturity of Tranche B PRI, and (y) the terms and conditions

of such Debt shall provide for the prepayment or escrow of such Debt in an aggregate amount of the principal payments due in 2004 under Tranche B PRI.

"Restricted Payment" means, with respect to the Borrower, AES Sul and AES Guaíba II, (i) any dividend (except those required by law) on, or any payment on account of, or the setting apart of assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of such Person or any warrants or options to purchase any such Stock, whether now or hereafter outstanding, or the making of any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of such Person or any Subsidiary of such Person, or (ii) any payment of interest on such Person's capital, or any payment in respect of any principal, interest, fees or expenses relating to any loan from any Affiliate of such Person (other than payments in respect of the FRNs), or any payment in respect of any principal, interest, fees or expenses with respect to the FRNS only, that is in excess of the Obligations at the time due, or the payment of any fees under the Operator Agreement; provided that the reimbursement to AES by AES Sul or the Borrower of expenses paid by AES on behalf of AES Sul or the Borrower, as the case may be, up to a maximum cumulative amount of $250,000 in any calendar year, shall not be deemed to be a payment by AES Sul or the Borrower in respect of Debt owed to an Affiliate of such Person for purposes of this definition.

Events of Default:

Customary to this type of facility, including, but not limited to:

1. Failure to pay principal, interest or any other amount when it becomes due (two business day grace period on non-payment of interest, fees or other amounts).
2. Material inaccuracy of representations and warranties.
3. Any AES Party shall fail to perform or observe any term or covenant in any documentation related hereto (subject, in the case of certain covenants to a grace period of 30 days). The failure to observe any financial covenant shall constitute a Default, no such failure shall constitute an Event of Default unless and until such failure shall have continued for two consecutive calendar quarters.
4. Cross-default to other indebtedness of AES Sul in excess of US$20,000,000 for non-payment thereof and US$10,000,000 upon acceleration thereof.
5. Change of Control.
6. Bankruptcy, insolvency, liquidation or reorganization of any Subject AES Party.
7. Any transfer or further encumbrance of Collateral, other than second priority, fully subordinated liens (subordinated on terms and conditions reasonably acceptable to the required Lenders).
8. Unsatisfied judgments in excess of US$10,000,000 for AES Sul and US$5,000,000 for the Borrower and AES Guaiba II.
9. Any security document shall cease to create a valid, perfected, first priority security interest in Collateral covered thereby.

10. Any material provision of any Facility Document is canceled, terminated or otherwise ceases to be valid and binding.
11. Revocation of license or permit (including the Concession) resulting in a material adverse effect.
12. Any loss, seizure, compulsory acquisition, expropriation or nationalization or other adverse governmental action or event.
13. Invalidity of any subordination provision of any subordinated debt or obligations under any Facility Documents shall not have the priority contemplated thereunder.
14. Any action by any governmental authority of Brazil that has the effect of restricting the availability of Dollars to persons outside of Brazil or any other incovertibility event.
15. Any PRI policy shall cease to be in full force and effect.

Assignment/ Participations: The Lenders will be permitted, upon written notice to the Administrative Agent, to assign and sell participations to other financial institutions in the minimum principal amount of US$5,000,000 and increments of US$1,000,000 in excess thereof. The transferor lender shall pay to the Administrative Agent an administrative fee of US$2,500 for the processing of the transfer.

Confidentiality: This Summary of Indicative Terms and Conditions is made with the express understanding that its contents shall be treated as confidential unless otherwise agreed to by the Joint-Arrangers.

Governing Law: All documentation in connection with the Facility would be governed by and construed in accordance with the laws of the state of New York (except for Brazilian collateral documents which will be governed by Brazilian Law). The Borrower would submit to the non-exclusive jurisdiction of Federal and State courts sitting in the City of New York; sovereign immunity shall be waived.

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The Brazilian Electricity Industry

Introduction

Electricity represents approximately 40% of all the energy consumed in Brazil and approximately 93% of this electricity is generated by hydroelectric power plants. As at December 31st, 1999, the nominal installed capacity of Brazil was 63,966MW (including 50% of the capacity of Itaipu). The electricity industry in Brazil, as elsewhere, is made up of the following three principal areas:

- *Generation* — the production of electricity at generation stations using nuclear, fossil fuel or hydroelectric sources of electricity.
- *Transmission* — the transfer of electricity across large, high-voltage power lines from generation stations to local areas distributors.
- *Distribution* — the sale and delivery of electricity within local areas to homes and businesses using relatively low-voltage power lines together with a range of related services such as metering, billing and energy management.

Electricity produced at a generation station is boosted by nearby transformers to high voltages so it can be moved long distances over transmission lines with limited power loss. The voltage is then reduced or stepped down at transformer stations for supply to large customers or distributors. Distributors carry the power over sub-transmission lines to distribution points at which distribution stations further step down the voltage for supply to local customers.

The Brazilian electricity sector is comprised of a total of the following companies:

- Federally-owned regional generation, transmission and/or distribution companies:
  - Boa Vista Energia S.A.
  - Companhia Energética de Alagoas — CEAL
  - Companhia Energética do Piauí — CEPISA
  - Centrais Elétricas de Rondônia S.A. Chesf — CERON
  - Companhia de Eletricidade do Acre — ELETROACRE
  - Eletronorte
  - Eletrobrás Termonuclear S.A. — ELETRONUCLEAR ("Eletronuclear")
  - Empresa Transmissora do Sul do Brasil S.A. — ELETROSUL ("Eletrosul")
  - Furnas
  - Manaus Energia S.A.
- 15 state-owned generation, transmission and/or distribution companies;
- 5 municipal government-owned companies;

- 45 privately owned companies (including companies privatised through December 31, 1999); and

- Itaipu, the largest hydroelectric plant in the world, 50% owned by Paraguay and 50% owned by Brazil.

The Federal Government holds its interests in the electricity transmission sector through Eletrobrás, which controls the following regional generation, transmission and distribution companies:

- Furnas, a generation and transmission company in the Southeast of Brazil (States of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo);

- Chesf, a generation and transmission company in the Northeast of Brazil (including the States of Maranhão, Alagoas, Bahia, Ceará, Paráiba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe);

- Eletronorte, a generation, transmission and distribution company in the North of Brazil (States of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins and Maranhão);

- Eletrosul, a transmission company in the South of Brazil (States of Paraná, Rio Grande do Sul, Santa Catarina and Mato Grosso do Sul);

- Eletronuclear, a nuclear generation company in the Southeast of Brazil; and

- LightPar, a company which holds an equity participation in Eletronet.

Eletrobrás also holds Brazil's 50% interest in Itaipu as well as non-controlling minority interests in various other electricity generation, transmission and distribution companies. Although the Federal Government has begun to implement its program of privatization of the Brazilian electricity sector, including a more market driven framework for electricity sales, the Federal Government retains control of Eletrobrás which, on a consolidated basis, was responsible for companies which generated approximately 51% of all the electricity generated in Brazil in 1999.

Generation

The electricity sector in Brazil is organized according to five geographic regions: the Southeast, the South, the Midwest, the North and the Northeast. Each of these regions is served by three federally-owned regional generation and transmission companies or by one transmission company controlled by Eletrobrás. Each of these companies develop electricity generation (both hydro and, to a lesser extent, thermal power) in its region and generates and transmits electricity, mainly to power distribution utilities. In addition, through Eletronuclear, Eletrobrás develops nuclear power generation.

Certain large consumers of electricity, such as industrial consumers, also produce electricity principally for their own consumption. See "— Regulation — Independent Power Producers and Self-Producers".

Hydroelectric plants generate approximately 93% of electricity produced in Brazil. The remainder of production is derived from thermal plants using diesel, fuel oil, coal, charcoal, wood, wind or nuclear fuel. The thermal plants, except for the isolated systems in the North are used when hydroelectric production cannot meet demand because of insufficient water in the system or at times of peak demand. This accounts for the fact that the percentage of overall installed capacity of thermal plants is greater than the percentage of power generated. The Federal Government has announced plans to authorize the construction of up to 44 new thermal power plants, most of

which will be fired by natural gas. Participation by Eletrobrás in this program is likely to be by way of minority participations in the new construction projects.

The following table shows Brazil's installed generation capacity, divided into hydroelectric and thermal generation capacity, from 1986 through 1999:

Year	Hydro-electric[1]	Thermal					
		Diesel	Fuel Oil	Coal	Uranium	Others[2]	Total
				(in MW)			
1986	35,876	1,032	1,972	736	657	12	40,285
1987	38,101	1,033	1,842	1,040	657	12	42,685
1988	39,662	1,192	1,842	1,040	657	30	44,423
1989	43,086	1,162	1,842	1,040	657	112	47,899
1990	44,196	1,100	1,842	1,040	657	113	48,948
1991	45,965	1,120	1,842	1,040	657	113	50,737
1992	47,058	1,127	1,842	1,040	657	—	51,724
1993	47,961	1,231	1,842	1,040	657	—	52,731
1994	49,308	1,276	1,842	1,040	657	1	54,124
1995	50,572	1,286	1,842	1,040	657	1	55,398
1996	52,436	1,282	1,810	1,040	657	3	57,228
1997	53,987	1,286	1,778	1,410	657	27	59,145
1998	55,859	1,277	1,784	1,410	657	324	61,311
1999	58,387	1,474	1,786	1,410	657	252	63,966

(1) Includes 50% of Itaipu's total operating capacity.
(2) Includes firewood, charcoal and wind.
Source: Electric Power Sector Managerial Information System ("SIESE").

It is expected that thermal power capacity will increase to supplement Brazil's hydroelectric resources, which are limited due to Brazil's finite water resources and the high construction costs and delays in a number of hydroelectric projects. Thermal plants can be installed more rapidly and at a lower cost than hydroelectric plants and, therefore, may prove more attractive to independent power producers and other outside financing sources. However, it is not expected that there will be a significant increase in the proportion of thermal power generation compared to hydroelectric power within the next five years.

Transmission

To encourage private sector investment, as a prelude to privatization, Brazil is introducing a profit-making element to transmission and provides funding for such transmission assets. The Power Sector Law permits owners of transmission assets to charge certain tariffs for the generation of electricity throughout Brazil in order to allow movement of electricity between Northern and Southern Brazil, as demand dictates, and to encourage independent power producers to build or expand generation facilities to take advantage of the existing developed transmission system. See "— Reform of the Electricity Sector".

Brazil comprises two major integrated systems for the transmission of electricity located in the North-Northeast and South-Southeast regions of Brazil and which are co-ordinated by Eletrobrás. Furnas and Eletrosul are linked through a transmission grid to which Itaipu is also linked. This transmission grid forms the interconnected power system for the South, Southeast and Midwest regions and serves approximately 80% of Brazil's electricity market. The transmission lines of Eletronorte and Chesf form the interconnected power system for the North and Northeast regions of Brazil. The two systems were connected recently through the North/South transmission line, thereby creating a link between the two regions (the "interconnected system"). Most of the energy

generation, transmission and distribution companies in Brazil are linked to one of these systems through a network of transmission lines. The primary generators are Eletronorte and Chesf, in the North-Northeast system, and CESP (the São Paulo state-owned electricity company), Furnas, Gerasul, Companhia Energética de Minas Gerais — CEMIG ("CEMIG") the Minas Gerais state-owned electricity company and Companhia Paranaense de Energia — COPEL ("COPEL"), the Paraná state-owned electricity company, in the South-Southeast system. Each system is fully integrated, allowing energy to flow freely among concessionaires in each system as determined by the ONS.

In addition to the interconnected system, there are isolated thermal systems in the northern states that do not have a link with the integrated systems because the distances, capacities and costs involved would make such interconnection technically and economically unfeasible. All of the isolated systems are operated by Eletronorte and by local concessionaires in the Northern region of Brazil.

Distribution

Distribution and retail sales of electricity comprise the sale and delivery of electricity to distribution companies which then sell and deliver electricity by low-voltage power lines to end consumers and industrial consumers together with a range of related services such as metering, billing and energy management.

Between 1986 and 1999, the consumption of electricity in Brazil grew by approximately 65%, from 177,345 GWh to 291,861 GWh, the number of residential customers increased by approximately 76%, from approximately 25 million to approximately 45 million, and the total nominal installed capacity (including 50% of Itaipu) increased by approximately 59%, from 40,285MW to 63,966MW.

In the year ended December 31, 1999, consumption of electricity by the industrial sector accounted for approximately 43% of electricity consumed in Brazil, while consumption by residential users accounted for approximately 28%, by commercial users for approximately 15% and by the rural sector, street lighting and other users for approximately 14%.

National Electric Energy Plans

As the Brazilian electricity supply system is mainly hydro-powered, involving a large geographic area and substantial energy interchanges between the different regions of Brazil, strategic energy expansion programs are necessary to ensure continuity of supply and to monitor and control development. These expansion programs are known as the "National Electric Energy Plans".

Historically, the *Grupo Coordenador de Planejamento dos Sistemas* — GCPS, the executive committee of Eletrobrás which had the responsibility of coordinating the expansion of Brazil's electricity systems prior to the reform of the regulatory framework (the "GCPS") had the responsibility of preparing the *Plano Decenal de Expansão* ("Ten-Year Expansion Plan" or the "Plan") which established the number, location and generation capacity of electricity plants for each region of Brazil. This responsibility has now passed to the *Comitê Coordenador do Planejamento da Expansão dos Sistemas Elétricos* — CCPE (the "CCPE") which replaced the GCPS as of January 2000. The Ten-Year Expansion Plans are the principal short- and medium-term planning guidelines for the electricity sector. The Plan was first updated in 1989 with the Ten-Year 1990-1999 Expansion Plan, and it has been updated annually since then. The current version is the Ten-Year 2000-2009 Expansion Plan (the "2009 Plan"). Prior to the enactment of the Power Sector Law in 1995, the Ten-Year Expansion Plans specifically indicated which utility would be responsible for building each facility. Currently, most hydroelectric generation concessions must be preceded by a public bidding process. As a result, the Ten-Year Expansion Plans only effectively suggest where it would be appropriate for a generation facility to be built and a [illegible] bidding process determines which company will actually build the plant. Furthermore, if a

thermal plant, which does not require a public bidding process when being built by an independent electricity producer or by a self generator, is constructed that is not specifically called for in the Ten-Year Expansion Plan, the need to build one of the hydroelectric plants contemplated in the Plan may be obviated.

The following table shows the projected investments for the Brazilian electricity sector as a whole for the period 2000 to 2004 as set out in the 2009 Plan:

Item	For the year ended December 31,					
	2000	2001	2002	2003	2004	Total
			(in billions of reais)			
Generation [(1)]	3.8	5.3	5.6	4.0	3.4	22.1
Transmission	2.7	3.4	2.5	1.1	1.0	10.7
Distribution	1.7	1.5	1.5	1.5	1.4	7.6
General Installations	0.4	0.5	0.5	0.4	0.3	2.1
Total	8.6	10.7	10.1	7.0	6.1	42.5

(1) Including the portion of investments relating to independent power producers.

The estimated increase in total consumption of electricity of concessionaires, which has been adopted as a point of reference for the whole of Brazil, is 4.7% per year for the 2000-2009 period. The supply of electricity is expected to increase from 64,300MW to 109,400MW over the same period including the electricity imported from foreign countries within South America. The participation of thermal plants in the total supply of electricity is expected to increase from 9.2% to 25% in the 2000-2009 period. Approximately 49,000Km of transmission lines are expected to be installed in Brazil, and approximately 92,000MVA are expected to be installed in substations. Expansion in the sector will demand investment of approximately R$8.5 billion per year.

There can be no assurance that the 2009 Plan will be implemented or, if implemented, will be implemented in accordance with its terms. In addition, the Federal Government has entered into various other agreements to help meet Brazil's energy needs, such as those relating to the Brazil-Bolívia natural gas pipeline, and to the transmission lines between Brazil and Argentina.

Reform of the Electricity Sector

In recent years, the Federal Government has taken a number of measures to transform the Brazilian electricity sector, and further significant initiatives are under consideration. In very general terms, all of these initiatives are aimed at increasing the role of private investment, eliminating barriers to foreign investment and increasing competition in the electricity industry.

The following is a summary of the principal measures taken by the Federal Government to date:

- *Concessions Law and Power Sector Law.* The Concessions Law and the Power Sector Law (i) require that all concessions provide electricity services be awarded only after a public bidding process, (ii) permit the formation of independent power producers to generate and sell electricity for their own account to certain classes of customers, (iii) permit certain customers to purchase electricity from any power supplier, (iv) require that suppliers and large consumers be given open access (for a fee) to the distribution and transmission systems of concessionaires that are included in the basic national transmission grid, and (v) eliminate the requirement to obtain concessions for certain small electricity projects.

- *Constitutional Amendment.* The Brazilian federal constitution was amended on August 15, 1995 (Constitutional Amendment N°8/95) to permit a company established in Brazil with its headquarters and management based in Brazil, irrespective of the nationality of the persons controlling such company, to become a concessionaire and to hold authorisations in the

electricity sector. Previously, a company holding a concession or authorisation was required to be controlled by Brazilian nationals, the Federal Government or a Brazilian state government.

- *Privatizations.* Since 1995, controlling interests in distribution companies previously owned by the Federal Government through Eletrobrás, or the various States, have been sold to private investors. Certain state governments have also sold minority interests in major distribution companies in the same period. See “Privatization of Eletrobrás".

ANEEL and the Federal Government have adopted measures beginning with the Power Sector Restructuring Law (Law N°9,648 of May 27, 1998) and implementing regulations. Measures taken by ANEEL include (i) requiring distributors and generation companies to enter into supply agreements covering the transition period leading to the establishment of a wholesale energy market, (ii) establishing the ONS with powers to ensure a fair, competitive market for the generation and energy retailing segments of the energy supply chain, (iii) demanding that energy sector companies split into generation, distribution and transmission affiliates within a specified period and segregate accounting for generation, distribution, transmission and retailing activities immediately, including segregating costs related to operating the basic grid, supplying captive customers, operating the distribution grid, and businesses outside the energy sector, (iv) requiring distributors and energy retailers to contract 85% of the energy required to meet their obligations to final customers through long-term contracts with generation companies, (v) limiting market share and cross-ownership in the generation, transmission and distribution markets nation-wide and regionally, (vi) requiring generation, transmission and distribution companies to enter into agreements relating to energy supply, interconnection and use of the basic transmission grid, (vii) establishing a single pricing methodology and uniform rules and procedures for access to the basic transmission grid, and (viii) holding public bidding processes for authorizations and concessions to construct and operate power plants. In addition, ANEEL regulations allow large customers to choose whether to purchase energy from the local distribution company, a transmission company or an energy retailer.

Regulation

General

The Brazilian electricity sector is in a transitional period from a heavily regulated industry in which the most significant players were also Federal Government-owned, to a market with open competition subject to a governing regulatory framework, including tariff controls. Two new agencies have been created: the ONS, the independent system operator responsible for operation planning and the *Associação do Mercado Atacadista de Energia Elétrica* – ASMAE, the wholesale electricity market association (the "ASMAE"), the market entity responsible for providing administrative, legal and technical support for the activities of the Wholesale Electricity Market. Pursuant to Law N°3,890-A, dated as of April 25, 1961, as amended by the Power Sector Restructuring Law of 1998, Eletrobrás is the holding company for certain generation, transmission and distribution companies. Power utilities are directly responsible for designing, building and operating their own power projects subject to applicable licensing requirements. Eletrobrás also transferred its responsibilities for planning to the Brazilian supply systems to the CCPE, retaining only the responsibility for ancillary activities. Utilities participate in the ONS, which draws up working guidelines and operates the basic grid to ensure continuous energy supply. Utilities also participate in the Wholesale Electricity Market, which operates a spot market for bulk energy through the wholesale energy market administrator, ASMAE. ASMAE is a non-profit entity created under the *Acordo do Mercado* to provide administrative, legal and technical support to the activities of the Wholesale Electricity Market. The *Acordo do Mercado* is a document that is subscribed to by all the Wholesale Electricity Market participants and establishes the conditions that shall regulate

the market ("*Acordo do Mercado*"). The activities of ASMAE are subject to the regulations established by the Wholesale Electricity Market itself to mitigate exposure of the Wholesale Electricity Market's clearing system to its participants' financial condition. The GCPS was responsible for establishing working guidelines and action plans. The CCPE replaced the GCPS as of January 2000.

ONS

The ONS was created in 1998, pursuant to the Power Sector Restructuring Law of 1998, and succeeded the *Grupo Coordenador da Operação Interligada* – GCOI, the interconnected operation co-ordination group (the "GCOI"). The role of the GCOI was to optimize the use of Brazil's available installed electricity capacity through its interconnected systems at a time of market growth. The ONS is a non-profit organization controlled by electricity utilities engaged in generation, transmission (defined as operators of lines of 230kV or higher voltage) and distribution or retail of electricity. The organization of the ONS, as set out in its by-laws, is similar to that of a corporation, where the generation, transmission and distribution companies, as well as large importers, exporters and free consumers, are members with voting rights and where the Federal Department of Energy and consumer representatives are members without voting rights. Members vote to elect nominees to the administrative council, an audit committee and certain other deliberative bodies. The administrative council elects the board of directors and produces working guidelines and lines of action for the ONS.

The primary role of the ONS is to co-ordinate the operations of the interconnected systems in order to (i) achieve appropriate levels of load supply that minimize operating costs, (ii) maintain an adequate reliability level and (iii) ensure open access to the basic transmission grid. The Brazilian electricity system is jointly operated by different utilities, which own plants and reservoirs in sequence in river basins, thus creating interdependence in power production. Only a few of these generation companies own thermal plants.

The ONS co-ordinates and supervises the operation of the transmission system at levels that maintain adequate voltage and frequency standards. The utilities' transmission systems are interconnected to form a grid that has more than 55,000Km of lines at voltages equal or greater than 230kV. The ONS carries out electrical and energy management studies, with variable timescales and planning horizons ranging from years to real-time operation in order to assist in planning for the operation of the power system. The following are some of the principal considerations the ONS takes into account when formulating its operational plans:

- peak demand and energy supply contracts between utilities;
- annual mean system short-run marginal costs;
- forecasts for thermal generation and fuel consumption;
- projections of financial resources for the CCC Account;
- strategies for hydroelectric operations adopted monthly in short-term planning; and
- conditions for supplying the consumer market and estimates of energy shortage risks.

The ONS also carries out studies to identify the most likely emergencies in order to prepare emergency plans to minimize breakdowns. Studies are also carried out in relation to flood control and specific projects such as how to bring a new plant on-line. The technical groups of the ONS also carry out research to develop new technologies to improve the overall operation of the system

with the help of *Centro de Pesquisas de Energia Elétrica* — CEPEL, the research centre for electric energy.

The ONS has come to play a key role in ensuring that generation companies, distribution companies, energy retailers and large customers have open access to the basic transmission grid. The expansion of the transmission grid is dictated by the mandatory planning guidelines issued by the CCPE. ANEEL, in turn, is responsible for conducting the public bidding process for the construction and maintenance of the newly added segment of the basic transmission grid.

GCPS and CCPE

The GCPS was a national committee comprised of representatives from the principal electricity concessionaires which co-ordinated planning for electricity systems throughout Brazil. The Federal Department of Energy created the CCPE, which replaced the GCPS in January 2000. Accordingly, the CCPE has assumed the responsibility of preparing the Ten-Year Expansion Plans. The last plan drawn under the responsibility of the GCPS was the 2009 Plan. The first plan to be drawn under the CCPE's responsibility is the 2001/2010 Plan.

Wholesale Electricity Market

In order to provide a short-term market of energy in Brazil upon the liberation of the electricity market, the Federal Government created the Wholesale Electricity Market pursuant to the Power Sector Restructuring Law of 1998, and approved by ANEEL pursuant to Resolution N°18 of January 28, 1999.

The Wholesale Electricity Market is a self-regulatory body responsible for the operation of the wholesale electricity market and for ensuring that purchases of energy in the short-term market are settled and cleared in an efficient manner. Participants in the Wholesale Electricity Market are subject to rules contained in the charter of the Wholesale Electricity Market which have been approved by ANEEL, and to applicable ANEEL regulations. Parties which must participate in the Wholesale Electricity Market include (i) generation companies with an installed generation capacity of 50MW or more, (ii) energy retailers, including distribution companies, having sold 300 GWh of electricity or more during the preceding year, and (iii) importers or exporters of electricity with an available capacity of 50MW or more. Other parties have the option to participate in the Wholesale Electricity Market, such as (i) self-producers having a generation capacity of 50MW or more, (ii) large energy consumers eligible for bulk energy purchases, (iii) generation companies with an installed generation capacity of less than 50MW, (iv) importers and exporters of energy having available capacity under 50MW, and (v) energy retailers, having sold under 300 GWh of electricity, during the preceding year. All electricity supply contracts must be registered with the Wholesale Electricity Market. Distributors and energy retailers must show, through registration, their compliance with the requirement that 85% of their contractual obligations to final customers are covered by long-term electricity supply contracts with generation companies. Registration of electricity supply contracts with the Wholesale Electricity Market is also designed to ensure that generation companies do not commit to supplying more than their maximum available capacity as set by ANEEL. See "— The Tariff System — Generation Tariffs".

The Wholesale Electricity Market is expected to compute the spot price for energy according to guidelines that are currently in use and available to the public. The spot price is currently determined by market conditions and by certain public policy and operational considerations, including the optimal use of resources, transmission bottlenecks, the costs of an energy deficit, the self-restraint of customers caused by a high spot price, projected energy requirements and international alternative markets.

Prevailing spot prices are expected to vary in each of the several sub-markets within the wholesale energy market. Sub-markets are defined by the Wholesale Electricity Market and take into account restrictions in transmission capacity that effectively limit the ability of generation companies to supply purchasers to the basic grid in a market, as defined by the Wholesale Electricity Market.

Electricity purchase contracts guarantee electricity purchasers that they will be able to purchase electricity for a fixed price, and thus avoid the volatility of the Wholesale Electricity Market. The Wholesale Electricity Market insures that amounts due from participants are collected and distributed as necessary to observe supply arrangements.

ASMAE

The ASMAE is a non-profit entity created under the *Acordo do Mercado* to provide administrative, legal and technical support to the activities of the Wholesale Electricity Market.

Independent Power Producers and Self-Producers

The Power Sector Law also introduced the concept of the independent power producer as a further factor in opening up the electricity sector to private investment and enhancing competition in energy generation. An independent power producer is a legal entity or consortium that trades in energy with (i) certain large industrial and commercial consumers, (ii) consumers who have not been supplied by the local distribution concessionaire for more than 180 days, (iii) certain other customers upon previous agreement with the local distribution concessionaire, (iv) existing consumers with demand for at least 10MW who are supplied at a voltage level equal to or greater than 69kV and (v) new consumers with demand of at least 3MW who are supplied at a voltage level equal to or greater than 69kV. The Power Sector Law also provides for the formation of consortia to generate power for public utilities, for use by consortium members, for independent power production or for any one or more of these, in each case governed by applicable rules. Self-producers, producers who generate power primarily for their own use, may (i) contribute or exchange energy with other self-producers within a consortium, (ii) sell excess energy to the local distribution concessionaire, or (iii) exchange energy with the local distribution concessionaire to allow for consumption by industrial plants owned by the self-producer and located somewhere other than in the area of generation.

Decree N°2,003 dated September 10, 1996 ("Decree N°2,003") sets forth the regulatory framework for independent power producers and self-producers. Pursuant to Decree N°2,003, the development of hydroelectric power plants by an independent power producer or a self-producer requires a concession, awarded following a bidding process, only when the project generates power in excess of 1MW in the case of an independent power producer and 10MW in the case of a self-producer. In all other cases, including the development of thermoelectric power plants, the independent power producer or self-producer is only required to obtain authorization from, or to register with, the applicable authority. Decree N°2,003 also provides that concessions and authorizations granted thereunder have terms of 35 and 30 years, respectively, with the possibility of extensions for periods equal to the initial terms, at the option of ANEEL.

Large volume electricity consumers

Large consumers of electricity are also eligible, pursuant to the *Acordo de Mercado*, to purchase bulk electricity directly through the Wholesale Electricity Market. ANEEL regulations define eligibility requirements for large consumers and institute safeguards to permit access to the basic grid and to any interposed distribution lines for the benefit of large consumers. The transmission and distribution companies are obliged to incur any expenses arising from the access of large

consumers to their respective transmission lines, except for a tariff reflecting marginal operating costs and expenses directly related to interconnection.

The Tariff System

General

Law N°8,631 dated March 4, 1993, as clarified in related regulations, generally established that each utility was to propose a tariff structure, based on its particular circumstances, for approval by federal regulatory authorities. The proposed rate was to be calculated, taking into account the concessionaire's desired level of remuneration, as well as, among other things, operating expenditures, including personnel costs, the cost of Itaipu electricity, any other external generation supply costs and electricity purchased from other concessionaire companies, certain construction costs, depreciation and amortisation charges, RGR Fund charges and taxes other than income taxes.

The introduction of the Real Plan in 1994 abolished the rate-setting process introduced by Law N°8,631. Under the Real Plan, rate increases for public utilities relating to inflation were no longer to be granted automatically. Instead, rate increases were frozen and any increase in rates would require the approval of the Ministry of Finance. Tariff-setting authority was subsequently transferred from DNAEE to ANEEL in 1997.

No rate increases were granted to Brazil's public utilities between July 1994 and November 1995. Consequently, despite the considerable decrease in the rate of inflation resulting from the implementation of the Real Plan, public utilities' *real* rates declined during this period. In November 1995, DNAEE set new rates for many public utilities.

In August 1998, ANEEL issued new regulations governing distribution tariffs. According to such regulations, ANEEL has the authority to readjust and review tariffs in response to changes in energy purchase costs and market conditions. In readjusting distribution tariffs, ANEEL considers the following:

- costs of electricity purchased for resale under the contracts and from Itaipu;
- costs of electricity purchased under freely negotiated contracts;
- costs of electricity purchased in the wholesale electricity market where energy that is not contracted for under the contracts and surplus energy will be purchased and sold; and
- certain other charges for transmission and distribution systems. Each distribution company's concession contract also provides for an annual readjustment of tariffs based on certain regulatory charges, costs of electricity purchased for resale, costs for the use of hydroelectric resources and transmission costs. Tariffs are also reviewed every four years in accordance with a productivity factor (referred to as the "X" Factor).

Rates that Brazilian energy utility companies pay for the purchase of electricity generated by Itaipu and charge for the sale of such electricity are established pursuant to the agreement between Brazil and Paraguay to construct and operate the Itaipu power plant signed on April 26, 1973. The rates are denominated in U.S. dollars. As a consequence, tariffs for electricity sold by Itaipu rise or fall independently of the rates established by federal regulatory authorities for sales by electric utilities. Such sales by Itaipu is equal to the tariff paid by the Brazilian energy utility company.

The rate-setting model in Brazil, prior to the comprehensive reform of the energy sector, set rates independently for generation (including transmission) tariffs, applied to distributors, and distribution tariffs applied to final consumers. Whereas both generation and distribution tariffs failed to keep

pace with inflation and declined in real terms over the period from 1988 to 1993, from 1994 through 1999 annual average generation tariffs rose 53% in real terms while annual average distribution tariffs rose 75% in real terms over the same period. The result of this divergence in rates was an increase in the operating income of energy distribution companies and a decrease in profit margin of companies focused on generation and transmission, in respect of the construction and operation of the Itaipu power plant. No assurance can be given that future generation and distribution tariffs will converge or that the new regulatory regime will rectify this discrepancy in tariffs in whole or in part.

Generation Tariffs

Pursuant to ANEEL Resolution N°143 of June 9, 1999, generation and distribution companies are required over time to enter into supply agreements, otherwise known as "initial agreements", as the electricity sector evolves from a regulated electricity market into a liberalised market. Such initial agreements establish that generation and distribution companies will supply a specified amount of energy to distribution companies at a price set by ANEEL for seven years from the date of execution of each agreement. The assured energy supply for the first year is equal to the projected consumption of the relevant markets, and the assured energy supply for subsequent years includes additional energy supplies to cover projected growth in energy consumption until the end of 2001. For 2002, the assured energy supply is the same as for 2001. For each year after 2002, the assured energy supply decreases by 25% of the assured energy supply for 2001 until the assured energy supply reaches zero in 2006. Distribution companies will then rely on purchases at competitive market prices made through the Wholesale Energy Market or under long-term supply agreements to obtain bulk energy in excess of its assured energy supply.

Generation companies may only commit to supply energy up to a limit established by ANEEL. This is equal to the nominal capacity of thermal plants, which means that it is equal to 95% of the projected energy capacity of hydroelectric plants as calculated by the ONS. The effect of the gradual deregulation of prices, through the initial agreements, will be to create a competitive market for the available generating capacity. Once a competitive market has been created, prices will be established by mutual agreement or by reference to the spot market prices set by the Wholesale Energy Market.

Transmission Tariffs

Transmission tariffs are established in accordance with ANEEL's approved rate at the time the concessions are granted to construct each transmission line. The ONS collects such tariffs from customers and passes them on to the transmission companies. The fees due to transmission companies are established in the applicable concession agreement and are subject to adjustment for certain additional costs. Transmission companies also charge a tariff stipulated by the ONS for interconnection by generation and distribution companies. Strict price regulation of transmission services and non-discriminatory pricing are considered by ANEEL to be necessary conditions to ensure that open access to the basic transmission grid is maintained as part of the ongoing comprehensive sectoral reform. The basic transmission grid includes all transmission lines with a voltage equal to or higher than 230kV, as defined by ANEEL Resolution N°245 of July 31, 1998. In addition, certain other unbundled facilities related to transmission must be available to interested parties at regulated rates as part of open access to the transmission grid.

Distribution Tariffs

Tariffs charged by distribution companies are subject to price regulations in order to protect captive retail customers ("price-caps") from the monopoly power of the distribution companies, except for unregulated tariffs charged to large customers that are eligible for purchasing bulk energy supplies from generation companies and energy retailers.

The price regulations applicable to the captive customer base of distribution companies allows for unmanageable increases in costs to be passed through to consumers. These costs include, for example, the cost of energy from Itaipu (since distributors are obliged to purchase certain specified energy requirements from Itaipu). Any increase in real term in tariffs requires the approval of the Federal Government acting through ANEEL. The regulation is based on the "RPI-X" criteria, RPI representing the inflation value measured by the *Índice de Preços de Atacado* — IPA-FGV, the wholesale price index published by the *Fundação Getúlio Vargas* for inflation measurement purposes ("IPA-FGV"), with X as the efficiency parameter. The X value varies depending on the distribution companies.

Distribution companies will face additional price competition from energy retailers for large customers (3MW to 69kV). They have been assured open access to the basic transmission grid and to the distribution grid in order to permit competition in the retailing segment of the energy supply chain. Energy retailers may offer energy supplies that will be delivered through another company's transmission or distribution lines subject to payment of regulated tariffs established by ANEEL.

Privatization of Eletrobrás

In June 1995, the Federal Government completed the sale of 58% of the shares held by Eletrobrás in *Centrais Elétricas do Espírito Santo S/A* — Escelsa, the power distribution company for the State of Espírito Santo as part of the *Programa Nacional de Desestatização* – PND, the Brazilian national privatisation programme ("PND"). In May 1996, the Federal Government completed the sale of the majority share of its interests in Light Serviços de Eletricidade S.A. — LIGHT, one of the power distribution companies for the State of Rio de Janeiro.

In addition, the following additional privatisations have been concluded: (i) in November 1996, the State of Rio de Janeiro sold 70% of Companhia de Eletricidade do Rio de Janeiro — CERJ, the Rio de Janeiro electricity company ("CERJ"), another power distribution company in the State of Rio de Janeiro, (ii) in May and July 1997, the States of Minas Gerais and Bahia sold minority stakes in CEMIG and Companhia de Eletricidade do Estado da Bahia — COELBA, the Bahia electricity company ("COELBA"), state-owned distribution companies in those states, respectively, to different consortia of strategic investors, (iii) in October 1997, the State of Rio Grande do Sul sold the two distribution companies of Companhia Estadual de Energia do Rio Grande do Sul — CEEE, the Rio Grande do Sul distribution company, ("CEEE") and (iv) in November 1997, the State of Mato Grosso do Sul sold its majority interest in ENERSUL, the Mato Grosso do Sul state-owned distribution company in this state, while CESP sold its majority interest in Companhia Paulista de Força e Luz — CPFL, a São Paulo generation and distribution company ("CPFL"), respectively, to different private-sector consortia.

Accordingly, in anticipation of privatisation, ANEEL passed a resolution on January 1, 1998 requiring all subsidiaries to segregate revenues and expenses by activities, namely generation and transmission, so as to facilitate the split-up of each subsidiary as a first step towards its privatisation.

In March 1999, CESP split up in view of its forthcoming privatisation into four companies: Companhia de Transmissão de Energia Elétrica Paulista, Companhia de Geração de Energia Elétrica Tietê ("Geração Tietê") and Companhia de Geração de Energia Elétrica Paranapanema ("Geração Paranapanema"). Geração Paranapanema and Geração Tietê were both sold to different private sector consortia.

Eletrobrás and its four principal operating subsidiaries have been included in the PND. In the past, Eletrobrás owned two subsidiaries involved in the distribution of electricity: Escelsa, in the State of Espírito Santo, privatised on July 21, 1995 and Light, in the State of Rio de Janeiro, privatised on May 21, 1996, as part of the Federal Government's privatisation programme.

In December 1997, Eletrosul's shareholders approved the split-up of Eletrosul and the transfer of Eletrosul's generating assets to a new company, Centrais Geradoras do Sul do Brasil S.A. ("Gerasul"). On January 29, 1998, the shareholders of Eletrobrás approved the split-up of Eletrobrás and the creation of a new company, CESP Eletrobrás Geração S.A. ("Eletroger"), whose subsidiary was Gerasul. The shareholders of Eletrobrás received a number of shares of Eletroger proportional to their share ownership in Eletrobrás. Subsequently, Eletroger merged with and into Gerasul. Gerasul was sold to Tractabel and the proceeds of the sell off were remitted to the Federal Government.

The privatisation programme contemplates that the privatisation of the generation assets of certain of Furnas, Eletronorte and Chesf will commence in the near future. The privatisation programme of Eletrobrás, to the extent that it has been set and as it is currently being implemented, calls for the restructuring of the Eletrobrás System and the privatisation of some of Eletrobrás' generation assets, but excluding the assets of Itaipu, Eletronuclear and certain strategically important hydroelectric and thermal generation plants of Furnas, Eletronorte and Chesf. The programme contemplates the following changes for Eletrobrás' three regional generation subsidiaries — Furnas, Chesf and Eletronorte: (i) dividing the subsidiary by means of a split-up (*cisão*) into one or more generation companies and a transmission company and (ii) conducting a spin-off of each company to create one or more new generation or transmission subsidiaries. In a subsequent step, the Federal Government would sell a majority of the voting stock of each company to private investors.

Many important details of the current plan for privatising Eletrobrás and its operating subsidiaries remain undecided or unannounced. It is generally anticipated that the privatisations will be conducted on a basis that will leave certain functions and assets (other than the generating business – with the exception of certain strategic plants) with Eletrobrás, which would continue to be controlled by the Federal Government. In accordance with constitutional constraints, the Federal Government must maintain ownership of generation and research in the field of nuclear energy, and under the Treaty, the Federal Government must maintain control over Brazil's interests in Itaipu. In addition, it is expected that the Federal Government will not relinquish its control of Eletrobrás and that Eletrobrás will maintain its financing role in the electricity sector, either through the provision of loans or through equity participation, and to continue and enhance its energy trading activities. Finally, it is envisaged that Eletrobrás will also retain its research and development function. Transmission assets may also be sold over time.

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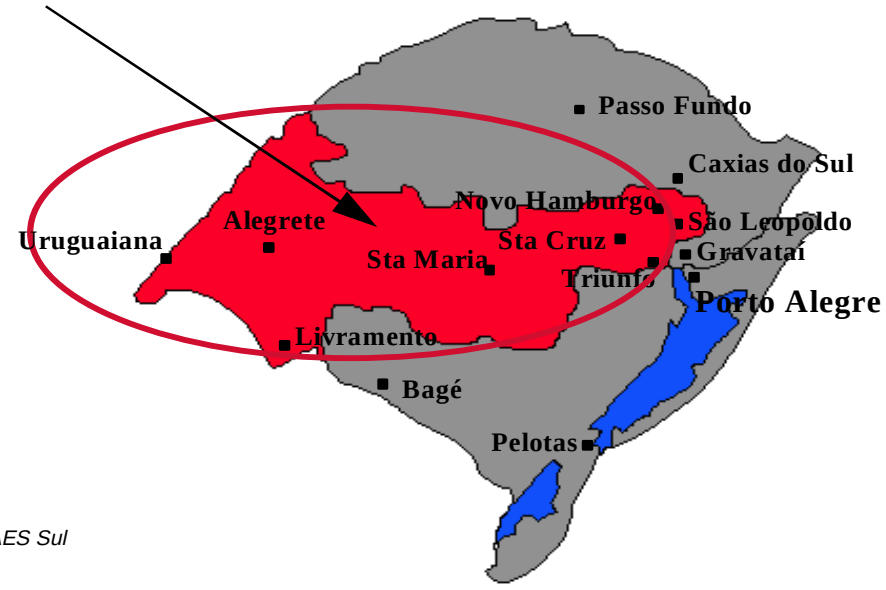
Company Report

AES Sul is an electricity distribution company, indirectly acquired by AES Corporation ("AES"), - the largest independent power company in the world - for approximately US$1.37 billion, on October 21st, 1997 in the privatization process conducted by the government of the State of Rio Grande do Sul, Brazil. Currently, AES indirectly holds 96.6% of the outstanding shares of AES Sul.

Prior to the privatization, AES Sul (formerly Companhia Centro-Oeste) was one of the three distribution companies constituted through the spin-off the Companhia Estadual de Energia Elétrica ("CEEE"), the state owned electricity company which supplied the State of Rio Grande do Sul. On December 18th, 1997 Companhia Centro-Oeste had its name changed to AES Sul Distribuidora Gaúcha de Energia S.A. With the spin-off of CEEE, it was the responsibility of the Company to distribute electricity in the center-west region of Rio Grande do Sul, which borders Argentina and Uruguay in the West.

Along with the privatization of AES Sul (Companhia Centro-Oeste), the State of Rio Grande do Sul also privatized the second CEEE spin-off, Companhia Norte-Nordeste de Distribuição de Energia Elétrica ("Norte-Nordeste"), currently Rio Grande Energia S.A. or RGE, covering the northern region of Rio Grande do Sul. The third distribution company constituted by the CEEE spin-off is located in Porto Alegre and covers the southern Region of the state of Rio Grande do Sul and shall continue under the ownership and operation of CEEE.

AES Sul Concession Area



Source: AES Sul

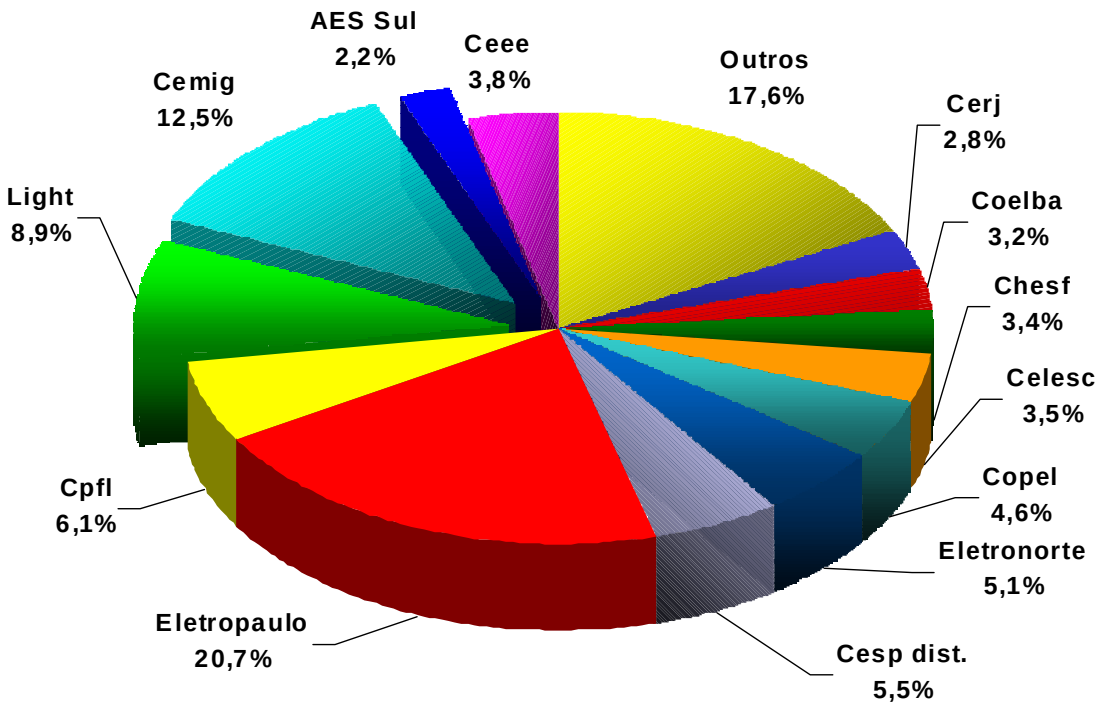
The Company distributed a total of 6,842 GWh of energy in 1999 and 5,636 GWh (excluding energy for its own use) up to September 2000. In September 2000, the Company had 919,112 clients.

The service area covers approximately 99,512Km2 (approximately 35% of the State), with approximately 3.3 million inhabitants as of September 2000. The main industries located in the service area are petrochemical, tobacco, leather, shoes and metalurgy. The service area also

includes the cities of Canoas, Novo Hamburgo and São Leopoldo, which constitute very important and densely populated urban areas located near the City of Porto Alegre.

The State of Rio Grande do Sul has the fourth largest economy and is the third largest exporter of Brazil. Its strategic location in relation to Argentina, Uruguay and Paraguay (Mercosur countries) combined with a highly developed infrastructure, has attracted significant levels of direct investments from foreign and domestic companies over the last few years. Furthermore, it is estimated that its proximity to Argentina, with its low cost gas and electricity markets, as well as the existence of significant primary energy sources within the State, will provide energy companies such as AES Sul with a competitive advantage in the future.

The following chart shows AES Sul's share in the Brazilian energy market as of December 1999:



Source: ABRADEE

The AES Sul concession territory includes a broad and diverse consumer base, with historically high and relatively stable growth rates. Since the introduction of the *Plano Real* (Economic Plan in 1994), residential and commercial demand has increased constantly, as a result of an increase in new connections as well as a higher average usage per consumer. The macroeconomic changes occurring in Brazil, and particularly with the state of Rio Grande do Sul, should provide the base for continuing growth in the rates of demand in the short and medium term.

Of all of the electricity supplied by AES Sul up to September 2000, the industrial sector represented 48%, the residential sector 23%, the rural sector 11%, the commercial sector 10% and 8% was distributed to the public sector and others.

Business Strategy

The strategy for AES Sul going forward is to improve the quality of service, reduce fixed costs, improve productivity and billable sales and increase investments in the company's existing distribution system.

Specifically, management has begun to implement improvements in the following areas:

Streamline Organization Structure. The organization structure at the time of the privatization was vertically integrated with many inefficient levels of middle management. Management restructured the organization by eliminating certain levels of middle management and creating new regional territories, whereby each regional manager is responsible for all functions in of their specific territory, including energy sales, service quality, billings and operating expenses. Management believes that this streamlined structure will result in improved service and reduced costs by increased proximity to the customer and making each regional manager accountable for such manager's respective region.

Capital Improvements. In order to improve the service quality as well as billable energy sales, management replaced approximately 51,000 poles and installed 99,904 new meters in the period between the privatization and September 2000. Management also plans to improve automation of the network which is expected to improve service and reduce costs.

Third Party Purchasing. Past purchasing procedures of CEEE, which in many instances were dictated by the requirements imposed upon by the State, were inefficient and highly fragmented. At the time of the privatization, AES Sul had over 390 individual contracts with outside service and equipment suppliers. Management has been working towards reducing the number of contracts and suppliers in order to reduce service costs as well as the direct costs of managing such contracts.

Service Quality. As a part of its long-term strategy, the Company intends to make investments and implement substantial improvements in its transmission and distribution systems which will reduce the frequency and length of energy cuts, and will generally improve the quality of the service offered to consumers. These measures include automation and improvement of the substations, automation of the distribution network, and general improvements in the maintenance programs. It is estimated that the automation system, among other things, shall facilitate the recognition and immediate location of the failures in the system permitting the employees of the Company to identify and fix the service interruptions faster. The Administration believes that these measures will aid in the maintenance and expansion of the market of the Company within an increasingly competitive Brazilian market.

Energy Losses. The Company had a total energy loss equal to 10.41% during 1999, which includes non-technical losses (those arising from erroneous measurements, energy theft, and others) of 1.68%. In September 2000 total energy losses were 8.65%, including non-technical losses of 1.40%. The Company believes that a reduction of the non-technical losses may be achieved over the next few years, resulting in higher collectable sales and profits. In the next few years, the Company is planning to implement a supervision program for low tension consumer installations, with the objective of identifying fraud, irregular connections and the replacement of damaged and obsolete meters.

Administration System. The Company believes that additional operational and economical efficiencies may be achieved through the improvement of management systems and through investments in technology. The Company's inventory and purchasing functions are already computerized as a result of the installation of a totally integrated system which began to be used in October of 1998.

Delinquency Levels. The Administration continues to implement strong measures in order to further reduce customer delinquency. These measures include: interruption of energy supply to delinquent customers (including to the public sector), legal actions, and rigorous monitoring of customers with interrupted power supply avoiding reconnections by these customers. These measures, together with debt renegotiation policies that require the presentation of collaterals and guarantees have produced positive results. The success of these measures is evidenced by the reduction of delinquency level to 6.86% in September 2000.

Investments

Historically, the energy sector is characterized by large investments, which have still been insufficient to meet the growing demand. Within this context, the Company requires investments in order to: i) improve the current system so as to avoid energy cuts, system overload, and equipment exhaustion; and ii) serve new consumers.

In order to improve its ability to supply more customers and serve them more efficiently, AES Sul's capital expenditure program includes improvements and additions to its transmission and distribution assets, as well as automation of its purchasing and inventory processes. Because AES Sul is a distribution company, its capital expenditures forecasted at approximately R$53MM in 2000 (of which R$42MM was disbursed by September), are modest for an utility of its asset size. Capital expenditures are forecasted at R$74MM in 2001 and approximately R$66MM in 2002 and yearly thereafter. Included as capital expenditures for information systems are expenditures related to modernizing AES Sul's billing and accounts payable systems.

The chart below shows the expected capital expenditures for AES Sul in 2000 and for the following years:

Investments (R$ million)	**2000**	**2001**	**2002**	**2003**	**2004**
Distribution – Expansion	10,042	12,965	13,609	12,340	13,955
Distribution Maintenance	22,715	31,240	30,009	29,888	24,042
Substations	6,515	10,682	10,339	7,872	15,750
Transmission Lines	4,511	6,813	3,403	4,907	5,684
Information Systems	5,583	4,940	4,000	4,000	4,000
Electric System Management	2,538	2,800	1,800	2,000	300
Vehicles	1,900			1,200	1,200
Other	86	4,764	3,812	3,830	3,810
Total	**53,890**	**74,204**	**66,256**	**66,037**	**68,741**

Source: AES Sul.

The Company may not assure that the investment plan will be implemented as described above or that the resources for the investments will be available when necessary. Thus, this investment plan may undergo changes throughout its implementation.

Transmission and Distribution

The Company transmits and distributes electricity to a geographic area which covers approximately 35% of the population of the State of Rio Grande do Sul. The concession area of the Company covers approximately 99,512Km^2 and holds approximately 3.3 million inhabitants.

The distribution system of the Company consists of a system, made up of transmission lines, high tension substations and average and low tension distribution networks, predominantly hung on poles.

The sub-transmission system of AES Sul is basically made up of radial lines, with a good degree of reliability achieved through a substation maintenance program, which includes teams contracted to work with the network and equipment in order to avoid large scale interruptions of electricity supply.

The electricity is transported from the sub-stations of the basic network to the consumers through the sub-transmission and distribution network systems of the Company. Transportation occurs in the basic network through large blocks of electricity coming from the generation installations and transmission lines of the interconnected system. In the sub-transmission system, the transfer of energy occurs from the basic network through the high, average and low tension distribution network to the clients. The AES Sul sub-transmission system is made up by one 230kV, two 138kV lines and 69kV transmission lines. The distribution networks operate in average tension with 13.8kV and 23kV and low tension with 380/220 V and 220/127 V.

AES Sul has 64 power transformers in the 43 existing high tension sub-stations, with an installed transformation capacity of 1,000.06MVA and 1680Km of transmission lines. The average tension distribution network is made up of 302 feeders, installed on poles, servicing the geographic area of AES Sul. In addition to the AES Sul high tension substations, the services are supplemented by 17 other substations of the CEEE system, 1 substation of the Eletrosul system and private substations, that together add 1,164.91MVA to the installed capacity.

The following table shows the composition of AES Sul's distribution network :

Transmission and Distribution Network – 2000

Transmission Lines (Km)	
230kV	13.70
138kV	37.68
69kV	1628.56
Transformer Capacity (MVA)	
138kV	104.50
69kV	895.56
Distribution Lines (Km)	50,313
N° of Poles	703,500

Source: AES Sul

As part of an effort to obtain operational efficiency and to reduce costs, the Company intends to continue automating and improving its transmission and distribution systems, investing in transforming substations, sub-transmissions lines and distribution network (see Investments). By the end of 2003, all of the 43 Transmission/Distribution Substations are planned to be automated, making remote operation possible from the Operation System Center – COS of the Company located in São Leopoldo, permitting the opening and closing of circuit breakers as well as the increase and decrease of transformer taps at these substations.

The three year investment plan includes an extension of the transmission lines, the improvement and renovation of the substations already in existence, and the automation of the transmission network. The maintenance needs vary significantly from year to year being influenced by the climate, among other things. The Company believes that its maintenance expenses are within the normal standards for electricity distribution companies in tropical climate countries which have the same topology of Brazilian aerial networks.

Energy Losses

The energy distribution system losses are composed of technical losses, generated as a result of physical properties of the systems and can be determined through electrical calculations and non-technical losses (also called commercial losses), that are originated among other things by energy theft and obsolete meters, and are determined by subtracting technical losses from total losses.

In order to reduce non-technical losses, the Company is undertaking the following measures: i) identification of clandestine connections, ii) inspection of client meters aiming at detecting irregularities (failures or frauds), iii) replacement of electric-mechanical by electronic meters for large consumers, and iv) replacement of obsolete meters.

The Company has been able to maintain optimal technical loss indexes despite significant increase in demand due to the investment program aimed at expanding and reinforcing the substations, sub-transmission lines and energy distribution networks, and installing of new capacitator benches.

The total loss index including the basic network (over which the Company has no influence) was 10.13 % in 1998 and increased to 10.41 % in 1999, due to growth in demand. In 2000, there is a tendency towards reduction, in light of the implemented actions.

The following table demonstrates the energy loss levels during the months of October 1999 through September 2000

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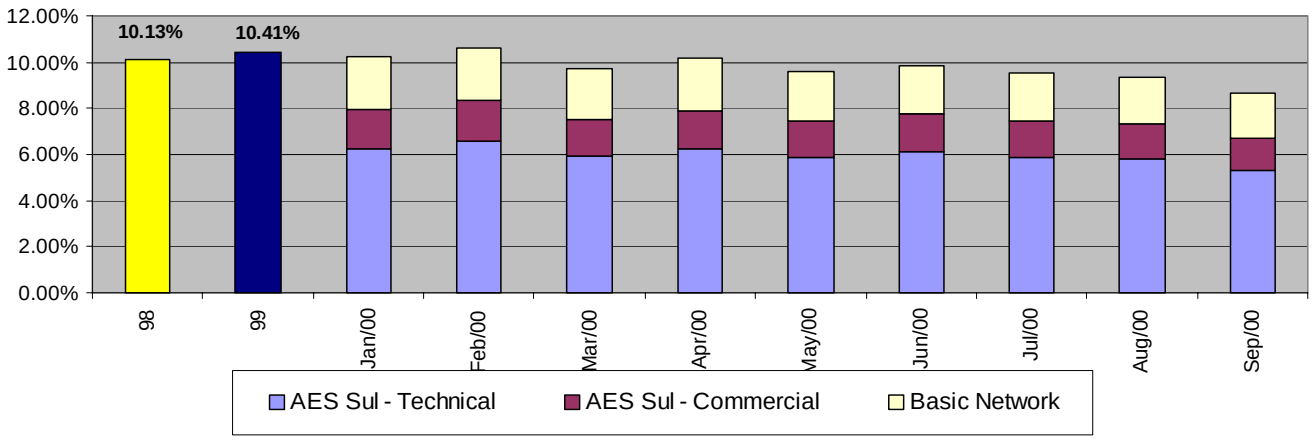
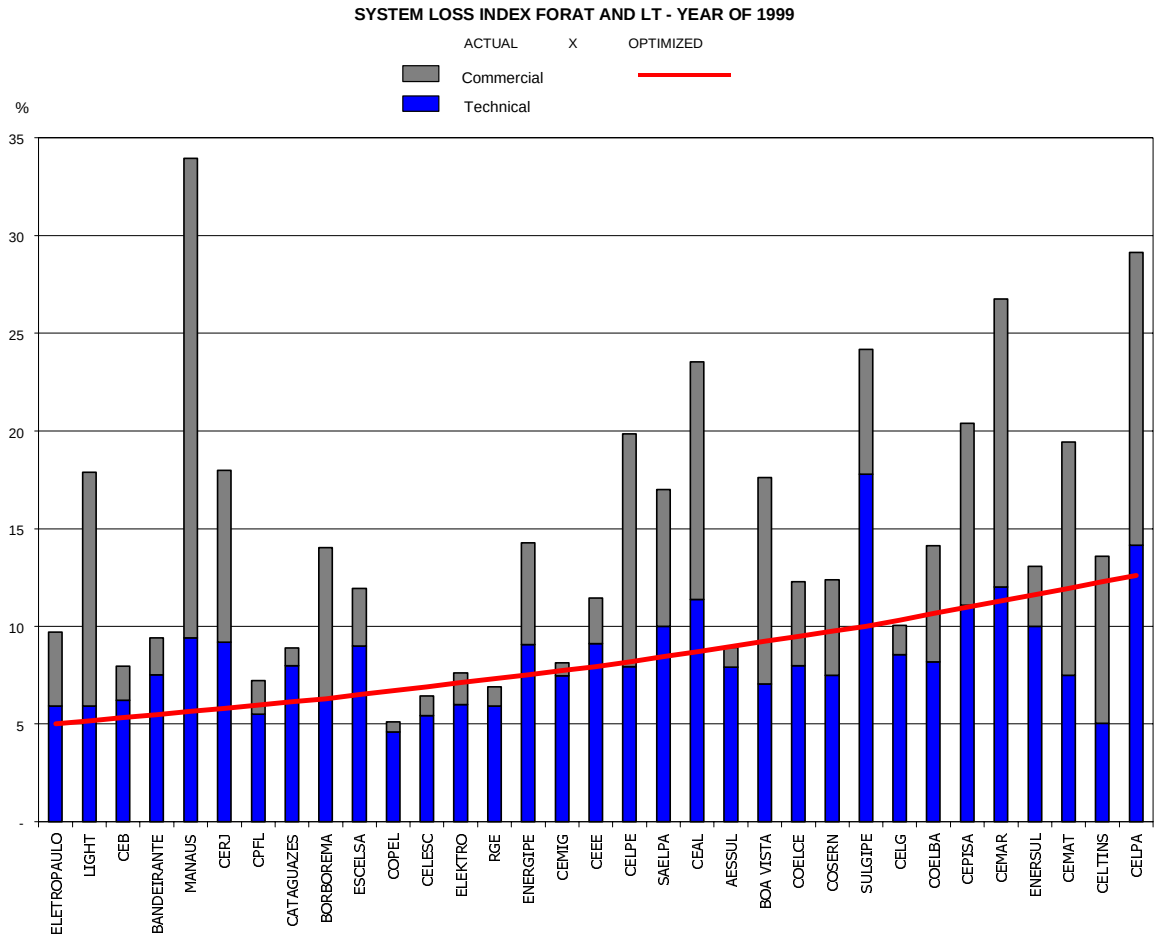


NPE	1998	1999	Jan/00	Feb/00	Mar/00	Apr/00	May/00	Jun/00	Jul/00	Aug/00	Sep/00
AES Sul - Technical	5.38%	6.30%	6.27%	6.59%	5.94%	6.23%	5.88%	6.14%	5.90%	5.79%	5.28%
AES Sul - Commercial	1.43%	1.68%	1.67%	1.75%	1.58%	1.66%	1.56%	1.63%	1.57%	1.54%	1.40%
AES Sul Losses (1)	6.81%	7.98%	7.94%	8.34%	7.52%	7.89%	7.44%	7.77%	7.47%	7.33%	6.68%
External - Basic Network (2)	3.32%	2.43%	2.32%	2.29%	2.22%	2.30%	2.19%	2.09%	2.06%	2.02%	1.97%
Total Losses (1 + 2)	10.13%	10.41%	10.26%	10.63%	9.74%	10.19%	9.63%	9.86%	9.53%	9.35%	8.65%
Goal (1 + 2)			9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%

According to technical work prepared by ABRADEE (The Brazilian Electricity Distributors Association), in 1999, the index of technical and non-technical losses of the AES Sul System was within the technical parameters which are considered optimal, observing the charge concentration per area (kVA/km^2).



Ordered by density in kVA/km^2.

Source: AES Sul.

System Performance

During 1999, the DEC value (average interruption length time, measured in hours per consumers per year) was 18.24, and the FEC value (frequency of the interruptions, measured in the number of interruptions per consumer per year) was 17.10. As of September 2000, the DEC value increased to 24.30 and the FEC value to 20.14. The increase in the DEC and FEC indicators in 2000 can be attributed to a greater reliability of the current registers rather than to a deterioration of the service quality. The following table shows the length and frequency of the interruptions in the distribution network of the Company for the periods indicated.

Indicators	***December 31***		***September 30***	
	1998	**1999**	**Sept 99**	**Sept 00**
Duration of the Interruptions	17.57	18.24	16.74	24.30
(in hours per consumer per year)				
Frequency of the Interruptions	19.98	17.10	15.58	20.14
(number per consumer per year)				

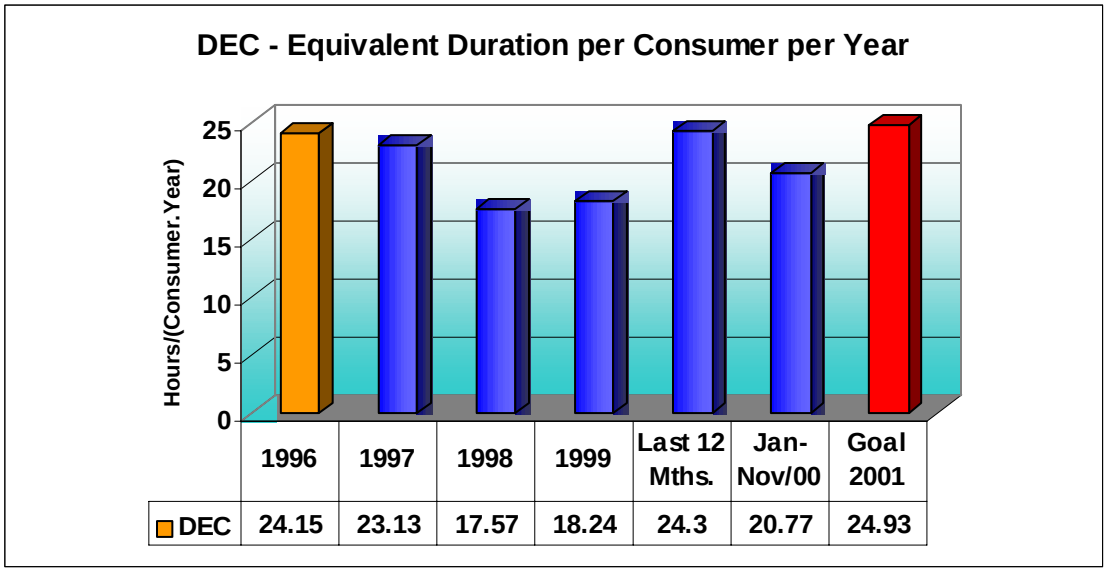
** Source: Data available from the Company*

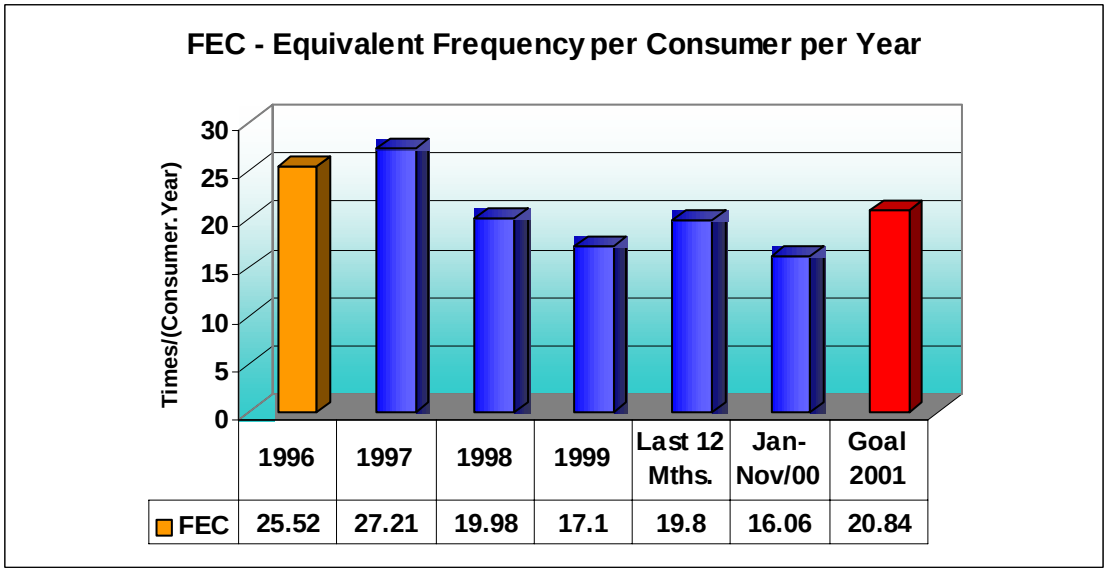
The data prior to the concession agreement may not be considered reliable, due to the precarious nature of the registration system inherited from CEEE, which was based on manual notes, whereas currently registration is automatic.

In August 1999, the Company implemented a new emergency service system in its distribution network - the Incidence Administration System (SGI) - with the intent of improving service through the availability of better administration and control tools. Upon implementing the SGI , the Company centralized its distribution operation and implemented a Call Center with IP technology which provides service to the Company's entire Concession area through a toll-free number.

Since then, the Company continues to improve the internal processes and procedures, in order to improve the service provided to consumers, focusing on what needs to be improved. Today, daily information on DEC, FEC, TMA and other indicators are available, which did not occur at the time the indexes of the Concession Agreement were prepared.

The following tables show DEC and FEC indicators for the Company before and after the implementation of SGI:





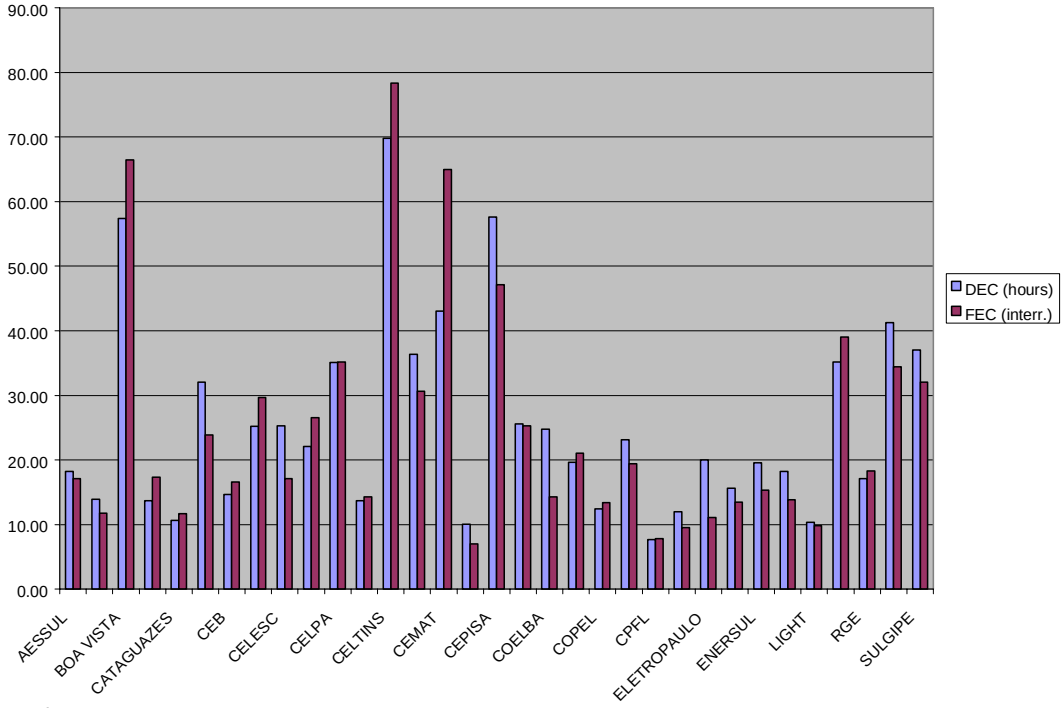
Source (both): AES Sul.

Additional actions that have improved DEC and FEC perception from customers are:

Improvement of team logistics. Prior to August 1999, there were specific teams allocated to deal only with emergencies, now there are multi-functional teams made up not only of electricians designated to deal with an emergency, but also by electricians who carry out other activities such as service interruption, connection and other services. With these multi-functional teams, the Company believes that the customer complaints will be addressed quicker and more efficiently.

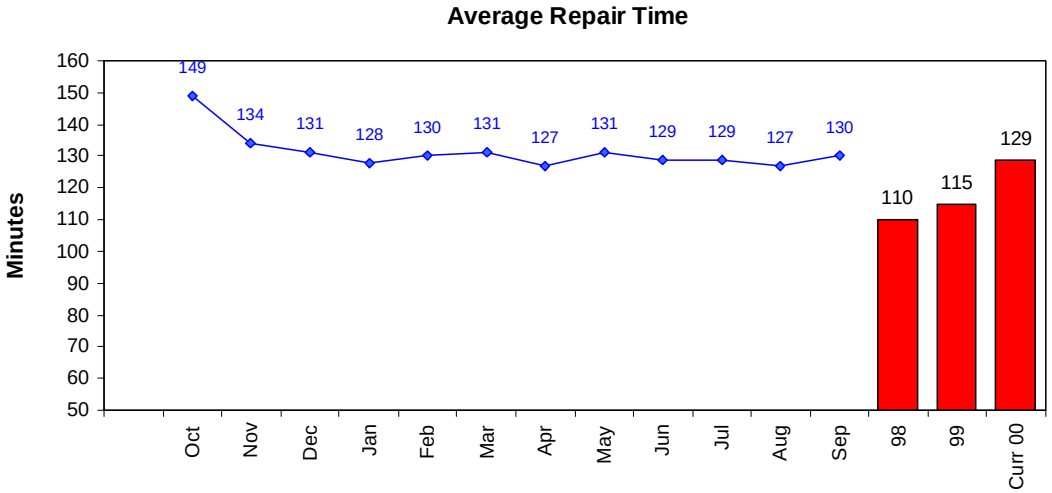
Improvements in the Communication System. Improvements were made in the communication system between the Operation Centers and the field teams (VHF radios) increasing efficiency and easing the service and maintenance processes.

The table bellow shows DEC and FEC for companies associated with ABRADEE in 1999:



Source: AES Sul.

The following graph shows the Average Service Time of the Company, month by month:



Source: AES Sul.

Consumers, Demand Analysis and Tariffs

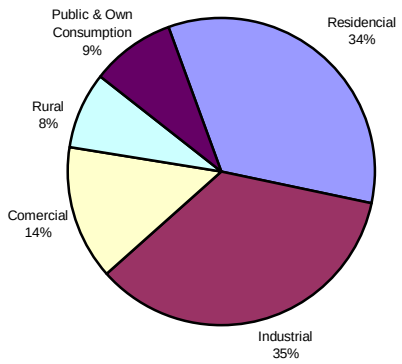
Consumers

Of the 5,636 GWh of electricity supplied by AES Sul up to September 2000, the industrial sector accounted for the largest share representing 48%. Residential and rural class sectors represented 22% and 11%, respectively of the total electricity consumption while commercial consumers represented 10%, public and own consumption the remaining 8%.

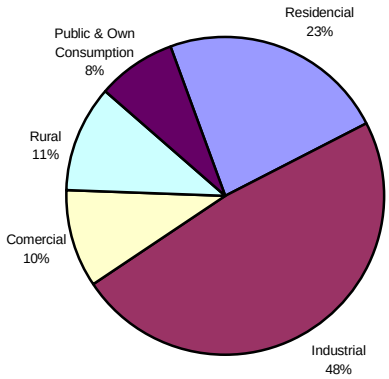
Typical of electric industries around the world, residential tariffs are the highest ones, and the industrial tariffs the lowest. As a result, although industrial customers represented the largest segment of AES Sul's billable energy revenues in terms of GWh, the revenues generated from this segment represented only 35% of AES Sul's energy revenues in 2000 (as shown below).

AES Electric Energy Customers Breakdown – 2000

Revenues (R$)



Billable Energy (GWh)



Source: AES Sul.

The South Petrochemical Complex accounts for approximately 40% of the industrial electricity consumption in AES Sul's concession area and approximately 15% of total industrial consumption in the State. Other industrial sectors with a major presence in AES Sul's demand mix include steel and tobacco. In September 2000, the 10 largest clients of AES Sul included one steel, 6 petrochemical companies, one rural cooperative, one food company and one fiber improvement company.

The following table sets forth AES Sul's customer base as of September 30, 2000.

Class	Number of Clients
Residential	742,688
Industrial	18,444
Commercial and Services	71,263
Rural	79,453
Public Sector	7,264
Total	**919,112**

Source: AES Sul

On September 2000, the twenty largest industrial consumers of the Company were as follows:

Industry	GWh	% of the sales total
Ipiranga Petroquímica S.A.	**250,820,530**	4.4%
OPP Polietilenos S.A.	**246,480,326**	4.4%
Gerdau S.A.	**230,664,720**	4.1%
Coop.Reg.Eletrif.Teutonia Ltda	**145,457,012**	2.6%
OPP Petroquímica S.A.	**123,113,765**	2.2%
Petroquímica Triunfo S.A.	**107,068,750**	1.9%
COPESUL-Cia.Petroquímica Sul	**71,834,211**	1.3%
White Martins Gases Ind. S.A.	**69,597,549**	1.2%
CEVAL Alim.S.A (ant. SAMRIG)	**59,507,874**	1.1%
Paramount Lansul S.A.	**30,563,893**	0.5%
Souza Cruz S.A.	**30,373,945**	0.5%
Petroflex Ind. Comércio S.A.	**28,408,979**	0.5%
DSM Elastomeros Brasil Ltda.	**25,446,367**	0.5%
Satipel Industrial S.A.	**25,289,055**	0.4%
Universal Leaf Tabacos Ltda.	**24,718,346**	0.4%
Sociedade de Cimentos do Brasil Ltda	**24,376,005**	0.4%
Cia.Cimento Portland Gaúcho	**22,793,384**	0.4%
INNOVA 98	**19,669,666**	0.3%
Vidraria Sul Brasil S.A	**16,359,634**	0.3%
Oxiteno	**14,816,295**	0.3%
Trensurb POA(Fátima)	**11,251,354**	0.2%
TRENSURB SÃO LUIZ	**9,783,660**	0.2%
Springer Carrier S.A.	**8,933,189**	0.2%
Bianchini	**8,900,672**	0.2%
CIA CERVEJARIA BRAHMA (Pepsi Cola Engar. Ltda)	**8,658,814**	0.2%
AGCO do Brasil Comércio Ind. Ltda	**6,900,233**	0.1%
Maxion Motores	**6,476,559**	0.1%
KANENBERG (Dimon do Brasil Tabacos Ltda)	**4,648,302**	0.1%
Corsan Sitel	**4,209,250**	0.1%
Granoleo	**2,311,659**	0.0%
Petrobras	**768,125**	0.0%
Ceval Alimentos	**261,852**	0.0%
TRENSURB (SAPUCAIA)	**0**	0.0%
TOTAL	**1,567,360,306**	27.8%

Demand Analysis

The following table shows the number of MWh consumed by each class of consumer and the amount billed for the years 1998 and 1999.

	Number of Consumers Billed (*)		MWh (*)		R$	
Income Class	1999	1998	1999	1998	1999	1998
RESIDENTIAL	727,155	693,472	1,578	1,495	238,575	202,832
Industrial	18,336	17,746	3,253	3,021	242,842	202,238
Commercial	69,874	66,763	690	628	93,912	78,334
Rural	77,512	73,880	767	621	54,109	41,701
Public Power	6,264	6,103	118	108	15,942	13,447
Public Lighting	108	107	215	186	17,616	13,315
Public Service	603	566	173	164	15,126	13,152
Own use	111	115	1	1	264	220
Concessionaire	3	3	42	37	2,079	1,589
Total	899,966	858,755	6,842	6,266	680,470	566,831

During the period between 1994 and 1998, the total electricity consumed by consumers increased at average annual compounded growth rate of 4.35%. In 1999, the sales to residential, commercial and industrial consumers grew by 5.6%, 9.8% and 7.7%, respectively, compared with 1998. Total energy growth in 1999 was 9.2%. The increase in consumption is attributed to: (a) an increase in the number of consumers; and (b) an increase in the level of retail and wholesale activities and to commerce in general.

The increase in industrial electricity consumption is a result of: (a) growth of 7.3% per year in the large industry category due to the expansion of the petrochemical pole industries, (b) an increase of 9.7% average and small size A4+B tension companies due to the good performance of the primary sector of the region, mainly those industries directed towards the production and processing of food and beverages, leather and shoes and (c) expansion of metal-mechanical and agricultural machine durable goods.

Tariffs

The clients of the Company are classified according to the tension level in which the energy is supplied and according to the service class (industrial, commercial, residential,..). According to legislation, the residential clients served by low tension pay the highest tariffs charged by the Company, and the clients served by higher tensions pay lower tariffs. There are cases of clients subsidized by other classes such as low income residential clients and rural Electrification Cooperatives.

Low income residential clients are currently defined as being residential clients with an average consumption of less than 160 kWh per month, which live in simple housing up to 40 square meters, generally located in heavily populated region. Should consumption of these clients exceed 160 kWh/month limit more than four times a year, the client is taken off the low income class and starts being charged the normal rate.

Industrial clients served by A1, A2 and A3 tensions are generally consumers with large volume agreements, and generally with small seasonal variability on demand. The table below shows the average tariffs by consumer class in September 2000, December 1999 and December 1998:

Company Average Rates (R$ / MWh)			
	1998	**1999**	**Sept. 2000**
Residential	135,63	145,94	165,29
Commercial	124,58	130,17	148,84
Industrial	66,94	71,30	81,39
Rural	67,08	68,87	79,71
Public Lighting	71,27	79,67	87,72
Public Power	123,92	129,80	146,42
Public Service	79,94	82,94	95,48
Own Consumption	136,02	138,14	157,71
Supply to other concessionaires	42,02	43,00	49,00
Average considered	**90,45**	**95,74**	**108,15**

Source: AES Sul

According to the tension factor, the sub-groups are divided into high, average and low tension. The rate sub-groups classified as high tension are the following: (1) A1 – clients served by the 230kV tension, (2) A2 – clients served by tensions between 88 and 138kV; (3) A3- clients served by the 69kV tension and A3a – clients served by tensions between 30 and 44kV, basically the tension of 34.5kV (there are no clients of this sub-group for AES Sul). Clients served by tensions between 2.3kV and 25kV are considered average tension. In the low tension (less than 2.3kV) sub-groups rates are classified pursuant to the consumption class: (1) B1- residential class; (2) B1-br-a sub-class of B1, specific for low income clients and where discounts are applied; (3) B2 – rural consumer class with discounts for irrigation systems and cooperatives; (4) B4 – public lighting class and (5) B3 – other classes, with highest representation from the commercial and industrial classes.

In addition to the differentiation of tariffs described above, there are distinct tariffs in the high and average tensions that are currently in force: (1) conventional binomial tariffs, the energy tariff is composed of a price for the energy consumed (kWh) and another for the power demand (kW) contracted and/or measured; (2) seasonal binomial tariffs, the energy tarrifs are composed of four prices for the energy consumed (kWh) with different prices for different periods of the year, as well as dates and times and (i) two tarrifs for the energy demand (kW) contracted and/or measured – the larger of them, pursuant to the time of day (case of the blue rate) or (ii) a tariff for energy demand (kW) contracted or measured at any time of the day – green rate – offered just to the A3a, A4 and As clients. The tariff differentiation during certain periods of the year, time of day and dates are due to the differences in cost. As a result of climatic differences for example, tariffs are higher during the months of May through November, which correspond to the dry periods in the regions with the largest power plant reserve quantity (the Brazilian system is imminently hydro-electric). Also, the day was divided into varying energy tariffs with a higher cost during peak hours for the greatest use of the electrical systems (transmission and distribution) and lower costs off-peak.

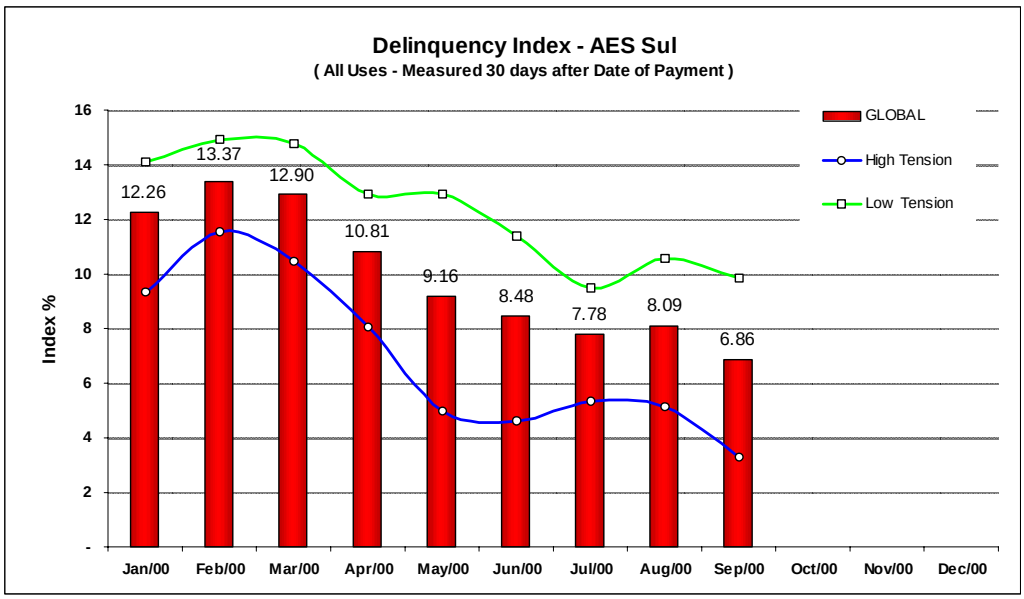
Low tension rates are monomial, a single price for the energy consumed (kWh) , differentiated by service class.

Formula for Adjusting the Tariffs

On April 2003, and every five years thereafter, the Regulator has the right to reevaluate the tariff structure and impose an "X" factor, or efficiency factor, which may be established for the subsequent annual readjustments which occur in April of each year. The Company may promote intermediate adjustments, called extraordinary adjustments, should there be a significant alteration in the costs of the Company which significantly affects the economic-financial equilibrium. The last tariff readjustment conceded by ANEEL was in April of 2000, and a new readjustment is expected in April of 2001.

Delinquency

Delinquency has been historically high, primarily due to payment delays by the public sector. The following chart shows the evolution of delinquency rates for the Company:



Source: AES Sul

On September 30, 2000 accounts receivable totaled R$140.3 million, of which R$22.7 million were related to renegotiated credits with the public sector. The delinquency ratios have decreased rapidly as a result to strong collection efforts as well as reporting delinquent accounts to the credit protection service (Credit Protection Service – SPC). Additionally, the cut of energy supply even to the public sector has presented satisfactory results in reducing the delinquency ratio. It is the Company's policy to negotiate bad debts on a case by case basis. The Company will only cut the energy supply as a step of last resort and it will only do so if the reputation of the Company is not affected.

Collection Procedures

The Company´s management is implementing an action plan with various consumer classes, especially with the public sector aimed at renegotiating and reducing overdue accounts. The Company is establishing payment terms of up to 36 months indexed to the inflation (IGP-M) and in exceptional cases, the term may be further extended subject to additional charges and provided that collateral as put of.

In 2000, the Company negotiated approximately R$ 932,576 with agencies of the State Government (Corsan, Justice Department, Education Department) and R$ 19,685,049 with various municipalities. For those municipalities that still remain in default, the Company does not provide any increase in energy supply. When all kinds of friendly negotiations are exhausted with the public sector, mainly the municipalities, the Company resorts to executing judicial collections. The majority of the judicial collections refer to public lighting charges, which on September 30, 2000 amounted to R$ 10,957,033.77. The majority of the energy supplied for public lighting is being paid for on time. The Company has also implemented a judicial collection system for all amounts due and not paid above R$ 5,000.00 (five thousand Brazilian *reais*). On September 30, 2000, the total amount of such debts was R$ 1,000,476.

All supply contracts which have been terminated due to lack of payment are being screened and forwarded either for judicial collection or sent to the SPC (Credit Protection Service) for further notification by letter to the obligor. The company is also in negotiation with SERASA (a database with information to assist in credit decisions and which includes a list of delinquent customers), in order to have access to the national client register. The Company has also contracted a collection company to collect debts from clients whose energy supplies have been terminated for more than thirty days.

Transmission

The Law of Concessions requires that transmission and distribution companies permit that their lines and accessory installations be used for the transmission of electricity by third parties against payment of a fee (the methodology to determine such fees still has not been determined by the Ministério das Minas e Energia)

On September 30, 1997 CEEE and AES Sul signed a transmition agreement valid until new rules are decided at the federal level. According to the terms of this agreement, CEEE agreed to transmit the amount of energy contracted between AES and its suppliers. CEEE will charge AES Sul a transmission fee on AES Sul's energy supply except for the hydroelectric energy that CEEE itself is supplying, where the transmission cost is already included in the supply tariff paid by AES Sul.

Distribution

Currently, the Company is the only company which holds the concession for distributing electricity within its concession area. However, as a consequence of recent legislation, other suppliers may offer energy to free or potentially free consumers, within the Company's concession area. Existing consumers (with a demand that is equal to or greater than 10MW, subject to reduction, and with a tension supply which is equal to or greater than 69kV) may acquire energy from other suppliers, generators or independent energy producers ("PIE"), and new consumers (with a demand that is equal to or greater than 3MW, subject to reduction, served in any tension), now have access to various energy supply alternatives, including: (i) installation of their own lines directly to a generation company, (ii) payment of a transportation rate to the distribution company for using assets of the basic network and of the distribution company for transmition energy purchased directly from a generation company, (iii) negotiation of an agreement with a distribution and marketing company, and (iv) self-generation.

In order to allow customers access to other supply alternatives, ANEEL published Resolution 286/99 in October of 1999 establishing the preliminary usage rates for electricity distribution by concessionaires and defined the criteria and terms for companies to send their proposals to readjust those rates. AES Sul's sent a proposal to ANEEL on July 2000 requesting a rate revision. The request and is being analyzed by ANEEL.

The distribution usage rates are based on the revenues of the distributor associated with the use by consumers of the sub-transmission and distribution system. Even it the Company lost all of its consumers, its assets would still be remunerated for the use of the distribution network thus covering the operation and maintenance cost.

The Company has 24 clients which have energy demand greater than 3MW and supplied at a tension level which is equal to or greater than 69KV, which qualities them as large industrial clients, pursuant to the Law of Concessions and are thus free to chose other suppliers.

The loss of large consumers reduces the revenues arising from the sale of electricity. However, this risk is mitigated since currently demand is greater than supply and the surplus energy can often be sold in the short term market at prices higher than the average sale tariffs for the majority of its clients.

As of 2003 the legislation will provide for a deregulation of the energy sector in Brazil and amounts of energy supplied persuant to existing supply contracts will be gradually reduced. The Company believes that to the extent in which consumers leave, it shall be capable of reducing its operating costs, and also add new consumers. Furthermore, the large consumers are typically low margin consumers, and in some cases, the loss of this revenue may be partially replaced through the payment for the use of the Company's distribution network or by the addition of new consumers which offer a higher margin.

Energy Purchases

AES Sul does not have any generation assets which are its own property, therefore it needs to acquire 100% of its electricity from external sources. As part of the privatization conditions, the following supply agreements (Initial Agreements) were passed on to AES Sul: (i)ITAIPU - Specific legislation reserves the right to a percentage of the Plant's capacity at a regulated rate; (ii) CEEE (hydraulic generation) An agreement in force until 2007, with fixed amounts already defined through the Initial Agreements; (iii) CGTEE - Thermal generation arising from the spin-off of CEEE, with an agreement with amounts defined until 2002 and decreasing thereafter at the rate of ten percent (10%) per year; (iv) GERASUL – Agreement with decreasing amounts starting in 2003, ending in 2006; (v) UTE URUGUAIANA – Agreement with fixed amounts over twenty (20) years, at rates and restatements defined in the agreement. According to the terms of the Concession Agreement, the cost of the energy acquired from these suppliers may be 100% passed on to the final consumers.

The energy purchase agreements guarantee the supply of energy to the company for the amounts shown in the following table:

Average Energy MW	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***
ITAIPU	229	227	227	227	227	227	227	227
CEEE	104	105	105	105	105	105	105	79
CGTEE	86	86	86	77	69	60	52	43
GERASUL	373	393	393	295	197	98	0	0
COPEL	31	0	0	0	0	0	0	0
Uruguaiana	55	235	235	235	235	235	235	235
Total Contracted	878	1046	1046	939	832	725	618	584

In the Initial Agreements, in a manner which is contrary to the traditional "take or pay" energy agreements, there are generally no performance penalties charged to the supplier for the failure to deliver the energy contracted. In case of a failure by the supplier to deliver energy, the purchaser is instead guaranteed energy from the "Interconnected System" through the Energy Relocation "Mechanism" of MAE, regardless of who has generated the energy, except in situations of rationing when these rights are reduced according to the rationed proportion.

The following table presents the total electricity acquired by the Company and sold to final consumers and other concessionaires during the year of 1999 and 2000.

Electricity Purchased and Sold by the Company in 1999			
(in MWh)	**R$ (thousand)**	**MWh**	**Average Rate** (R$/MWh)
Itaipu	128,569,324	2,035,280	63.17
Gerasul	110,179,472	3,297,979	33.41
CEEE	29,131,881	908,855	32.05
CGTEE	33,810,864	755,551	44.75
COPEL	19,755,795	586,817	33.67
Short Term	17,283,812	144,202	119.86
Electricity sold	680,470,239	6,842,013	99.45

Source: AES Sul

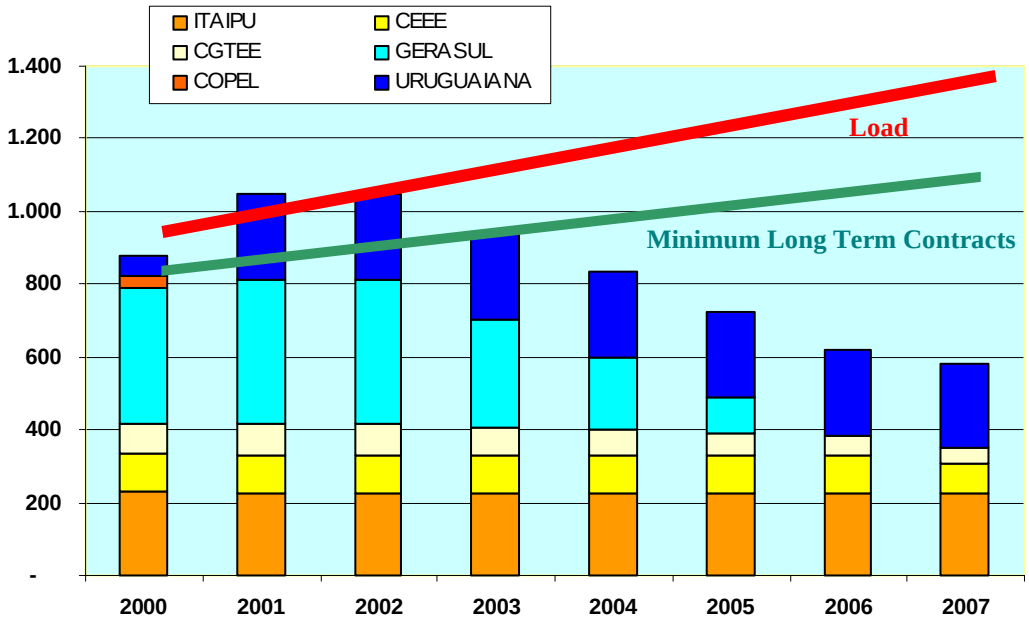
Electricity Purchased and Sold by the Company up to September 2000			
(in MWh)	**R$ (thousand)**	**MWh**	**Average Rate** (R$/MWh)
Itaipu	98,696,689	1,598,668	57.98
Gerasul	92,977,840	2,460,905	37.78
CEEE	22,032,195	688,751	31.99
CGTEE	24,614,391	547,336	44.97
COPEL	92,977,840	204,526	36.43
Uruguaiana	4,667,534	64,205	72.70
Short Term	47,814,299	518,997	92.13
Electricity sold	605,160,895	5,640,077	107.29

Source: AES Sul

Strategically, any possible energy shortfall, may be supplemented by energy acquired from thermoelectric plants, which do not only cover possible energy needs but also possible variations in the energy prices on the free market, offering the Company the maintenance of the same levels of operation.

The Company believes that the volumes that have been contracted over the long term will be sufficient to supply the demand for distribution, its own consumption and the technical and commercial losses. Possible energy failures may be supplied through purchases from other concessionaires or, as a member of the Electricity Wholesale Market, through short term purchase of energy, pursuant to the needs of the operation of the system. The company is also continuously evaluating opportunities for new energy supply business.

The following graph shows the projected electricity sources for AES Sul according to the terms and conditions of the existing supply contracts. Values described as “Load” in the graph refer to new energy purchase contracts that are not established in the current energy supply contract.



Source: AES Sul

I. Itaipu

The Company is one of the 15 electrical companies in the South, Southeastern and Central regions of Brazil, required by Law no. 5.899, of July 5th, 1973, ("Itaipu Law") to acquire electricity from Itaipu. With an installed capacity of 12,600MW, Itaipu is the largest hydroelectric plant in operation in the world. The Brazilian government, through Eletrobrás, holds a 50% stake in Itaipu. The other 50% is controlled by the government of Paraguay. Although it operates in association with Paraguay, Brazil has the right to acquire the energy generated by Itaipu which is not consumed by Paraguay. Brazil currently consumes 95% of all of the electricity generated by Itaipu. In order to finance the expenses associated to the foreign loans incurred to pay for the Itaipu project, the concessionaires of the interconnected energy system in the South, Southeast and Center of Brazil are reequired to acquire energy from Itaipu at a fixed price, in order to cover the expenses of the operation and the payment of the principal and interest on the loans and the energy transmission costs for the concession areas. These prices have been higher than the national average for the volume of the energy supply.

The prices for electricity generated in Itaipu are defined by ANEEL in conformity with a treaty between Brazil and Paraguay and are determined in US dollars, and fully transferred to final customers.Sources of Energy Acquired by AES Sul

II. CEEE

On September 10, 1997 CEEE signed a supply contract with AES Sul to provide it with 25% of its guaranteed hydroelectric energy. The Agreement has a term of ten years.

The contracted energy amounts with CEEE for the initial years of the Agreement were 888GWh in 1998, 1999, 2000 and in 2001, and a constant amount yet to be defined from 2002 to 2007. The contracted capacity and energy amounts may be subject to annual amendments.

Unlike traditional "take or pay" arrangements, CEEE does not pay any performance penalties if it is not able to meet its obligations. CEEE is part of the MRE, Energy Realocation Mechanism, so it has its hydrological risk covered. In case it is not capable of producing its contracted energy, the MRE will cover its contracted obligations. However, AES Sul guarantees the payment of capacity and energy during periods in which energy supply is not met due to failure in the electrical system not attributable to CEEE.

The tariffs to be paid by AES Sul in September 2000 were set at 1,97 R$/kW for capacity and 26,68 R$/MWh for energy and transportation. These rates are also subject to review if there are significant changes in the costs of CEEE, including additional taxes.

Transmission costs are paid to the Basic Network according to the Transmission System Usage Contract.

III. CGTEE

On September 30, 1997, Companhia de Geração Térmica de Energia Elétrica (“CGTEE”) signed a supply contract with AES Sul to provide it with energy from its thermal plants. The Agreement has a term of 15 years with volumes determined in the initial contract up to 2002 and after that decreasing at a rate of 10% per year, with tariff regulated by ANEEL.

The contracted energy amounts with CGTEE for the initial years of the Agreement were 736 GWh in 1998, reaching 755 Gwh in 1999 and 2000 and 754 GWh in 2001. The contracted capacity and energy amounts may be subject to annual amendments. These amounts correspond to 25% of the guaranteed energy of CGTEE.

The tariffs to be paid by AES Sul in September 2000 were set at 2.1 R$/kW for capacity and 42.04 R$/MWh for energy and transportation. These rates are also subject to review by ANEEL if there are significant changes in the costs of CGTEE, including additional taxes.

This agreement has a similar structure as agrement with CEEE.

Transmission costs are paid to the Basic Network according to the Transmission System Usage Contract.

IV. Gerasul/Eletrosul (CEEE Transmission)

The contracted energy amounts with Gerasul/Eletrosul for the initial years of the Agreement were 3,297 GWh in 1999, 3,276 in 2000 and 3,443 in 2001 and 2002, decreasing 25% per year thereafter.

AES Sul is billed directly by Gerasul and pays capacity and energy charges regardless of the amount delivered, since these contracts are guaranteed by the interconnected system except in rationing situations. Gerasul hydrological risks are guaranteed by the MRE and the responsibilities to the system are determined by market regulators.

Transmission costs are paid to the basic network according to the transmission system use contract.

V. Uruguaiana

Background

On September 19, 1997, Companhia Estadual de Energia Eletrica ("CEEE") and AES Uruguaiana Empreendimentos Ltda. ("Uruguaiana" or the "Supplier") executed a Power Supply Agreement. Uruguaiana is a 600MW gas-fired combined cycle power plant being developed by AES in the municipality of Uruguaiana in Rio Grande do Sul. The plant is currently undergoing pre-operational tests and is being fired with natural gas and the Company expects that it will be operating in a combined cycle beginning in January 2001. This plant has already operated in the beginning of 2000 using a simple cycle in emergency conditions, a single unit with reduced power capacity fired by liquid fuel, in order to relieve critical supply conditions in the state of Rio Grande do Sul in the summer of 1999 and 2000.

On October 1997, AES Sul signed a License Agreement with CEEE under which it was granted 37.40% of the contracted energy under the Uruguaiana contract. All the rights and responsibilities of CEEE under the Supply Agreement were transferred to AES Sul under the License Agreement.

Summary of Key Clauses

First, Fifth and Seventh Clauses: These clauses refer to the general obligations of the Supplier with regards to the financing, construction and operation of the power plant.

Rights and Obligations of the Supplier:

- Complete the construction of the project, including two 230kV transmission lines interconnecting the power station to two CEEE substations, in accordance with the technical specifications of CEEE;
- Acquire the land for the power plant site and for the transmission line route;
- Obtain all necessary governmental authorizations, including environmental licenses;
- Prepare required environmental studies and abide by relevant environmental guidelines;
- Maintain and operate the plant in accordance with the safety standards of the National System Operator ("ONS").

Sixth and Fifteenth Clauses: These clauses detail the technical specifications for the power supply.

Rights and Obligations of the Supplier:

- Uruguaiana undertakes to make 500MW available 320 days a year (between September and May) and 45MW available during 30 days a year, these 30 days may fall between June and August. This corresponds to the natural gas supply levels for the plant, limited to the supply restrictions in the Winter anticipated in the first Gas Supply Agreement. However, the current Gas Supply Agreement is no longer subject to these restrictions so that there is gas made available 365 days a year. In light of that, the distributor does not have any obligation to buy this additional energy, although they have the option to buy at the price offered by UTE Uruguaiana on the market.

The equivalent energy to be supplied to CEEE is 3,854,400MWh/year, based on an annual capacity factor of 88%;

- The portion of AES Sul subsequently granted is for 37.4 % of the energy total, corresponding to 1,441,546MWh/year;
- AES SUL guarantees the payments of the capacity and energy charges provided that the minimum availability is achieved by the Suppliers;

CEEE electrical system problems of force majeure, including Government actions, reduce the amount of energy which distributors must accept;

If the Supplier fails to make available the contracted capacity and energy to AES Sul, and it has equivalent availability in the system which AES Sul can purchase, it must compensate AES Sul for the difference in cost.

Tenth Clause: The tariff to be paid to Uruguaiana by AES Sul is:

A monthly capacity charge of R$ 20.06 per kW to cover power plant costs (R$ 9.57), transmission line costs (R$ 0.47) and gas pipeline costs (R$ 10.02);

An energy charge of R$ 25.97 per Mwh to cover Operating & Maintenance costs (R$ 7.93) and the gas tariff (R$ 18.04);

The tariff is readjusted annually by using the following formula:

$$Vr = \frac{[P \times (A)]}{Ao}$$

where:

Vr = Readjusted Tariff

P = Price in effect on the previous reference date

A = IGPM index of current period

Ao = IGPM index on the previous reference date

- The restatement of the portion referring to the transportation of the gas will be defined by:

$Vr = P \times B$

where:

Vr = Restated value.

P = Price in effect on the Previous Reference Date;

B = Index resulting from the considered average of the restatement indexes for each transportation installment for gas from the base, pursuant to what is defined in the respective gas supply agreement. Index “B” shall be obtained through the application of the following formula:

$B = T_A + B_B \times T_B + B_C \times T_C$

where:

B_A ; B_B ; B_C =

Price variation indexes for transportation and distribution of gas from the base in areas A, B, respectively (i) between the *Neuquina* Bay and the Coastal Zone, (ii) between the Coastal Zone and the Delivery spot, and C (iii) referring to the transportation gas duct to be constructed by SULGÁS, pursuant to what is defined in the respective gas supply agreement,

T_A ; T_B ; T_C =

Percentage of the interest of the cost for transportation of gas from the bases in areas A and B in the transportation gas ducts to be constructed by SULGÁS, pursuant to what is defined in the respective gas supply agreement, in the total cost for transporting gas from the base, in force in the month corresponding to that of the restatement;

The restatement of the portion referring to the natural gas commodity shall be given by.

$$Vr = [P \times \frac{B}{Bo}]$$

Where:

Vr = Restated value

P = Price in force on the Previous Reference Date

B = Price of the natural gas made available at the PLANT, provided by SULGÁS in the month corresponding to that of the restatement

Bo = Price of the natural gas made available at the PLANT, provided by SULGÁS in the month of the date of the Previous Reference Date.

In every three (3) year period, the rate may be revised in common consent for more or for less, in order to consider the changes which affect the economy of the project, in order to maintain the initial economic-financial balance of the AGREEMENT unaltered, including the imposition of new taxes or changes of the current taxes, changes to environmental legislation and fluctuations in the US$/R$ currency exchange rate, which would result in an impact of less than 5% on the rate, so that the rights of the parties are always protected during the entire period when the AGREEMENT is in force.

Twelfth, Thirteenth and Fourteenth Clauses: These clauses discuss the payment obligations of both parties.

- Payment of the capacity charge is guaranteed by AES Sul if it is unable to accept power due to transmission limitation that are not responsibility of the plant;
- If contracted power is not made available by the Supplier, then it must compensate AES Sul for [illegible]mount it pays to acquire the energy elsewhere, including transmission costs;

- In addition, monthly payment of capacity and energy is reduced by a penalty amount if agreed capacity is not made available. This excludes force majeure including Acts of God.

Nineteenth Clause: This clause discusses the performance guarantee to be put up by Uruguaiana.

- The supplier must provide AES Sul with a bank guarantee, deposit in cash/government bonds to insurance in form as agreed, in the amount of R$ 20 million. This performance guarantee will be reduced by 50% on the date of Combined Cycle Operations and automatically by 1% annually each year after.

Twenty-second Clause:

The distributors will be indemnified in the event that the Supplier does not meet the agreed project schedule.

Concession Agreement

Background

On November 6, 1997, The Federal Republic of Brazil ("Granting Power") through the Ministry of Mining and Energy and the National Department for Water and Electric Power ("DNAEE") executed a Concession Agreement for the transmission and distribution of electric power within the State of Rio Grande do Sul. The Granting Power conferred the concession to Companhia Centro Oeste de Distribuição de Energia Eletrica (later renamed "AES Sul" or the "Concessionaire") for the Central West region of the State. The Concession Agreement is effective for 30 years and may be extended upon the request of the Concessionaire and at the discretion of the regulators.

The Concession Agreement defines the rights and responsibilities of the Concessionaire and lays out the general operating parameters. It lists a set of cities for which AES Sul holds the concession, but does not grant exclusive rights to the consumers in the concession area for customers above 3MW per year after 1999, who are free to select their electricity supplier. The concession area also does not include areas serviced by rural eletrification cooperatives.

The Concession Agreement establishes a favorable tariff structure which provides a stable and predictable cash flow stream during the first five years of the concession term. Specifically, the tariff calculations provide for two key components: an annual expense pass-through component and an annual inflation adjusted operating costs component. The tariff rates allow for the complete pass through of all purchased energy costs as well as any applicable utility related taxes (including, RGR, CCC, and compensation for hydro resource taxes) throughout the 30-year life of the Concession Agreement. During the first five years of the Concession Agreement, the tariff rate scheme also provides for a favorable annual readjustment factor based on the indexation of operating costs as of April 1997 to inflation (IGP-M).

In 2003 according to the Concession Agreement the Company will have its first tariff revision. They will apply a factor of +/- X over the manageable cost portion of the Company's tariff. This +/- X factor will be applied in the four subsequent tariff readjustments. These revisions have the objective of sharing efficiencies gain or losses achieved by the Company with its consumers.

At any moment the Company may request an extraordinary revision of its tariffs, when there are events that affect the economic equilibrium of the Contract. However on these extraordinary revisions no X factor will be applied.

In case a free customer or any other user such as self producers use the Company's network, they will be charged a use and connection fee, sufficient to cover the Company's operating and maintenance cost and to assure a minimum return on the investments.

The key provisions of the Concession Agreement are:

- A favorable tariff structure which allows for the complete pass through of all purchased energy costs and related utility taxes as well as annual readjustment based on an indexation of operating costs as of April 1997;
- The right to provide electric services to all customers within the concession area;
- The right to disconnect customers due to default in paymet of electricity bills;
- The preservation of the financial balance of the Concession Agreement in case of a "non-controllable" event, which impacts the financial equilibrium of the company including, but not limited to, changes in law and taxes.

Second Clause: The Concessionaire shall have full discretion in managing its business, investments, personnel and technology. This section describes the general operating parameters for the concessionaire. Except for agreed improvements in reliability and voltage levels, there are no regulations impacting on AES Sul. The twelfth subclause states that any industry-wide standard for distribution companies shall be automatically applied to AES Sul

Rights and Responsibilities of the Concessionaire:

- Use adequate technology to ensure the reliability, safety and quality of service;
- Perform the necessary works to supply power to the customers' delivery point;
- Interrupt service to customers for non-payment, irregular use of electricity, or for not adhering to technical or safety standards;
- The pass through of energy costs and investment expenditures;
- Charge the same rate to customers in the same rate classes;
- Install meters at its expense;
- Supply electricity to customers located outside the concession area on a temporary basis subject to the approval of the Regulators;
- Comply to basic customer rights such as providing connections when requested, responding to information requests, and maintaining records of requests and complaints;
- Maintain or improve quality of service as measured by DEC and FEC indicators;
- Pay penalties for non-compliance with agreed reliability standards and voltage levels.

Fourth Clause: AES Sul shall invest in improving current facilities and in building new ones in order to meet current and future demand.

Fifth Clause: This clause lists the duties of AES Sul inherent in its provision of a public service. These include: providing service to poor and low population density areas; adhering to labor and social security regulations including paying ANEEL supervision fees; providing the Regulator with annual reports and free access to the facilities; complying with environmental legislation; permitting access to its transmission and distribution systems and charging access fees as established by the Regulator in return.

Rights and Responsibilities of the Concessionaire:

- Sign necessary energy supply and transport contracts;
- Fund and invest its financial assets as it sees fit;
- Implement measures aimed at conserving energy and plan an annual program to improve energy utilization efficiency. This encompasses the reduction of technical and commercial losses as well as consumer education on the rationalization of energy use. AES Sul must spend at least 1% of its annual operating revenue on these programs;
- Pay a fine for failure to accomplish the loss reduction goals and for not meeting the minimum spending threshold mentioned above;
- Seek the consent of the Granting Power for share transfers, changes in company bylaws or any other acts which may result in a change in the controlling interest of AES Sul.

Seventh Clause: Tariff Structure: The current tariff was agreed with DNAEE on April 4, 1997 for each customer category and season, and is to be adjusted annually. The Concession Agreement provides that all energy costs and non-income taxes shall be passed through to the consumer and that all other expenses shall be indexed to inflation (IGP-M) based on an April 1997 base expense level. As AES Sul's operating expenses decline with reduced labor costs and improved efficiencies, the operating expense component of the tariff will continue to grow based on higher expense levels.

Beginning in April 2003, Brazilian regulators will review the tariff and reset it if necessary to reflect prevailing market conditions. As part of that review, they will begin to apply an "X factor" to the annual readjustment calculations. The "X factor" will adjust the annual readjustement rate by an amount intended to reflect reasonable recovery of operating costs, while also providing an incentive for utilities to become more efficient.

Throughout the term of the Concession Agreement, AES Sul may request a readjustment of the tariff at any time should it find that its economic financial equilibrium is impaired due to changes in its energy supply rates or the imposition of new taxes. In addition, in the event that any of AES Sul's customers become self-producers or are served by other concessionaires or Independent Power Producers, AES Sul can charge for the use of its transmission or distribution network at specific rates established by the Regulator.

Tariff Adjustment Formula:

The formula for the tariff calculation determines a price cap and is based on rates initially established in April 1997 through Res. 104. These rates were formulated based on AES Sul's existing cost of service plus a margin. The tariff calculation is designed to provide an adjustment factor ("IRT") such that certain costs ("VPA") are passed through directly. These costs include the cost of purchased power and utility related taxes, including the RGR and CCC. The tariff readjustment formula is as follows:

$$IRT = \frac{VPA + VPB \times (IVI +/- X)}{RA}$$

where:

IRT = Tariff readjustment index

VPA = Purchased Power Cost + Utility related taxes (RGR, CCC, & Compensation for hydro resource taxes)

VPB = Total concessionaire revenues less VPA and ICMS tax

IVI = Monetary correction factor IGPM index of current period divided by IGPM index of previous year

X = Complementary index to be added or reduced from the IVI index (subject to regulatory body decision). According to the Concession Contract, until April 2003, X equals zero.

RA = Total revenues of previous period less ICMS tax

The new pass through amount (VPA) and the inflation adjusted expenses (VPB) are added together and divided by the prior year's revenue base (RA) in order to generate the readjustment percentage for the next period.

The VPB (revenues less the pass through costs and the ICMS tax) is readjusted based on a composite index of the PPI and CPI and construction costs (collectively the 'IGP-M" index), which is calculated and published by a privately funded organization, Fundação Getulio Vargas. This is an internationally known and reliable source of inflation statistics for Brazil.

In effect, the VPB represents historical operating expenses, with April 1997 as the base year, and not actual non-pass through expenses. This means that even as AES Sul reduces expenses over time and becomes more efficient, the original expense base will continue to be readjusted year after year, resulting in higher average tariffs on lower actual expenses.

Ninth Clause: AES Sul is subject to penalties if it fails to supply requested information to the Granting Power, if fails to adopt the required measures to ensure reliability and efficiency of service, if it does not serve its customers as required and if it does not comply with legal and regulatory policies of the Granting Power. The maximum amount of any such penalty is 0.1% of the annual operating revenues of the Concessionaire for the previous year.

Eleventh Clause: At the end of the Concession's term, AES Sul's assets shall revert to the Granting Power and an indemnity amount will be paid to AES Sul.

Fifteenth Clause: A dispute resolution mechanism, consisting of a commission of three specialists who are to suggest a negotiated solution, has been agreed. If still unresolved, disputes are to be presented to the Brazilian Federal Court in Brasilia.

The obligations which are included in the Distribution Concession Agreement no. COD 12/97 – ANEEL, of November 6th, 1997, are the subject of special attention from the Company, which has a specific area for their administration within its structure.

The fulfillment of the obligations is supervised by the National Electricity Agency – ANEEL, and also through a convention with the Commission for Energy Public Services – CSPE, through annual or spot inspections in the areas of Technical and Operational Performance, as well as Economy, Finance, Accounting and Corporate performance.

As a result of these inspections, reports and Notification Terms are prepared pointing to the verified non-conformities in the opinion of the regulating agency according to the legislation in force.

The first inspection, for the 1998/1999 cycle, had all of its recommendations and determinations fully completed within the terms agreed upon between the Company and the inspection agents. In the 1999/2000 inspection process, it has been in compliance to with all of the determinations and corrections of non-conformity verified in all of the inspected areas cited above.

As of this date, there is no punitive administrative process involving the Company, pursuant to Resolution no. 318, of October 6th, 1998, which approves the procedures for the regulation of the imposing of penalties on agents delegated for the electricity installations and services.

Service Standard

The Concession Agreement requires the Company to conserve and improve the equipment and installations so as to be in conformity with the quality, continuity, safety and reliability in the service standards established or to be established by ANEEL. The Company should improve the confidence of the consumers in their services and additionally, undertake to establish new installations, modify and expand the current installations so that they reach current and future demands. More specifically, the Company has the duty to build installations and install equipment (such as distribution lines and meters) for the supply of electricity to new consumers. In certain cases, the Company may demand that the new consumer should cover the cost associated with the connection.

The Company is required to maintain a consumer board and to supply appropriate information so that the consumers know and can claim their rights against the Company. The Company also has the duty of observing the rights of consumers, such as rapid responses for service requisitions, data filing, complaints and recommendations from consumers. The Company has the duty to provide meters at no cost to the consumers.

Penalties

Should the service reliability and the voltage levels not be reached, the Company may be subject to fines of an amount which is no higher than ten times the cost of the energy which was not supplied or in the case of energy supplied outside of the acceptable voltage levels, for an amount

that is not higher than 10% of the invoice applicable to the previous month. The Federal Government, as the Conceding Power of the concession, operating through ANEEL as its regulatory agency, may impose additional fines which may not exceed 0.1% of the net operating revenue for the previous twelve months and if the Company does not pay them, the Conceding Power may state that the Concession Agreement is terminated or seize the shares of the Controlling Group for later sale in a public auction.

Employees

On August 11, 1997, the date that AES Sul started operating independently, there were approximately 1,132 employees at AES Sul. Since then, the Human Resources Area, has contributed to the adjustment of the staff through a combination of a voluntary dismissal program leading to an economic/financial improvement of the Company. As of September 30, 2000 there were approximately 795 employees at AES Sul. Management expects this number to remain stable in the foreseeable future.

To improve operating efficiency, management has changed several features of the previous employee compensation plan because it did not reflect market conditions, and has shifted some employees to jobs which were more adequate with their skills. Overall, management understands that the greatest improvements in operating efficiency have been and will be obtained through planned capital investments directed at automating and modernizing the company's existing distribution system. These investments are expected to allow the company to keep the number of employees at a constant rate while its customer base increases, thus obtaining operating efficiencies.

SENERGISUL is the Union that represents the workforce at AES Sul. This is the only union representing this professional class of employees in the State of Rio Grande do Sul. Although not all employees are required to join, they still enjoy the benefits achieved by the unions. Annual labor talks take place in November, when the annual labor contracts expire.

The Company's voluntary dismissal program promoted benefits in addition to those guaranteed by law, including among others, the continuity of the Company's contribution to the pension and medical assistance plans. However, many ex-employees are legally questioning the dismissals. There is a collective labor agreement in force, dated November 1st, 2000. The Company is in the negotiation phase for the renewal of this agreement, which has been negotiated in January 2001. However, these employee reductions do not compromise the service quality for clients.

The following table shows the composition of employees on September 30, 2000.

Employees of the Company	September 30th, 2000
Technical/Administrative	**286**
Operations	**509**
Total	***795***
University graduates	**95**
High School graduates	**700**
Total	***795***

Insurance

The Company holds insurance policies against fire, transportation, automobiles, civil liability, death and various risks with various insurance companies. The Company, after the privatization has been placing a great deal of importance on the management of insurance policies, in contrast to when it was a state company, when insurance was limited to the obligations set forth by law.

The main insurance policies as of September 30 2000 are:

- third parties up to R$ 2,776,050.00 issued by Itaú Seguros
- fixed assets including 'interrupted revenues' up to R$ 56 million by Bradesco Seguros.

The insurance policies have specifications, limits and customary deductibles clauses. The Administration believes that its insurance coverage is compatible with its activities and is in conformity with international practices.

Properties

The main real estate property of the Company consists of transmission lines, sub-stations and distribution networks, all located in the concession area. The accounting value of the Company's fixed assets on September 30, 2000, was R$ 819.9 million. On September 30, 2000, the Company had 1.7 thousand kilometers of sub-transmission lines, 43 transformation substations and 53.3 thousand kilometers of aerial conductors. In addition to these assets, no property of the Company represents more than ten percent (10%) of its assets. The Company also owns 53 properties, for service agencies, storage, distribution, alert and supervision headquarters. Another 14 properties, including its head office, are leased.

According to the Concession Agreement and the applicable legislation, certain real estate used by the Company while conducting its business may not be transferred, granted, sold, mortgaged or pledged without the prior consent of the Conceding Power.

There are liens on some of the Company's property due to guarantees provided in tax execution actions. The Company however understands that these liens do not significantly affect the Company's hability to conduct its business and activities.

Pending Legal Issues

The Company is party to a series of legal actions. A large part of the actions filed against the Company refers to indemnification originating from its regular course activities, mainly labor indemnification and collection actions (related to Government Directives 38 and 45/85 from DNAEE which deals with inflation adjustment indexes from 1986 to 1989).

The most relevant legal actions of a civil nature are the following:

a) lawsuit filed by the Employees Investment Club of CEEE – INVESTCEEE, alleging supposed irregularities occurred in some of the Company's Special General Meetings, especially those which decided upon the merger of AES Guaíba Ltda. with AES Sul. The Company was served on 11.20.2000.

b) civil action filed by Carlos Eduardo Vieira da Cunha against CEEE, regarding the companies formed by its spin-off in connection with the privatization, and against the State of Rio Grande do Sul, with the objective of annulling the privatization auction results. The Plaintiff alleges the existence of irregularities in the privatization auction, particularly, an error in the criteria for choosing the winning proposal. According to the plaintiff, the criteria for the auction should be that of the bidder presenting the lowest rate for the consumer, according to Art. 15, I, of Law 8987,. Currently, the suit is awaiting a decision of the Lower Courts. The Company believes that the possibility that this suit will be successful to the plaintiff is remote.

c) 06 suits filed by consumers to receive monetary variation and interest with regards to the compulsory energy loan made to Eletrobrás in previous years from AES Sul, with costs passed on to consumers. The Company, based on its legal counsel's opinion believes that it is not a legitimate party in the lawsuit and therefore the possibility of a contingency is remote.

d) 72 suits filed by residential, commercial and industrial consumers, requesting the return of the excess value built into the electricity rates based on the increase resulting from Government Directives no. 38 and 45, from DNAEE as mentioned these Directives are related to inflation adjustment indexes, applied from 1986 to 1989. The maximum contingency which could affect the company in those cases was already provisioned in 1986.

e) 08 indemnification suits for material and moral damages as a result of accidents involving electricity supply. AES Sul requested and obtained third-party summoning forwarding the proceedings to the insurance companies for most of the suits, so that they could assume any obligations that may be imposed, should they be valid. The majority of these requests were accepted by the insurance companies. Only one of the suits was judged partially valid, with the condemnation of the Company and other parties to the suit at approximately R$200 thousand. The Company's chances of success in those suits are, according to the prevailing case-law remote.

Furthermore, there are other suits that do not necessarily involve future contingencies to AES Sul. Among those are suits against cuts in electricity supplies for public buildings and lighting, as well as suits where the Company is carrying out judicial collection from its delinquent consumers.

The labor liability of the Company is estimated at R$25,809,815.56, and is composed of: 215 retired employee suits, 176 suits of employees dismissed between August 1997 and September 2000, 159 suits from employees who participated in the voluntary dismissal plan after privatization, 100 suits related to outsourced laborers, in light of the joint liability, and 475 suits assumed by the Company in light of the provisions of the Auction Process, referring to the period between August 11th, 1997 and September 30th, 2000.

The Company is a party to the following law suits and administrative procedures of tax nature:

a) injunction, filed by AES Sul, questioning the rules imposed by Law no. 9.718/98, which altered the calculation bases for the PIS and COFINS tax rate from 2% to 3%. The Company makes monthly judicial deposits with regards to the disputed amounts. Currently, it awaits the decision of the Lower Courts as for the correct tax rate to be observed.

b) injunction, filed by AES Sul, questioning the ISSQN service tax imposed by the City of São Gabriel on the supply of electricity. The City filed a motion requesting the tax, and obstacles shall be offered at the opportune time against its execution. The contingency for the Company is practically non-existent, due to the flagrant and unmistakable unconstitutionality of the claim.

c) administrative defense against the infraction report drawn up by the City of Portão, demanding a usage fee for public routes in connection with the wiring and poles network, in the amount of approximately R$450 thousand.

d) administrative defense against the infraction report drawn up by the City of Santa Maria, demanding ISS [Service Tax] on services charged by the Company, as set forth in Article 85 of Government Directive no. 466 of DNAEE which specifies certain fees that can be lawfully collected by energy suppliers, in the approximate amount of R$100 thousand.

e) administrative defense against the infraction report drawn up by the City of Canoas, demanding ISS on services charged by the Company and on the rental of poles and transformers, in the approximate amount of R$100 thousand. That recourse was judged invalid, and the Company shall contest said demand in court.

f) notification of fiscal debt (NFLD) drawn up by the INSS [Social Security Institute], in the amount of R$10,776,338.44, pursuant to the descriptive table below:

Description of the Infraction / Contribution Due	**Value (R$)**
Temporary Income Supplementation (contribution due for)	6,598,400.44
Joint Liability (from contractor's debts)	3,544,526.04
Retention of 11% - Law 9.711/98 *****	582,084.56
Contractor difference	60,327.40
Total	**10,776,338.44**

(*) Stipulates social contributors or outsourced services rendered to the company.

g) infraction reports drawn up by federal inspectors, requiring PIS and COFINS for the periods of March 1998 through March 2000, with resources in the administrative sphere which are pending judgment. The values involved are detailed below:

Tax	**Value (R$)**	**Period**
PIS	30,401.90	03/99
PIS	188,501.83	03/99 through 11/99
PIS	8,965,452.05	03/98 through 06/99
COFINS	7,457,965.49	03/99 and 04/99, 06/99 through 03/00
COFINS	29,702,727.84	04/98 through 06/99
Total	**46,345,049.11**	

h) suits against AES Sul, questioning the "inside" calculation system for the ICMS (sales value added tax), the Company understands that the possibility of contingencies arising from those actions is practically remote.

The Company created its provisioning policy in accordance with its analysis of the success probability of the suits. The Company believes that no adverse decision on the legal suits filed against the Company could significantly affect its financial condition. For a detailed analysis of the provisions made by the Company, see the section "*Analysis and Discussion of the Administration – Provisions*" above.

Environmental Aspects

The Company's activities are subject to a wide ranging legislation and federal and state regulation on the environmental aspect. The Company is fulfilling all of its obligations related to the environmental legislation, there being no pending issues or legal or administrative questioning on that regards.

Relevant Agreements

The agreements which are relevant to the Company are the energy Supply agreements (purchase and pass through) executed with Uruguaiana (two agreements), Gerasul, CEEE and CGTEE, in addition to Itaipu the purchase commitment for which is not governed by an agreement, but rather by Law, as well as the energy transmission agreements (CUST) executed with ONS - National System Operator, and Connection Agreements – CCT, executed with the transmitters Eletrosul and CEEE-Transmissora (see Energy Supply).

The company has agreements with its 31 largest industrial clients in October of 1999 through September of 2000 represent a supply of 3,500,000 MWh.

The terms of these agreements minimum contracted demand, duration, rules for notices and adherence to the current electric sector legislation.

Financial Agreements

On March 23rd, 1998, AES Guaíba Empreendimentos Ltda, the previous controlling company of the Company, issued Notes, in the international market in the total amount of US$730,000,000.00 (seven hundred and thirty million US dollars), in a private placement transaction, pursuant to a Note Purchase Agreement executed on March 13th, 1998 by AES Guaíba Empreendimentos Ltda., BankBoston Trust Company Limited and Australia and New Zealand Banking Group Ltd., as Joint Arrangers, various financial institutions as Initial Purchasers, BankBoston Trust Company Limited, as Agent, BankBoston, N.A., Nassau Branch, as Registrar, and BankBoston N.A., Nassau Branch as Fiscal and Paying Agent.

In July 1998, AES Guaíba Empreendimentos Ltda. was incorporated into the Company, making it the successor thereof of the debt represented by the Notes. Part of the Notes (US$320,000,000.00) was later acquired in the secondary market by an indirect subsidiary of the AES Corporation.

The Notes pay a fixed rate of interest of 16.5% (sixteen point five percent) per annum, paid bi-annually. Starting on September 5th, 2000, the interest rate will be 14.5% (fourteen point five percent) per annum. The principal repayment of the Notes is bullet on its maturity date on April 24th, 2009. The Borrower may prepay the loan on any interest payment date and the lenders have put options on April 24, 2002/2003/2005/2007.

Pursuant to the Note Purchase Agreement mentioned above, the Company agreed to various covenants which may restrict the activities of the Company, including restrictions on mergers, acquisitions and incorporations, sale of assets, statutory changes, pledge of goods or assets,

related party transactions, contracting of certain debts and maintenance of certain financial indexes.

According to the information provided by the Administration of the Company, there are no other agreements which are materially relevant and which could negatively affect the Company's economic-financial condition.

ADMINISTRATION

The Company is administrated by the Board of Directors (the "Board") and its Management. All of the Board members except for one are elected by the Controlling Company, and the other member is elected pursuant to the indication of the Company employees, according to existing Brazilian legislation.

Board of Directors

The Company Bylaws establish that the Board of Directors shall be composed of 11 members. Each of them elected for a two-year mandate, with the ability of being reelected.

According to the Corporate Law and the legislation in force, shareholders owning more than 5% of the Company's voting shares have the right to request the Company to adopt a vote to elect the Board members.

The Board meets every other month. Its responsibilities include the establishment of the Company general business orientation policies and the election and supervision of its Directors.

The Board members, as of December 2000, are:

Name	
Luiz David Travesso	President
Elena Landau	Vice President
Richard Andrew Bulger	Member
Demóstenes Barbosa da Silva	Member
Marco Antônio de Miranda Carvalho	Member
Gabriela Olívia Rothschild Barboza	Member
Orestes Gonçalves Junior	Member
Pedro Paulo Schmidt	Member
Jorge Luiz Busato	Member
Delamar Cezar Pinheiro Ribeiro	Member

All Board members are mandated until April 29th, 2001.

Directors

The Company's Directors are responsible for executing the decisions of the Board, and for the day to day management. Their individual responsibilities are established by the Board and by the Company's Bylaws. They ordinarily meet once a week.

AES Sul directors, as of December 2000, are:

Name	
Damian Obiglio	President
Pedro Paulo Schmidt	Market Relations Director
Jorge Luiz Busato	Operations Director

Fiscal Council

The Fiscal Council is a corporate agency provided for in the Law of Corporations by shares ("Lei das Sociedades por Ações") that has the scope of supervising the administrators and the information of these corporations. The Company's Fiscal Council is of an non-permanent nature and may be called upon at any shareholder meeting at the request of shareholders when they represent least 10% of the shares with voting rights or at least 5% of shares with no voting rights.

Currently, the Fiscal Council has not been called upon.

MAIN SHAREHOLDERS

Upon privatization on October 27th, 1997, AES Americas, a full subsidiary of AES Corporation, acquired 90.09225% of the voting shares of the Company, representing R$1,510,000,000 (one billion, five hundred and ten million Brazilian *Reais*). Currently, the Company is controlled by AES Guaíba II Empreendimentos Ltda., a wholly-owned subsidiary of AES Corporation ("AES") AES Corporation is the largest Independent Power Producer in the world.

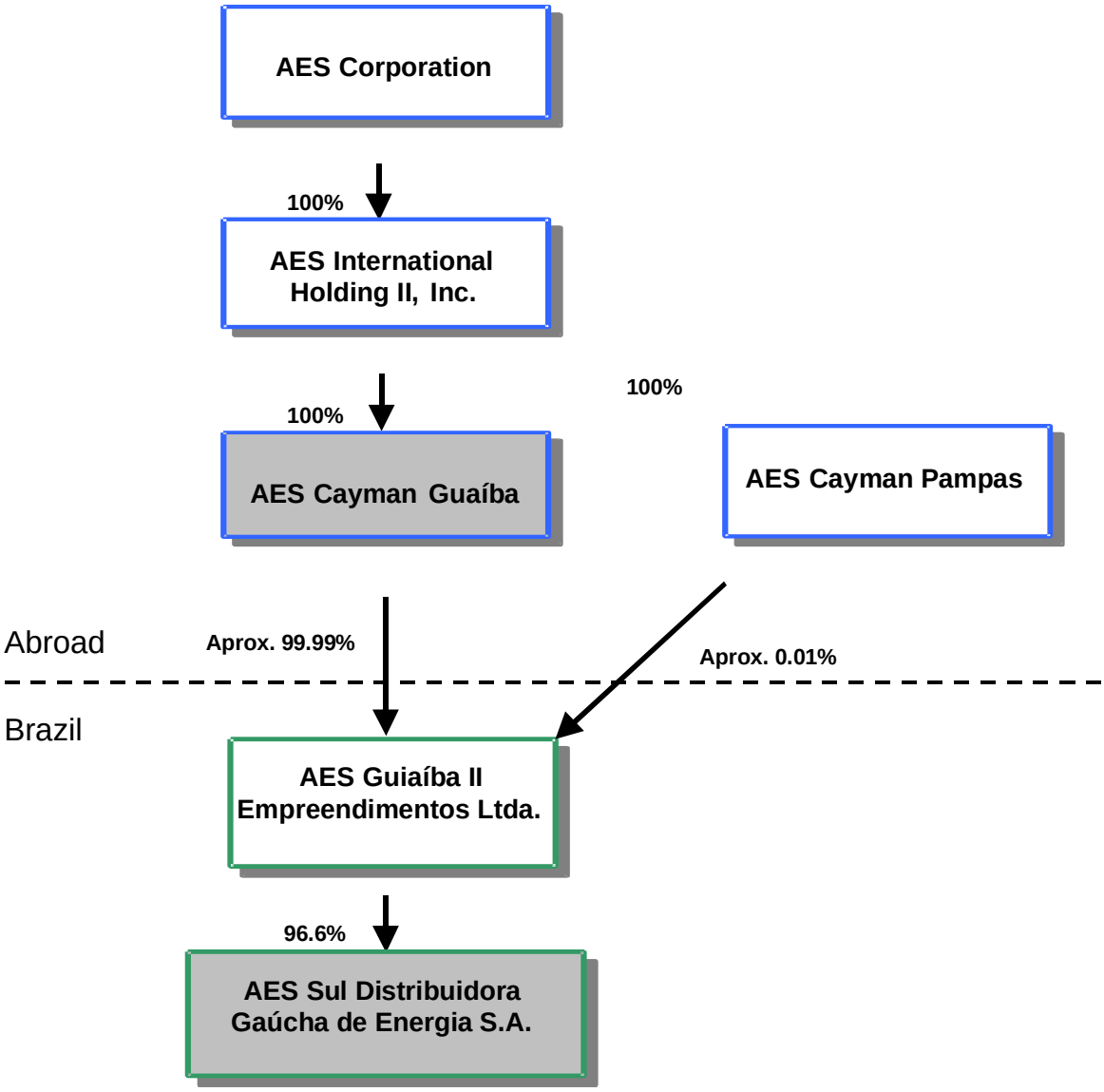
Over the last seven years, AES Corporation has experienced significant growth, through acquisitions of generation and distribution companies and development and construction of new plants ("development of new production units"). Since 1992, the total generation capacity of AES Corporation in megawatts grew from 1,829MW to 32,000MW (an increase of 1,650% percent), with an increase in the total number of plants in operation from eight to more than one hundred.

AES Sul represents an important component in the strategic implementation of AES Corporation in Latin America, holding a strong market position in the geographic center of Mercosur, which permits AES Corporation to reap the benefits of its electricity sector expected integration. AES recently finalized the construction of a Thermoelectric plant run by natural gas, with a capacity of 600MW, located in Uruguaiana, on the border of Brazil and Argentina. In Brazil, there is further shareholder interest in LIGHT (Rio de Janeiro), CEMIG (Minas Gerais) and ELETROPAULO Metropolitana (São Paulo). In October of 1999, it also acquired a stake of Cia de Geração de Energia Elétrica Tietê, located in the State of São Paulo with 2,651MW capacity. The acquisition was made through the privatization process undertaken by the State of São Paulo, for which AES Corporation paid approximately R$938 million for 61.62% of the voting capital and for 14% for the non-voting capital, equal to 38.69% of total capital. Furthermore, in Latin America, AES holds shareholder interest in EDEN, EDES and EDELAP (three electricity distributors in Argentina).

The last AES acquisition in Latin America was EDC – Eletricidat de Caracas, in Venezuela, of which it holds 81% of the shareholder capital.

Together, these investments represent a strong regional platform for energy generation projects and growing synergistic earnings for AES. The executive team of AES Sul has extensive experience in transmission, distribution, energy acquisition, automation, stock logistics, human resources and invoicing.

The following chart shows AES Sul ownership structure:



The outstanding 3.4% AES Sul capital is pulverized and publicly traded.

The shareholder structure of the Company on September 30th, 2000 was the following:					
Shareholders	Class of Shares	**Quantity of Shares** (Sept/2000)	**% of Voting Shares**	**% of Non-voting Shares**	**% of the Total Capital**
AES Guaíba II	Voting (Common)	261,112,979	94.28%	-	48.61%
Others	Voting (Common))	15,828,328	5.72%	-	2.95%
Subtotal	**Voting (Common)**	**276,941,307**	**100%**	**-**	**51.56%**
AES GUAIBA II	Non-Voting (Preferred)	257,770,635	-	99.06%	47.98%
Others	Non-Voting (Preferred)	2,451,540	-	0.94%	0.46%
Subtotal	**Non-Voting (Preferred)**	**260,222,175**	**-**	**100%**	**48.44%**
TOTAL		**537,163,482**	**100%**	**100%**	**100.0%**

The preferred shareholders of the Company include AES GUAIBA II and other minority shareholders (the shares of the Company are traded on the *Bolsa de Valores de São Paulo* – BOVESPA – São Paulo Stock Exchange).

The Company Capital Stock, on December 31st, 1999 was R$463,253,499.57, totally paid in and divided into 537,163,482 shares, all nominative paper shares with no par value, being 276,941,307 common shares and 260,222,175 preferred shares.

The Company Bylaws authorize the Board to deliberate, without a General meeting, the issuance of up to R$1,500,000.00 in common or preferred shares of one or more classes, without having necessarily to keep the proportion of the types and classes that already exist. In this case, the issuance price for the shares should be established by the Board, observing the legal requirements.

The holder of ordinary shares has the right to one vote per share in the Company's General Meetings. The preferred shares, bear no voting rights, are irredeemable and not convertible into common shares, and have the following characteristics: (i) priority in capital reimbursements, based on the paid-in capital, without the premium rights in the case of the Company liquidation; (ii) right to participate in capital increases, arising from monetary restatement or capitalization of reserves and profits, receiving an equivalent type of shares; (iii) right to receive dividends of ten percent (10%) greater than those attributed to common shares.

Minimum Obligatory Dividend

Every fiscal year, the shareholders have the right to receive a minimum obligatory dividend. The Company Bylaws may establish this amount as a percentage of the profit or the company capital, or even other criteria, provided that they are precisely defined and not subjected to majority shareholder or administrative bodies arbitration.

According to the Company's Bylaws, with regards to the fiscal years ended on December 31st, 2000 and onwards, there will be minimum obligatory dividends of at least six percent (6%) of the Company's paid in capital.

The controling shareholder AES Guaíba II Empreendimentos Ltda has chosen to postpone the receipt of the amounts mentioned.

RELATED PARTY TRANSACTIONS

The Company's related party transactions are:

a) transactions executed with Vant Communications Ltda., related to the outsourcing of activities in its information technology area. The first agreements were presented for the evaluation of ANEEL, and there has been no statement made until this date;

b) agreements with AES Uruguaiana Ltda., for the purchase of energy;

c) technical operator agreement with AES Corp., related to technical operation activities.

According to the Administration, the Company did not execute any other relevant transaction with its shareholders or subsidiaries. Furthermore, any relevant agreement of this nature needs to be approved in advance by ANEEL.

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Management Discussion and Analysis on the Financial Situation and the Operational Results

This analysis should be read along with the Financial Statements of the Company, which are an integral part of this Prospectus. The Financial Statements were prepared according to the applicable Brazilian legislation.

General Considerations

Companhia AES Sul Distribuidora Gaúcha de Energia S.A., an open capital corporation, is a public electricity concessionaire, having been constituted on July 28th, 1997 with the initial capital of R$ 10 thosand, under the name of Companhia Centro-Oeste de Distribuição de Energia Elétrica, as a full subsidiary of Companhia Estadual de Energia Elétrica - CEEE. The Special General Meeting held on August 11th, 1997, approved the increase of the capital by the amount of R$ 536,334 tousand, corresponding to the goods and obligations of its controlling company. On October 21st, 1997, Companhia Centro-Oeste de Distribuição de Energia Elétrica was privatized and on December 18th, 1997, its company name was changed to AES Sul Distribuidora Gaúcha de Energia S.A.

The Company's financial information from July 28,1997 and December 31, 1997 is not included in this analysis since they are not comparable with the information presented herein. The reason is that during the above mentioned period the Company's operation was integrated with the stated owned CEEE.

The Company is currently audited by Deloitte Touche Tohmatsu Auditores Independentes.

Statement of Income for the nine month periods closed on September 30th, 2000 and September 30th, 1999.

	Nine month period ending on September 30th of	
Value in R$ thousands	2000	1999
GROSS OPERATING REVENUE		
Electricity Supplies	761,387	634,882
Others	10,158	11,764
	771,545	**646,646**
DEDUCTIONS FROM THE OPERATING REVENUE		
Quota for global reversal reserve	(10,204)	(6,550)
Taxes and contributions on the revenue	(178,995)	(150,094)
	(189,199)	**(156,644)**
NET OPERATING REVENUE	**582,346**	**490,002**
OPERATING REVENUE (EXPENSE)		
Personnel	(22,153)	(50,047)
Material	(2,995)	(2,982)
Third party services	(34,568)	(28,712)
Electricity purchased for resale	(312,276)	(224,866)
Transport of electric power	(36,785)	(33,276)
Depreciation and amortization	(66,185)	(61,729)
Quota for the fuel consumption account (CCC)	(25,791)	(17,481)
Technical Operator (AES Corp.)	(17,470)	(14,795)
Other expenses	(209)	11,512
	(518,432)	**(422,376)**
OPERATING RESULT	**63,914**	**67,626**
FINANCIAL REVENUE (EXPENSE)		
Financial income	341	4,746
Net monetary and exchange variations	(43,070)	(523,511)
Interest expense	(173,849)	(133,596)
Others	1,242	3,992
	(215,336)	**(648,369)**
OPERATING RESULT	**(151,422)**	**(580,743)**

NON-OPERATING RESULT		
Non-operating Revenue	672	5,307
Non-operating Expense	(1,214)	(1,665)
	(542)	**3,642**
LOSS PRIOR TO INCOME TAX AND SOCIAL CONTRIBUTION	**(151,964)**	**(577,101)**
Social Contribution Provision		
Deferred social contribution	12,063	45,423
Income tax provision		
Deferred income tax	37,661	141,823
	49,724	**187,246**
NET LOSS FOR THE FISCAL YEAR	**(102,240)**	**(389,855)**
Operating Cash Generation (EBITDA)*	**130,099**	**129,355**

***** *Earnings before interest, taxes, depreciation and amortization. The operating cash generation or EBITDA is a measure of approximating the operating cash flow of the company. The inclusion of this information has the objective of presenting a measurement of the Company's capacity to generate cash based on its operating activities.*

Statement of Income for the nine month periods closed on September 30th, 2000 and September 30th, 1999.

Operating Revenue

Operating Revenue increased by 19.3% in 2000, from R$ 646.6 million in September 1999 to R$ 771.5 million in September 2000 mainly as a result of the increases in the volume and average tariff for energy sold.

The total volume of energy sold in the first nine months of the year 2000 was 5,636 GWh, 9.33% higher than the total of 5,155 GWh sold in the same period of 1999. The average tariff was readjusted in April 2000 by 10.67%.

Taxes

Sales tax expenses (PIS, COFINS and ICMS) increased by approximately 19.3% in 2000, from R$ 150.0 million in September 1999 to R$ 179.0 million in September 2000, mainly due to the increase in the operating revenue and the tariff readjustment in 1999.

Net Operating Revenue

The net operating revenue increased by approximately 18.8% in 2000, from R$ 490.0 million in September 1999 to R$ 582.3 million in September 2000, due to the reasons mentioned above.

Operating Expenses

The personnel expenses decreased by 55.7 %, from R$ 50.0 million in September of 1999, to R$ 22.1 million in the same period in 2000. The variation in the personnel expenses may be explained by the negative effect of approximately R$ 30.6 million arising from the PDV implemented by the Company at the end of the 2nd quarter of 1999. By setting aside the 1999 PDV expenses for comparability purposes, we will see that the personnel expenses increased by 10% in 2000 due to the revision in the criteria for updating the provisions for the pension fund, temporary compensation supplementations and retirement incentive plan – "PAI".

Third party service expenses increased by 20.6%, from R$ 28.7 million in September 1999 to R$ 34.6 million in the same period of 2000. The main reasons include: 1) the implementation of the call center which represented an expense of R$ 1.9 million, 2) the outsourcing of the information technology management, which contributed with another R$ 1.6 million, and 3) the intensification of the distribution network inspection efforts, with R$ 0.9 million. There was also an increase in services to the low tension network, due to the weather conditions experienced in the year 2000.

The expenses with electricity acquired for resale increased by approximately 38.9%, from R$ 224.9 million in September 1999, when it represented 45.9% of net operating revenues, to R$ 312.3 million in the same period of 2000, when it represented 53.6% of net operating revenues. That variation is attributed to the combination of the increase of approximately 9.7% in the volume of purchased energy with the increase in the tariffs charged by the energy suppliers as determined by ANEEL. Energy purchases also suffered from the effect of an increase in the amount of energy acquired in the short term market, due to the volume of purchases in the first quarter of 2000 at much higher prices than conventional supply contracts.

Electricity transport expenses increased by 10.5%, from R$ 33.3 million in September 1999 to R$ 36.8 million in the same period of 2000, due to the increase in the amount of energy sold, which increased from 5,169 GW/h in September 1999 to 5,640 GW/h in September 2000.

The depreciation expenses increased by 7.3%, from R$ 61.7 million at the end of September of 1999 to R$ 66.2 million in 2000, as a result of the increase of the company's asset base.

Financial Revenue (Expense)

The net financial expense decreased by 66.8% in 2000, from R$ 648.4 million in September 1999 to R$ 215.3 million in the same period of 2000. This decrease was attributable to the effect of currency exchange rates on the Company's debt. The Real devaluation was 3.06% from January through September of 2000, generating a negative result from currency exchange variations of R$ 39.9 million against a negative result R$ 520.3 million in the same period of 1999.

Operating Profit (Loss)

The operating loss of the Company improved from R$ 580.7 million in September 1999 to R$ 151.4 million in September 2000, representing an improvement of 73.9%. This result reflects the effect of the considerable reduction of the financial loss due to the effect of the currency exchange rate variation on debt.

Non-Operating Profit (Loss)

The non-operating profit or loss is linked to profits and losses in write-offs of assets by the Company. As of September 2000, the Company presented losses of R$ 0.5 million, while in the same period of 1999, it presented a positive result of R$ 3.6 million.

Tax Expenses

The deferred income tax and social contribution presented a reduction of 73.4%, decreasing from R$ 187.2 million in September of 1999, to R$ 49.7 million in the same period of the year 2000. This reduction a consequence of the variation in the Company's income before taxes.

Net Result

The Company presented a net loss of R$ 102.2 million in September of 2000, against a net loss of R$ 389.8 million in the same period of 1999.

Main Balance Sheet Accounts (Consolidated)

Cash and Equivalents

The Company's cash and equivalents include marketable securities and are accounted for at their original value plus respective earnings received on the balance until the closing date for the period. On September 30th, 2000, the cash and equivalents totaled R$ 6.9 million, while on December 31st, 1999, they totaled R$ 13.8 million. This 50.0% reduction, results from the normal oscillations in the Company's working capital composition.

Receivables

The accounts receivable on September 30, 2000 totaled R$ 140.3 million, representing an increase of 11.6% over the R$ 125.8 million on December 31st, 1999. In September 30th, 2000, R$22.7 million represented long term receivables and on December 31st, 1999 this figure was R$22.5 million.

The table bellow shows the evolution of accounts receivables from consumers and distributors divided by class:

In Thousands of R$	Nine Month Period Ended September 30th	Year Ended December 31st	
Consumers and Resellers	**2000**	**1999**	**1998**
Residential	27,690	22,633	19,771
Industrial	9,649	8,427	6,084
Commercial and Services	9,851	8,199	6,744
Rural	6,381	5,245	2,612
Public Institutions	5,712	6,831	5,264
Short Term	*3,484*	*4,098*	*5,264*
Long Term	*2,228*	*2,733*	-
Public Illumination	33,439	25,278	11,819
Short Term	*12,940*	*5,515*	*11,819*
Long Term	*20,499*	*19,763*	-
Public Service	3,350	2,907	1,314
Supply	6,714	271	349
TOTAL	**102,786**	**79,791**	**53,957**
Non-Invoiced Income	37,555	45,983	38,180
TOTAL	**140,341**	**125,774**	**92,137**
Short Term	117,614	103,278	92,137
Consumers and Resellers	*80,059*	*57,295*	*53,957*
Non-Invoiced Income	*37,555*	*45,983*	*38,180*
Long Term	22,727	22,496	-
TOTAL	**140.341**	**125.774**	**92.137**

Considering short-term receivables, excluding non-invoiced income, the residential sector represented 34.6% on September 30th, 2000. This figure has increased 22.3% in September 2000 compared to December 1999 as a result of increased economic activity. Short term receivables does not consider energy that has already been distributed but not billed.

Public Lighting is the second largest sector representing 16.2% of total receivables on September 30th, 2000 . This is the result of the large amount of renegotiated credits classified as long-term receivables. The sector with largest participation in the Company's accounts receivable (short and long term), not considering the non-invoiced income, is Public Lighting, representing 32.5% of receivables. In addition to tariff readjustments and market growth, another meaningful factor that contributed to justify the Company's accounts receivable evolution is the increase of delinquency, specially in the Public Lighting sector.

The Company is attempting to solve these pending debts through the increase in energy distribution cuts to delinquent customers, except for services essential to the community, and through the renegotiation of debts.

Indebtedness

Total debt on September 30, 2000 was R$ 1.403 million which corresponds to a reduction of 2.8% compared to R$ 1.443 million, on September 30th, 2000 R$ 1,368,313 was represented by long term debt and R$ 34,557 by short term debt. The following table shows the Company's debt breakdown on September 30th, 2000 and on September 30th, 1999.

Description	*Index*	Interest Rates	September 30 2000 Short Term	September 30 2000 Long Term	September 30 2000 Total Debt	September 30 1999 Total Debt
		% per Annum	R$	R$	R$	R$
National Currency						
ELETROCEEE Foundation	INPC	9	1,953	21,160	23,113	23,436
Leasing	-	From 27.92 To 34.32	1,275	71	1,346	1,972
Consumers	-	-	6,796	350	7,146	6,412
Eletrobrás	-	7	333	759	1,092	883
BNDES	TJLP	4.50	-	1,481	1,481	
Working Capital	CDI	18.44	22,737	-	22,737	1,919
Total National Currencyl			**33,094**	**23,821**	**56,915**	**34,622**
Foreign Currency						
BankBoston – Float. Rt. Notes	US Dollar	16.50	-	1,344,490	1,344,490	1,401,807
Leasing	US Dollar	De 16.98 Até 19.20	1,463	2	1,465	6,467
Total Foreign Currency			**1,463**	**1,344,492**	**1,345,955**	**1,408,274**
TOTAL Loans and Financing			**34,557**	**1,368,313**	**1,402,870**	**1,442,896**

ELETROCEEE Foundation – refers to the debt assumption due to the dismantling of the previous agreement with Companhia Estadual de Energia Elétrica – CEEE. The amortizations are on a monthly basis, and energy sale collection with various banks was offered as a guarantee.

Leasing – the Leasing agreements include information technology equipment, vehicles and furniture, registered in the fixed assets because the Company has the intention of acquiring these goods after the Lease period. The terms for the contracts range between 24 and 36 months.

Consumers – the loan entitled "consumers" refers to the agreements to reimburse consumers the values advanced by them to finance certain connections, generally related to the expansion of the distribution network. The values received until 1997 will be returned in four years once the installation is concluded, without interest or monetary correction. The advances received in 1998 fiscal year started to be returned in the term of one year, indexed to the inflation (IGP-M).

Floating Rate Notes – On March 23rd, 1998 the Company issued Floating Rate Notes, through a Private Placement of US$ 730 million, maturing on April of 2009, with the payment of quarterly interest until the final maturity.

The Notes pay a fixed rate of interest of 16.5% (sixteen point five percent) per annum, paid semi-annually. Starting on September 5th, 2000, that interest rate will become 14.5% (fourteen point five percent) per annum. The principal repayment of the Notes is bullet on its maturity date, April 24th of 2009. The Borrower may prepay the loan on any interest payment date and the lenders have put options on April 24, 2002/2003/2005/2007.

Consolidated and audited Statements of Income for the fiscal year of 1998 closed on December 31st, 1998 and consolidated and audited Statements of Income for the fiscal year of 1999 closed on December 31st, 1999.

	Fiscal Year Ending on December 31st of	
Value in R$ thousands	1999	1998
GROSS OPERATING REVENUE		
Electricity Supplies	850,729	729,395
Others	15,093	16,557
	865,822	**745,952**
DEDUCTIONS FROM THE OPERATING REVENUE		
Quota for global reversal reserve	(16,363)	(10,230)
Taxes and contributions on the revenue	(211,035)	(173,824)
	(227,398)	**(184,054)**
NET OPERATING REVENUE	**638,424**	**561,898**
OPERATING REVENUE (EXPENSE)		
Personnel	(61,231)	(20,318)
Material	(3,893)	(4,209)
Third party services	(40,093)	(33,894)
Electricity purchased for resale	(313,288)	(268,178)
Transport of electric power	(47,880)	(36,518)
Depreciation and amortization	(85,137)	(54,259)
Quota for the fuel consumption account (CCC)	(22,796)	(17,049)
Technical Operator (AES Corp.)	(19,248)	(16,341)
Other expenses	36,508	(35,486)
	(557,058)	**(486,252)**
OPERATING RESULT	**81,366**	**75,646**
FINANCIAL REVENUE (EXPENSE)		
Financial income	5,882	7,452
Net monetary and exchange variations	(417,423)	(44,301)
Interest expense	(194,271)	(52,862)
Others	(5,938)	(1,917)
	(611,750)	**(91,628)**

OPERATING RESULT	**(530,384)**	**(15,982)**
NON-OPERATING RESULT		
Non-operating Revenue	5,043	8,038
Non-operating Expense	(2,269)	(5,707)
	2,774	**2,331**
LOSS PRIOR TO INCOME TAX AND SOCIAL CONTRIBUTION	**(527,610)**	**(13,651)**
Social Contribution Provision	(19)	(66)
Deferred social contribution	42,151	1,157
Income tax provision	(58)	(4,348)
Deferred income tax	131,579	7,420
	173,653	**4,163**
NET LOSS FOR THE FISCAL YEAR	**(353,957)**	**(9,488)**
Operating Cash Generation (EBITDA)*	**166,503**	**129,905**

***** *Earnings before interest, taxes, depreciation and amortization. The operating cash generation or EBITDA is a measure of approximating the operating cash flow of the company. The inclusion of this information has the objective of presenting a measurement of the Company's capacity to generate cash based on its operating activities.*

Fiscal year closed on December 31st, 1999 compared with the fiscal year closed December 31st, 1998.

Operating Revenue

The Operating Revenue for sales to the consumer increased by 16.1% in 1999, from R$ 745.9 million in 1998 to R$ 865.8 million in 1999 primarily due to: 1) average rate readjustment of 10.33% in the month of April of 1999 and a rate revision of 2.44% in the month of June of 1999; 2) growth of 9.2% in the volume of energy sold, from 6,267 GWh in 1998 to 6,842 GWh in 1999.

The average supply tariff in 1999 excluding ICMS, was R$99.01/MWh, representing an increase of 9.5% in comparison with the average tariff of R$ 90.45/MWh in the year of 1998. The growth of the average supply rate was less than the sum of the readjustment and revision obtained during the year due to a greater supply to clients with lower tariffs. In the rural class, the growth in energy supply was 20.0% and in the industrial class, 7.9%, compared to the increase in supply to the residential class of just 5.5%.

Other operating revenues decreased by approximately 8.8%, moving from R$ 16.5 million in 1998 to R$ 15.1 million in fiscal year 1999.

Taxes

Sales Tax expenses (PIS, COFINS and ICMS) increased by approximately 21.4% in 1999, from R$ 173.8 million in 1998 to R$ 211.0 million in 1999, mainly due to the change of the COFINS [Tax for Social Security Financing] tax rate from 2% to 3%, as well as growth in operating revenue during the same period.

Net Operating Revenue

Net operating revenue increased by 13.6% in the 1999 fiscal year, from R$ 561.9 million in 1998 to R$ 638.4 million in 1999 due to the reasons mentioned above.

Operating Expenses

Operating expenses reached R$ 557.1 million in 1999 (87.3% of net revenue), representing an increase of approximately 14.6% compared to R$ 486.3 million during 1998 (86.5% of net revenue) mainly due to the reasons described below.

This growth is basically due to the additional cost represented by the "PDV" – Voluntary Dismissal Program, which occurred in June of 1999, as well as being a function of the increase in energy acquired of 16.8% with regards to 1998, in the Electricity purchased for resale. That increase is mainly due to the effect of the currency devaluation on energy purchased in dollars, other restatements in the energy price, and the increase of electric power transportation costs.

Personnel expenses increased from R$ 20.3 million in 1998 to R$ 61.2 million in 1999, representing a growth of 201.4%. This growth is mainly a result of the expense of 1) R$ 30.6 million related to the cost of the "PDV" – Voluntary Dismissal Program in June 1999, 2) R$ 3.4 million related to the implementation of a variable remuneration policy, and 3) R$ 2.6 million through the reduction of labor capitalization for projects in progress.

Third party service expenses increased by 18.29% in 1999, from R$ 33.9 million in 1998 to R$ 40.1 million in 1999 due to the implementation of the call center, increase in outsourcing due to the PDV, increase of meter inspections and expenses related to the cutting off delinquent more customers.

The Electricity purchased for resale expenses has increased by 16,82% due to the combination of higher electricity demand and rate readjustments from suppliers as established by ANEEL.

Electricity transport expenses increased by 31.1%, from R$ 36.5 million in 1998 to R$ 47.9 million in 1999, due to the restructuring of transmission costs by ANEEL, regulated by Resolution no. 67/99, pursuant to the creation of ONS (National System Operator) in June 1999.

The depreciation and amortization expenses grew by 81%, from R$ 31.5 million in 1998 to R$ 57.1 million in 1999 due to the change in depreciation rates established by ANEEL.

The expenses with the Technical Operator increased by 17.8%, from R$ 16. 3 million in 1998 to R$ 19.2 million in 1999, reflecting the growth of the gross operational revenue, over which it is calculated

Other expenses/income varied by R$ 72 million mainly due to the reversal of some provisions in 1999. The main reductions in provisions were: R$ 20.3 million in labor contingency provisions, mainly due to the recalculation of risk estimates suggested by the Company's attorneys, as well as prescription effects over some of claims that had previously been provisioned; R$ 17.1 million reversed from provision for the additional contribution to the pension fund, due to the departure of the various PDV participants; R$ 11.1 million from the provisions for contractual losses, mainly due to the favorable new sales situation projected on the short term market over the next few years and R$ 4.2 million in the fiscal contingencies provision, as that contingency began to be directly acknowledged in the statements of the Eletroceee Foundation.

Financial Revenue (Expense)

The net financial expenses increased 567.6%, moving from R$ 91.6 million in 1998 to R$ 611.7 million in 1999. That increase is mainly due to the effect of the negative currency exchange variation on the debt and its interest. From April of 1998, when the Company incorporated the

debt, until December of the same year, the currency exchange rate varied by 5.6% while from January through December of 1999 it varied by 56.34%.

Non-Operating Profit

The non-operating profit increased by 19%, from R$ 2.3 million in 1998 to R$ 2.8 million in 1999, mainly due to the improved results in asset write-offs.

Tax Expenses

The revenues with the social contribution and income tax totaled R$ 4.1 million in 1998 and R$ 173.6 million in 1999. This variation resulted from the reduction of the calculation base for the taxes through the use of fiscal credits related to the provisions constituted in December 1998 and to the fiscal loss in 1999.

Net Result

As a result of what is explained above, the Company presented a net loss of R$ 353.9 million in 1999, compared to a net loss of R$ 9.5 million in 1998. The main reason for such a drastic impact was the effect of the currency devaluation on the Company's debt.

Provisions

On September 30, 2000, the Company presented a contingent liability in the amount of R$ 139.7 million, representing a reduction of 16.3% in relation to the R$ 167.0 million on December 31, 1999.

Of the R$ 139.7 million total, R$ 25.3 million were short term and R$ 114.4 million long term. The main provisions are listed below:

Labor Contingency Provision – CEEE is being cited in various judicial suits of a labor nature. The Company, based on the opinion of its legal councel, registered a provision for labor contingencies with the objective of covering the possible expenses with labor indemnifications of various natures. The amount on September 30, 2000 is R$ 25.8 million.

Fiscal Contingencies Provision– The Company filed two Injunctions in 1998, claiming tax immunity on operations related to electricity sales with regards to PIS and COFINS , based on the provision in paragraph 3 of Article 155 of the Brazilian Constitution. Since then the company has been making judicial deposits for the values verified on a monthly basis. On July 1st, 1999 the Federal Supreme Court judged the COFINS immunity action to be groundless for companies in the electricity, telecommunications, mining and petroleum sectors. In light of this decision, and upon the orientation of the legal council, starting in July, 1999 the Company started to pay the PIS and COFINS values verified on a monthly basis and also requested revision of the values deposited judicially until that date. The deposits amount to R$ 29.9 million. In the first quarter of 1999, the Company filed another Injunction questioning the alterations introduced by Law 9.718/98 with regards to the increase of the PIS and COFINS calculation base and the increase of the COFINS rate. With regards to the PIS, the Company made judicial deposits for the values verified on a monthly basis between March and November 1999. Starting in December, this collection started to be made directly for the Federal Revenue Service ("Receita Federal"). With regards to COFINS, the Company, sustained by a temporary order ("liminar"), did not collect the amount related to the increase of the calculation base until June 2000, when that order was annulled. For that reason, in July 2000, the Company made judicial deposits for the values verified from March 1999 through June 2000 with interest, and since then, it has been depositing the amounts verified on a monthly basis.

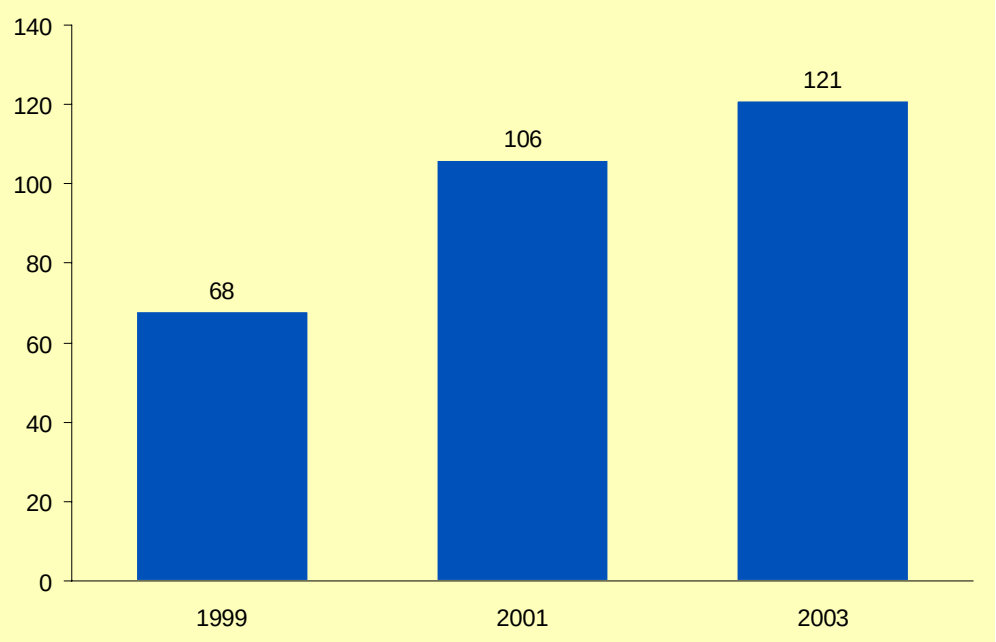
Temporary Compensation Supplementation Provision and the Retirement Incentive Plan Provision – As determined by its collective labor agreement, the Company is responsible for paying the benefit of retirement supplementation to the participants who are regularly enrolled in the Eletroceee Foundation and that had still not fulfilled all of the requirements for the utilization of those benefits through the Foundation until December 31, 1997. The Company should pay the benefit to the Foundation until all of the necessary requirements are met, when they shall be definitively retired through the Eletroceee. The Company is provisioning the full values of the future commitments related to the salary. The salary supplement shall be paid until the benefit is acknowledged by the Foundation, considering the payment terms for this benefit. The value of this provision on September 30, 2000 is R$ 40.8 million.

Pension Fund Provision – The Company is co-sponsor of the CEEE Social Security Foundation (ELETROCEEE), which has the main objective of supplementing the social security benefits of the participants. The benefits plan was constituted according to the characteristics of the “defined benefit”, using the actuarial method of the projected unit credit. On September 2000, the Company updated this provision based on an actuarial valuation. The amount of the provision on September 30th, 2000 was for R$ 32.9 million.

AES CORPORATION DESCRIPTION

AES develops, owns and operates electric power generation and distribution facilities in the United States and abroad. AES has grown steadily since its founding in 1981 to become the world's largest independent power companies with operations in eighteen countries. Its mission is to serve the world by providing safe, clean and reliable electricity in a socially responsible manner.

ExhibitA: People served by AES
In millions



The Company has a diversified portfolio of projects with 122 power plants in sixteen countries and fourteen distribution systems in operation in eight countries. As of December 1999, AES's generation projects in operation and under construction had an aggregate capacity of 43,321MW while its distribution projects were capable of distributing approximately 118,597 GWh of electricity.

In addition, new business development activities are ongoing in more than seven countries including projects in the United States (three plants), Argentina (two plants), Bangladesh (two plants), Brazil (one plant), China (one plant), England (one plant) and Mexico (one plant). These new projects will add 6,646MW to AES's diversified portfolio of assets.

Exhibit B: AES is the world's largest global power company

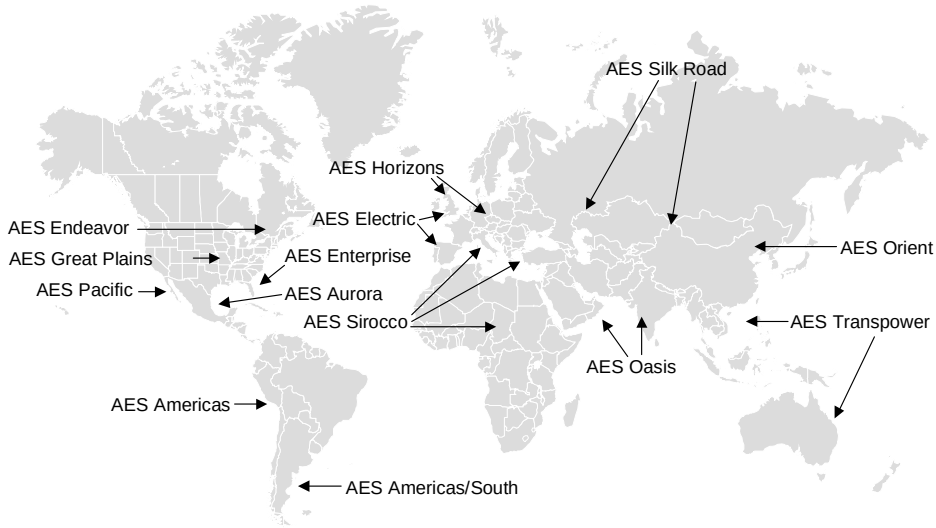
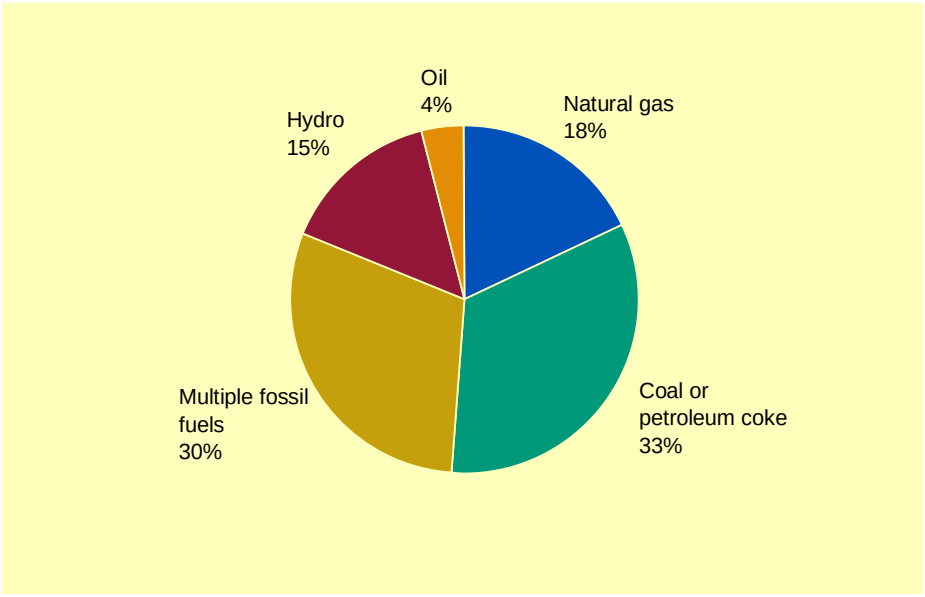


Exhibit C: Diversified generation base with balanced fuel mix

% of gigawatts



AES's generation capacity is broadly distributed by geographic region with an increasing concentration in the United States and Europe, as demonstrated in the Exhibit below:

Exhibit D: AES's generating capacity by region

Country	MW	# of plants
U.S.	7,606	18
U.K.	5,763	6
Brazil	9,106	51
Kazakhstan	7,909	7
Hungary	1,281	3
Argentina	885	6
China	754	7
Australia	1,254	3
Republic of Georgia	823	3
Panama	277	4
Pakistan	695	2
India	420	1
Netherlands	405	1
Dominican Republic	210	1
Canada	110	1

AES also owns majority and minority interests in electricity distribution companies, which sell electricity directly to commercial, industrial, governmental and residential customers around the world. AES has a majority ownership in three distribution companies in Argentina and in individual distribution companies in the United States, Dominican Republic, Brazil, the Republic of Georgia, and El Salvador. AES has a majority ownership in a heat and electricity distribution company in Kazakhstan. In addition the Company has minority ownerships in three distribution companies in Brazil and one in India.

Taken together, these AES distribution companies serve a total of over 15 million customers with gigawatt hour sales in excess of 109,000. On a net equity basis, AES's ownership represents approximately 5.4 million customers and gigawatt sales exceeding 24,000.

Business strategy

AES's primary objective is to help meet the world's needs for safe, clean and reliable electricity with the aim of continuing to reinforce its standing as the leading global power company. The Company pursues that mission by actively participating in privatizations and auctions for competitive power generation assets and deregulating distribution markets as a long-term power producer and supplier. AES also intends to pursue growth opportunities by constructing new production facilities. Key elements of the Company's business strategy include the following:

Significant project size

AES usually focuses on larger generation projects with capacity greater than 100MW and distribution companies with a prominent customer base. AES's equity investment in projects is usually in the range of $100 million to $750 million. The recent acquisitions of Drax, IPALCO and EDC demonstrate the Company's willingness to acquire much larger projects which complement its existing portfolio of generation assets and distribution companies.

Least-cost generation and distribution facilities

AES's strategy has been to offer its customers the "least cost" supply of energy. Among generation plants coal has historically provided this least cost alternative. To this end AES has acquired six coal-fired plants in New York and the coal-fired 3,960MW Drax facility in the U.K. The relatively recent availability of lower-priced, long-term natural gas supply contracts, coupled with advances in gas turbine technology, have made natural gas combined cycle plant configurations a viable option in locations in close proximity to gas supplies. Among distribution companies, AES looks to acquire companies with significant room for operational efficiencies and productivity improvements.

Stable overall revenue profile

In its generation businesses, AES seeks to enter into long-term power contracts with electric utilities and distribution and transmission companies in order to provide revenue stability. The Company attempts to structure the revenue provisions of these power sales contracts so that changes in the revenue components of a facility's contract correspond as closely as possible to fluctuations in the cost components of that facility. In its distribution businesses, AES attempts to secure long-term concession contracts with the local administrative authority to enhance earnings stability. Concession contracts typically include protection against economic risks, including inflation.

Maximize non-recourse financing

Each project, to the extent possible, is financed without direct recourse to the Company or to other AES projects or affiliates. Moreover, it has been the practice of AES to rely on financial markets for a significant portion of the financing for each plant. The Company's greenfield investments begin in the development stage of each project. Subsequent to the development stage, AES's objective is to minimize its investment in the project through third party financing in order to meet various goals such as managing its exposure and increasing its investment returns. AES seeks to directly hedge a substantial portion of its financings against interest rate risks. In projects with fixed capacity payments, AES arranges for fixed-rate financing or variable-rate financing with interest rate swaps or similar hedging mechanisms. Projects with fluctuating capacity payments are hedged by arranging floating rate forms of financing.

Focus on operations

Operational excellence is a key element of the AES strategy. By minimizing organizational layers and encouraging broad participation in decision making, AES has attempted to create a fun working and operating environment that results in the safe generation and distribution of clean and reliable electricity. Because of its emphasis on excellence in operations, AES believes it can significantly improve the return rates at companies it acquires.

Regulated tariff, not rate of return

AES's entrance into the electricity distribution business is generally done in cases where the Company's revenues do not decrease for cost savings. The Company believes that in this way a strong incentive exists to decrease excessive costs. All of the Company's distribution company acquisitions to date have concession agreements which provide for fixed price tariffs that adjust for inflation and currency devaluations.

Recent developments

In November 2000 AES announced its intention to make an offer to acquire all the outstanding Gener S.A. American Depository Shares (ADSs) in exchange for AES common stock. AES also announced it had commenced an offer in Chile to acquire 3.467 million Gener shares for cash. The shares to be acquired in the Chilean offer represent approximately 75 percent of the currently outstanding Gener shares not including Gener shares represented by ADSs. The aggregate

consideration to be paid pursuant to the US and Chilean offers is expected to be approximately US$1.056 billion.

In October 2000 The AES Corporation and EDF International S.A. ("EDF") announced that they had entered into an agreement to jointly acquire the 11.68 percent interest in Light Serviços de Eletricidade S.A. ("Light") owned by two subsidiaries of Reliant Energy for $430 million. After giving effect to the transaction AES will own 21.13% of Light.

In September 2000 AES entered the Bolivian telecom market with the purchase of a 100 percent stake in Redibol, a Competitive Access Provider based in La Paz, for $2.5 million.

In August 2000 AES completed the acquisition of a 59 percent stake in the 1,000MW hydroelectric facility of Hidroelectrica Alicura S.A. in Argentina from Southern Energy, Inc. and its partners.

Also in August 2000 AES and Reliant Energy International ("REI") announced that they have entered into an agreement whereby a subsidiary of AES will acquire REI's interest in El Salvador Holdings, S.A., which owns three distribution companies in El Salvador.

Also in August 2000 a subsidiary of AES entered into an agreement whereby AES will acquire TransCanada Pipelines Limited's 49 percent stake in the Songo Songo gas-to-electricity project in Tanzania.

In July 2000 AES entered into an agreement to acquire IPALCO in a stock transaction while also assuming approximately $890 million in existing debt and preferred stock. IPALCO is a utility holding company headquartered in Indianapolis, whose primary subsidiary, Indianapolis Power & Light, is an integrated utility that owns and operates 3,000MW of coal-fired generation and provides retail electric service to 433,000 customers in and around Indianapolis.

Also in June 2000, AES acquired approximately 87 percent of the voting stock of C.A. Electricidad de Caracas, an integrated electricity company serving Caracas, Venezuela, for approximately $1.6 billion in cash.

In June 2000 AES announced that its subsidiary, AES Puerto Rico, LP, had completed an $815 million non-recourse financing for a circulating fluidized bed coal-fired facility currently being built on the south coast of Puerto Rico.

In May 2000 a subsidiary of AES acquired 100 percent of Tractabel Power Ltd., from Tractabel S.A. With this transaction, AES owns approximately 92 percent of NIGEN's stock.

Also in May 2000 AES announced it had won a bid to purchase a 70 percent interest in the 1,580MW Mojave Generating Station in Laughlin, Nevada, for approximately $667 million.

In April 2000 AES announced it intends to launch a tender offer to acquire all outstanding common and preference shares of Brazilian generation company Compania de Geracoa de Energia Electrica Tiete.

In March 2000 AES announced that its subsidiary, AES Red Oak LLC, completed a $384 million non-recourse project bond financing for the construction of an 832MW natural gas-fired combined cycle plant in Sayreville, New Jersey.

In January 2000 AES agreed to acquire 59 percent of the outstanding preferred (non-voting) shares of Eletropaulo S.A. ("Eletropaulo"), representing 35.5 percent of the total capital of Eletropaulo. Eletropaulo is an electric company serving 4.5 million customers in greater São Paulo. AES owns, directly or indirectly, a 45.5 percent economic interest in Eletropaulo.

Financial performance

AES continues to demonstrate strong financial performance as illustrated in the table below. Adding new acquisitions as well as developing and completing greenfield projects has driven the Company's sustained growth.

Exhibit : AES consolidated financial performance

$ in millions

	For Fiscal Year Ended December 31,						LTM
	1994	1995	1996	1997	1998	1999	9/30/00
Revenues	$533	$679	$835	$1,411	$2,398	$3,253	$5,903
Operating Income	236	253	278	368	733	925	1,421
Net Income	100	107	125	185	311	377	531

1999 net income excludes approximately $194 million ($132 million after income taxes) of foreign currency transaction losses and an extraordinary loss of approximately $17 million.

AES's exceptional revenue growth continues to be driven by the following factors:

Multiple acquisitions added to a developing portfolio of completed greenfield projects.

Increasing diversification of revenue streams, geographic asset concentration, and fuel source.

Performance improvements, resulting from increased reliability and successful cost reductions in select existing and acquired operations.

Excellent integration leadership by corporate and project teams.

As a result of the Company's significant growth, the diversity of its portfolio with regard to both geography and fuel source has increased, thereby reducing its dependence on any single region, project or customer. Since 1994, AES's total generating capacity has grown from 2,479MW to 43,321MW with the total number of plants in operation increasing from 9 to 122.

In the same period the Company's total revenues have increased at a compound annual growth rate of approximately 44 percent from $533 million to $3.253 billion. Consolidated EBITDA increased at a compound annual rate of 33 percent over the period from $295 million to $1.224 billion. Similarly, AES's net income increased at a compound annual growth rate of approximately 30 percent from $100 million to over $377 million.

AES reported record earnings in 1999. For the fiscal year ended December 31, 1999, the Company reported earnings of $377 million, an increase of 21 percent over the prior year, before extraordinary items. 1999 was the 14th consecutive year in which AES's earnings rose. For the year, AES's revenues increased 36 percent to $3.253 billion. The Company also reported that its backlog of sales reached a record high in 1999 of $135 billion.

AES continued to build strong momentum in the first nine months of 2000. In October AES reported over $4.8 billion in revenues and earnings of $420 million for the nine months ended September 30, 2000. Third quarter results were strong: revenues increased 108 percent from $847 million in the quarter to over $1.8 billion while net income rose 131 percent from $58 million in the third quarter of 1999 to $134 million in the same quarter of 2000.

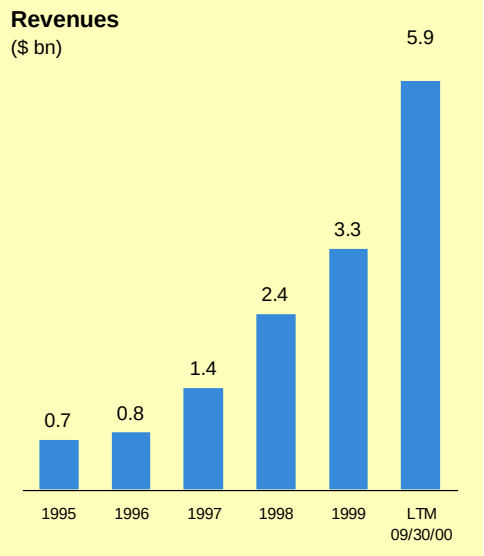
Exhibit : Historical Parent EBITDA

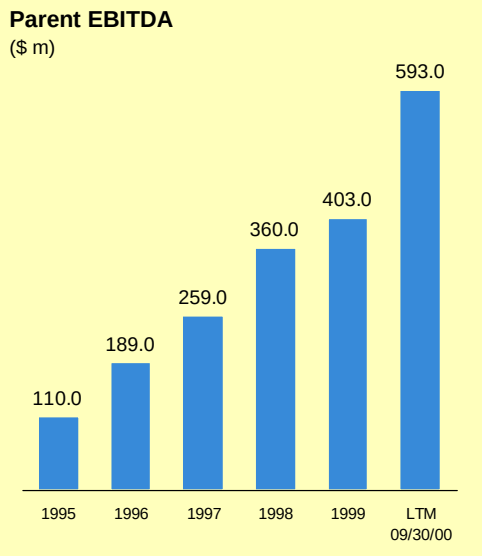
$ in millions

	Year ending December 31,					LTM
	1995	1996	1997	1998	1999	9/30/00
Parent EBITDA	110	189	259	360	403	593

From 1994-1999, AES's total revenues increased at a compound annual growth rate of approximately 44 percent from $533 million to $3.253 billion. Included in 1999 net income is approximately $194 million ($132 million after taxes) of foreign currency transaction losses and an extraordinary loss of approximately $17 million. AES's net income increased at a compound annual growth rate of approximately 30 percent from $100 million to over $377 million.

Exhibit : AES's strong growth performance





Financial position

As of November 16, 2000, AES had 456 million shares outstanding and a market capitalization of approximately $26 billion.

At September 30, 2000, AES reported total assets of $29 billion. The significant growth in the Company's balance sheet reflects its continued investments in development projects and several important acquisitions. Among them were the acquisition of Grupo EDC, an integrated utility serving Caracas, Venezuela; Drax, a generation station in England; AES Eastern, consisting of six coal-fired generating plants in New York; and CILCORP, an integrated utility based in Illinois.

Consolidated capital structure

AES has consistently maintained a balanced capital structure. After giving effect to the proposed non-recourse Texas Funding III facility and the EDC Funding II facility AES will have $13.75 billion

in non-recourse project level financing and $3.3 billion of parent-level debt. Non-recourse project financing represents approximately 56 percent of the pro forma capital structure of AES and parent-level debt 14 percent.

AES's existing senior debt is supported by $1.225 billion of parent-level subordinated debt, comprising 4 percent of the corporate capital structure as of September 30, 2000. Included in parent-level subordinated debt are $1.075 billion of senior subordinated notes with maturities ranging from six to 28 years and $150 million of convertible junior subordinated Brazilian Debentures due in 2005. AES also has outstanding $1.528 billion of trust convertible preferred securities.

As of September 30, 2000, AES had an equity capital base of $4 billion in pure stockholder equity after raising $915 million in net proceeds in May 2000 from a common equity offering. In 1999 AES raised $1.3 billion from common equity offerings.

The table below provides a comparison of the Company's capital structure through September 30, 2000:

Exhibit : AES consolidated capital structure
$ in millions

	For Fiscal Year Ended December 31,						Quarter Ended
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**9/30/00**
Capitalization							
Non-Recourse Project Debt	$1,080	$1,182	$1,668	$4,085	$5,002	$9,532	$13,271
Recourse Debt[(1)]	134	175	538	1,164	1,652	2,502	3,294
Total Debt	**1,214**	**1,357**	**2,206**	**5,249**	**6,654**	**12,034**	**16,565**
Convertible Trust Preferred Securities	-	-	-	550	550	1,318	1,528
Minority Interest	21	158	213	525	732	1,148	1,401
Shareholders' Equity	401	549	721	1,481	1,794	2,637	4,006
Total Capitalization	**$1,636**	**$2,064**	**$3,140**	**$7,805**	**$9,730**	**$17,137**	**$23,500**
Total Assets	1,915	2,341	3,622	8,909	10,781	20,880	29,463
Credit Statistics							
Recourse Debt/Total Capitalization	8%	9%	17%	15%	17%	15%	14%
Non-Recourse Debt/Total Capitalization	66%	57%	53%	52%	51%	55%	56%
Total Debt/Total Capitalization	74%	65%	70%	72%	68%	70%	70%

(1) Excludes guarantees, sureties and letters of credit

AES funded these acquisitions and its ongoing development projects through a combination of internally generated cash flows, non-recourse project financings, and capital markets issuances at the parent level. Key corporate financings in 2000 included the issuance of approximately $915 million in common equity, $850 million in senior notes and $460 million in trust convertible preferred securities.

Corporate credit ratings

Moody's, Standard & Poor's and Fitch rate AES's debt securities. All of the recourse debt of AES is unsecured. Following the announcement that AES will acquire IPALCO, Standard and Poor's placed AES's ratings on positive watch. The current ratings are shown below:

Exhibit : AES credit ratings

	Moody's	S&P	Fitch
Senior Unsecured	Ba1	BB	BB+

Investment considerations

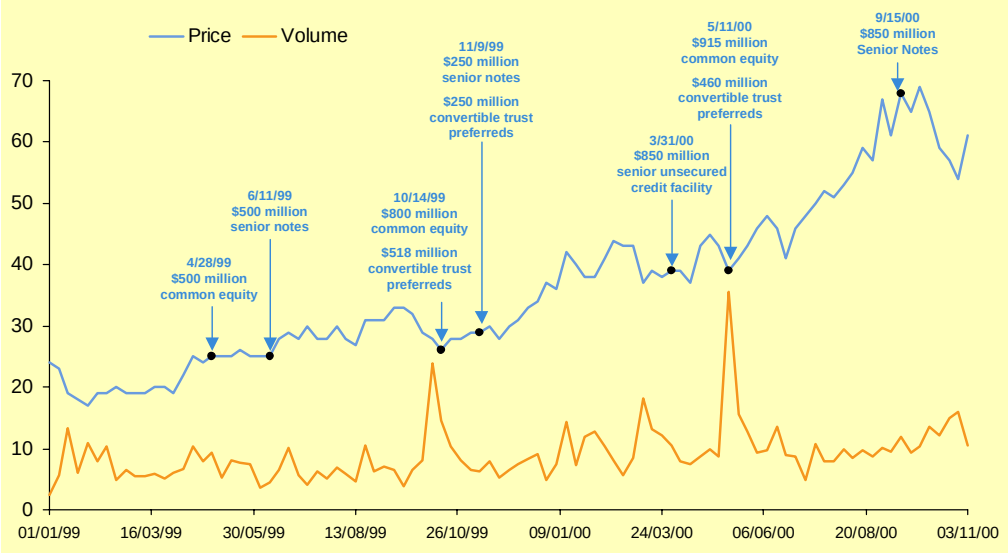
AES is the leading global power company

From its origins as a U.S.-based developer and operator of electricity generation facilities, AES has become the largest independent power company in the world. The Company is on the cutting edge of acquiring and operating electricity generation assets in countries that are restructuring and deregulating the electricity business.

By actively participating in privatization initiatives and competitive auctions for existing businesses and assets in electricity markets which are promoting competition and eliminating rate of return regulations, AES has developed also a portfolio of distribution assets to complement its increasingly diversified portfolio of generation plants encompassing over 122 plants.

AES's diversified portfolio of projects and sources of cash flow, its demonstrated access across the capital markets both at the corporate and at the project level, and its track record of successfully leveraging its existing asset base through smart acquisitions should ensure that it remains the blue chip company among the independent power producers.

Exhibit J: Strong stock price performance of AES



The Company's unrivalled experience in competitive markets, worldwide integrated group structure and unique operating philosophy, and far-reaching regional coverage provide strong support for AES's stock price and drive future earnings estimates.

Winning just a small fraction of the anticipated privatizations and auctions of generation and distribution assets would substantially accelerate AES's earnings growth while also providing significant opportunities to realize internal growth through operating improvement and strategic leveraging of assets within each region.

The Company expects to realize average annual earnings growth of approximately 30 percent for the next five years through strategic leveraging of existing assets, select acquisitions and projects under construction that will begin operations.

Demonstrated access to the public capital markets

AES is a seasoned issuer in the equity and debt markets and has demonstrated it can access the capital markets even in broadly difficult market conditions. Since 1997, AES has successfully accessed the equity markets eleven times for a total $4.7 billion in proceeds. The table below details these offerings:

Exhibit K: AES public equity offerings, 1997-1999

Issue date	Issue
May 2000	$915 million common stock offering
May 2000	$460 million trust convertible preferred securities
November 1999	$250 million trust convertible preferred securities
October 1999	$800 million common stock offering
October 1999	$517 million trust convertible preferred securities
May 1999	$502 million common stock block trade
August 1998	$190 million common stock offering
October 1997	$300 million trust convertible preferred securities
July 1997	$360 million common stock block trade
March 1997	$250 million trust convertible preferred securities
March 1997	$150 million common stock offering
Total proceeds	**$4.694 billion**

AES has also demonstrated it has ready access to the debt markets. Since 1997, AES has accessed the public debt markets eight times and successfully raised $2.925 billion. The table below details these issuances:

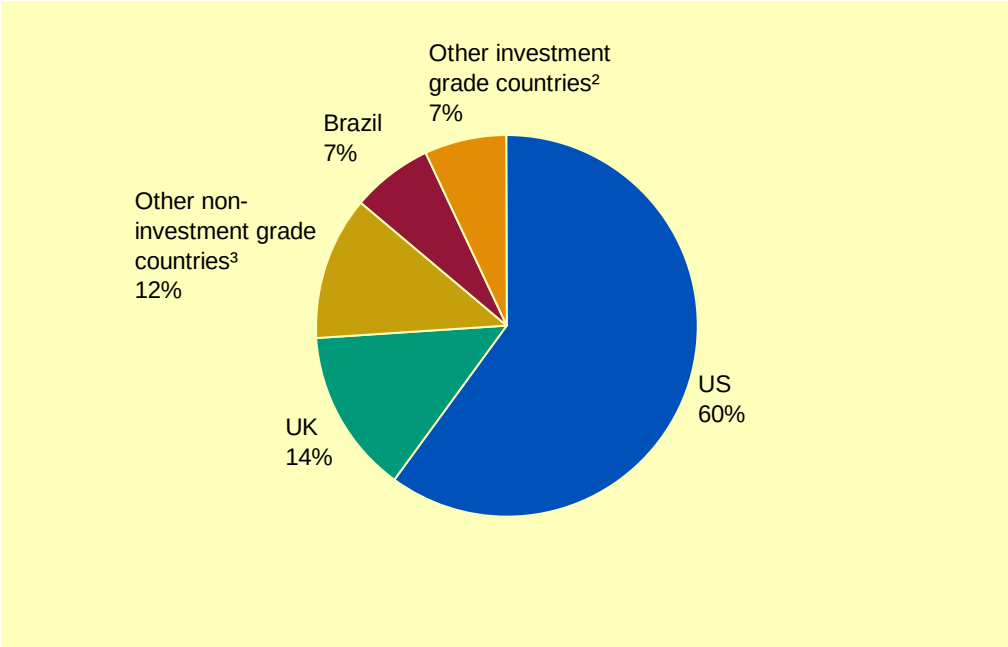
Exhibit L: AES public debt issuances

Issue date	Issue	Amount (MM)	Maturity
September 2000	9.375% Senior Notes	$850	2010
November 1999	9.50% Senior Notes	$250	2009
June 1999	9.50% Senior Notes	$500	2009
December 1998	8.00% Senior Notes	$200	2008
August 1998	4.5% Junior Conv. Sub debt	$150	2005
October 1997	8.875% Senior Sub Notes	$125	2007
October 1997	8.50% Senior Sub Notes	$375	2007
July 1997	8.375% Senior Sub Notes	$325	2007
Total proceeds		**$2.925 billion**	

Expanding portfolio provides diversified consolidated revenue and Parent EBITDA

By serving the world, AES continues to further diversify its consolidated revenue and cash flow streams. The Company's earnings and cash flow are increasingly diversified by country and by region as demonstrated in the Exhibit below:

Exhibit M: 1999 Parent EBITDA[1] by country



[1] Based on Parent EBITDA before corporate expenses

[2] Other investment grade countries includes the Netherlands, Hungary, China, Australia and El Salvador

[3] Other non-investment grade countries includes Argentina, Dominican Republic, India, Pakistan, and Panama

AES's portfolio of projects is large and diverse. The significant majority of AES's earnings come from stable, developed countries and no single project dominates AES's earnings profile. AES's earnings are also well-diversified across geographic regions: in 1999 North American projects contributed approximately 60 percent of parent cash flow while European projects contributed 19 percent, Latin American projects contributed 15 percent and Asia/Pacific projects the remaining 21 percent. The recent acquisitions of Drax in the United Kingdom and IPALCO in the United States continue AES's reorientation toward developed markets.

Corporate earnings are especially diversified on a project-by-project basis. In 1999, thirty-two individual projects contributed cash dividends to the parent level, up from twenty-three in 1998 and eighteen in 1997.

AES has established an exceptional operating track record

AES has repeatedly distinguished itself as among the safest, cleanest, and most efficient operators of electricity generation and distribution facilities in the industry.

AES first demonstrated its ability to develop extremely efficient greenfield facilities. Subsequently, the Company has demonstrated its ability to improve the capacity and operating performance of assets acquired from regulated entities. Across its portfolio of acquired facilities, AES has succeeded in cutting expenses by applying efficiency measures while also increasing revenues

through investments, improved people productivity and application of environmental scrubbing techniques.

AES has also proven itself an exceptionally capable operator of coal-fired generation plants. In 1999, AES's five solid fuel plants in the United States had the following capacity factors: Beaver Valley 96 percent, Deepwater 83 percent, Hawaii 81 percent, Shady Point 90 percent, and Thames 89 percent. AES's experience of operating its existing portfolio of coal-fired plants at industry-leading availability levels and capacity factors should enable it to achieve significant performance improvements at the Mojave coal-fired facility, Drax coal-fired station and at the New York coal-fired plants.

Long-term contracts and concessions support stable earnings

AES has a portfolio of established projects with long-term power purchase agreements, limited exposure to merchant power risk and limited fuel risk exposure. Sales from the Company's distribution assets are governed by long-term concession agreements. Approximately 75 percent of AES's cash flow is under long-term contracts. The long-term nature of the Company's power purchase and concession agreements provide AES with a significant degree of certainty with respect to its ability to generate stable earnings. AES has a backlog of over $135 billion in revenues from existing projects.

AES's extensive backlog of new projects further reinforces AES's predictable revenue streams. AES currently has 6,646MW under construction and in advanced stages of construction. The Company also maintains an unannounced backlog of over 100 new business ideas at all times.

Superior leadership provides competitive advantage

AES's inclusive corporate structure attracts and retains the top professionals in the independent power producer industry. AES employs a decentralized decision-making style that has fostered a depth of business resources while spreading best practices throughout the organization. AES's approach has been a source of competitive advantage by allowing the Company to closely monitor and capitalize on development opportunities in all of its markets. Moreover, AES's leadership style of empowerment and emphasis on having fun has strongly contributed to the dramatic growth of the Company by engaging all the business people of AES in the broader welfare of the firm.

The Company's senior leadership has unparalleled experience in the power industry. Chairman Roger Sant and CEO Dennis Bakke helped establish the IPP industry and have remained recognized industry leaders since founding the Company in 1981. A similar range of experience matched to smart business acumen has enabled team leaders assigned to oversee AES's fourteen regional business groups to superior levels. Supporting senior leadership and regional business leaders is a team of AES professionals of exceptional depth of experience and range of industry expertise.

Individual project descriptions

Business overview

The Company participates in two distinct business activities: electricity generation and distribution. The majority of the Company's revenues are derived from sales of generated electricity to electric utilities which in turn sell the electricity to end users. The Company has also recently expanded into the electricity distribution business through its acquisitions of independent distribution systems and integrated utilities. Most recently, through its acquisition of NewEnergy and its establishment of Power Direct, AES has expanded its distribution operations to encompass the retail sale of electricity to consumers.

Traditionally, most of AES's generation plants sold electricity under long-term power purchase agreements (PPAs) to electric utilities or state owned power companies. Generated electricity is sold under a two part pricing method, representing the two main products – capacity and energy – "produced" by generation plants. Energy refers to the sale of the actual electricity produced by the plant. Capacity refers to the amount of generation "reserved" for a particular consumer, irrespective of the amount actually purchased. The Company attempts, wherever possible, to structure the revenue provisions of its plant's power sales contracts so that changes in the revenue contract correspond, as closely as possible, to fluctuations in the cost components of the plant (primarily fuel costs).

With the onset of deregulation and market restructuring in the United States and other developed countries, however, AES is no longer limited to selling its generated electricity under long-term PPAs. In many regions throughout the United States, and in the entirety in the U.K., generated electricity can be sold directly into the commodity market or under tolling arrangements to third parties. Under a tolling agreement, a power marketer or another commercial electricity customer provides the fuel to the generation company to produce electricity at an agreed price. As a result of these opportunities, the Company views its generating assets as a portfolio selling electricity under long-term PPAs, into commodity markets and under tolling agreements with third party marketers.

As with fuel prices, AES has hedged a substantial portion of its projects against the risk of fluctuation in interest rates. In each project with fixed capacity payments, AES has attempted to hedge all or a significant portion of its risk of interest rate fluctuations by arranging for fixed-rate financing or variable-rate financing with interest rate swaps or other hedging mechanisms. Those projects with fluctuating capacity payments are hedged by arranging for floating rate forms of project financing.

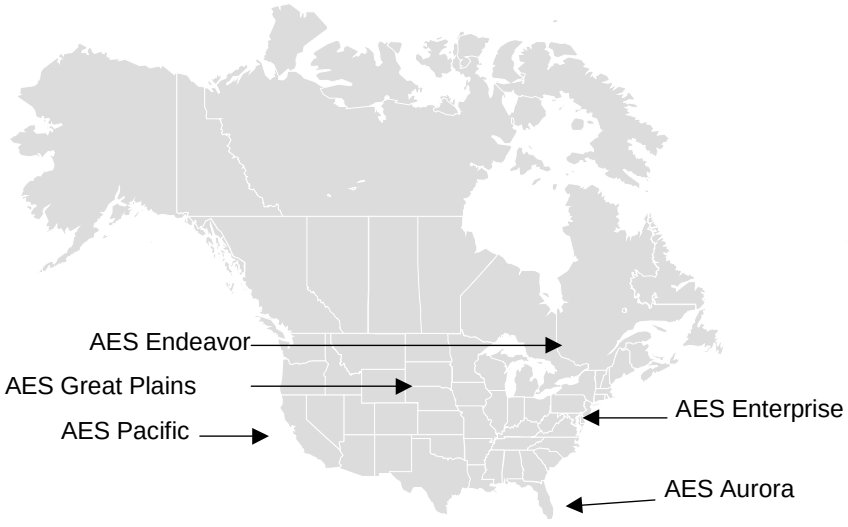
The Company also owns distribution companies that sell electricity directly to end users, such as commercial, industrial, governmental or residential customers. In some instances these distribution companies are integrated utilities, meaning that they own the assets that span the three functions associated with the electricity business: generation, transmission and distribution. The Company's distribution investments are generally made where the Company's revenues do not decrease for cost savings. The Company believes that in this way a strong incentive exists to decrease excessive costs.

North America

Exhibit N: North American project list

Plant	Fuel	Capacity (MWS)	Location	AES Equity Interest (%)
Deepwater	Petroleum Coke	143	Texas, US	100
Beaver Valley	Coal	125	Pennsylvania, US	100
Placerita	Gas	120	California, US	100
Thames	Coal	181	Connecticut, US	100
Shady Point	Coal	320	Oklahoma, US	100
Hawaii	Coal	180	Hawaii, US	100
Kingston	Gas	110	Canada	50
Alamitos	Gas	2,083	California, US	100
Redondo Beach	Gas	1,310	California, US	100
Huntington Beach	Gas	563	California, US	100
Cayuga	Coal	306	New York, US	100
Greenidge	Coal	161	New York, US	100
Hickling	Multiple	85	New York, US	100
Jennison	Coal	71	New York, US	100
Somerset	Coal	675	New York, US	100
Westover	Coal	126	New York, US	100
Warrior Run	Coal	180	Maryland, US	100
Duck Creek	Coal	366	Illinois, US	100
Edwards	Coal	772	Illinois, US	100
Indian Trails Co-Gen	Gas	19	Illinois, US	100

Exhibit O: North America project map



AES Beaver Valley – Pennsylvania

In 1985, BV Partners, a Pennsylvania partnership, with AES as managing partner, acquired a 42-year old, pulverized coal-fired steam and electric generating facility from ARCO Chemical Company. The purchase price, plus development and refurbishment costs, amounted to approximately $120 million. Development of the project included the installation of a new 110MW steam turbine-generator (raising net capacity to 125MW) and an additional scrubber. The plant commenced full-scale operation in July 1987. Electricity is sold to West Penn Power (Allegheny Power Systems) under a 31-year PPA. Steam is sold to neighboring NOVA and BASF chemical plants. In early 2000, AES completed a transaction to purchase the interest of the minority partner, thereby increasing its ownership to 100 percent.

AES CILCORP – Illinois

In October 1999, AES acquired 100 percent of CILCORP for $886 million. CILCORP is the parent of CILCO, an integrated electric and gas utility based in central Illinois. CILCORP owns an extensive transmission and distribution network serving roughly 190,000 electricity customers and 200,000 gas customers. In addition, CILCORP's two coal-fired base-load generation plants, gas-fired cogeneration plant and gas-fired peaking plant produce an aggregate 1,152MW of capacity. CILCORP generated $559 million in revenues in 1998 of which approximately 64 percent came from its electricity business and 31 percent from its gas business. The balance of revenues came from the company's non-regulated operations.

CILCORP represents AES's first investment in a U.S. distribution company and provides a stable foundation for further development. CILCORP has excellent permittable sites and ready access to gas and electric transmission, leaving it well positioned to capitalize on emerging opportunities in a vibrant deregulating environment.

AES Deepwater – Texas

AES Deepwater owns and operates a 143MW (net) cogeneration plant located in Pasadena, Texas, near the Houston Ship Channel. The plant was the first project developed by The AES Corporation and has been in continuous operation since 1986. It is a Qualifying Facility under the Public Utilities Regulatory Practices Act (PURPA) as a Small Power Producer Waste Burning Facility. Its cogeneration design also allows up to 600,000 pounds per hour of steam to be extracted for industrial uses.

Deepwater is 100 percent fired by delayed petroleum coke, a solid by-product of the refining process of heavy crude oil. The plant's entire fuel requirement is delivered via a private rail line approximately one mile long by rolling stock owned and operated (under contract) by Deepwater. The feedstock is delivered directly to an on-site coke storage barn with a capacity of 30,000 tons, which is in excess of a twenty-day supply.

The Foster-Wheeler arch-fired boiler, based on pulverized coal technology, supplies 1.4 million pounds per hour of superheated steam. The single flow, extraction condensing turbine and two poles, three-phase, 13.8kV air-cooled generator was provided by Brown Boveri. The three-stage FGC (flue gas cleaning) system supplied by Babcock & Wilcox is composed of a dry electrostatic precipitator for fly ash capture, a limestone wet scrubber to remove sulfur dioxide, and a wet electrostatic precipitator for acid mist removal.

AES Eastern (AEE) and AES Creative Resources (CR) – New York

In May 1999, AES acquired 100 percent of six coal-fired plants from NGE. Four of the six plants comprise AES Eastern Energy: AES Somerset, AES Cayuga, AES Westover, and AES Greenidge. The other two plants which form AES Creative Resources, AES Hickling and AES Jennison, were acquired as part of the package. These two plants are smaller plants with the potential to burn alternative fuels.

These assets were auctioned as part of the implementation of a restructuring plan in accordance with New York's introduction of wholesale and retail competition into the state's electricity generation market. AES's acquisition of the Eastern assets reflects its confidence that the plants will be competitively positioned as New York deregulates its power market. These plants are among the lowest cost producers in New York State and will be run as base-load facilities.

The Eastern plants are capable of exceptionally high availability factors. After targeted capital expenditures and the application of leading edge environmental scrubbing technology, AES expects the plants to run at over 90 percent capacity. The Eastern plants burn low cost, stable-priced coal. Both the Somerset and Cayuga plants operate flue gas desulferization (FGD) units to control SO_2 emissions, generating excess SO_2 allowances under current and expected $S0_2$ emissions standards that can be sold into the market to competitors producing excess emissions. AES has installed a selective catalytic reduction at Somerset which will reduce NOX emissions from the plant by up to 95 percent and allow each of the Eastern plants to run at planned capacity factors through 2003.

The output of these plants will be sold into the merchant power market. AES has also signed a capacity contract to hedge approximately 20 percent of the revenues from the plants through April 2001.

AES Hawaii (formerly Barbers Point) – Hawaii

AES Hawaii, a wholly owned subsidiary of AES, owns and operates a 180MW coal-fired CFB cogeneration plant which provides approximately 16 percent of the power to the island of Oahu, Hawaii. Construction of the plant began in April 1990 and was completed ahead of schedule in September 1992.

Pursuant to a power sales contract maturing in 2021, Hawaiian Electric Company, Inc. (HECO) purchases electricity currently generated by the plant. The contract includes a fixed capacity payment which is level over the course of the contract and varies with plant availability. Under the contract HECO can dispatch the plant to not less than 35 percent of contracted capacity. Such dispatching does not significantly affect the financial performance of the facility since, even if dispatched, AES Hawaii will continue to receive the capacity payment based on availability. The power purchase contract also provides for energy payments and operating and maintenance payments which vary with the plant's output and escalate with inflation.

PT Kaltim Prima Coal and Sprague Energy Corp. provide the plant's fuel requirement under an agreement which expires in 2011, subject to termination in 2006 in the event the parties are unable to renegotiate the price of coal for the last five years of the contract term. The coal price, set at the time of the contract, escalates at actual inflation through the contract term. The coal is shipped from PT Kaltim Prima's mines in Indonesia and unloaded at the Barbers Point Harbor where it is transported by conveyor to the plant.

AES Ironwood – Pennsylvania

The AES Ironwood project is a 720MW natural gas-fired combined cycle facility currently under construction in South Lebanon, Pennsylvania. Siemens Westinghouse is constructing the facility under a turnkey contract with the project company, AES Ironwood. The facility's construction is moving forward and the plant is expected to commence operations on schedule and within budget by mid-2001. Williams Energy Marketing and Trading will purchase power from the facility under a 20-year tolling agreement. In June 1999, AES Ironwood successfully completed a $308.5 million non-recourse bond financing.

AES Kingston – Ontario

The Kingston Cogen Limited Partnership owns and operates a 110MW gas-fired, combined-cycle cogeneration facility located in Loyalist Township, Ontario. The partnership is comprised of AES which controls a 50 percent ownership position, PanCanadian Petroleum Limited, the plant's fuel

supplier, and Pacific Generation, who both own 25 percent equity positions in the Partnership. The plant began commercial operations in February 1997 and is expected to operate as a baseload facility with an average availability rate of approximately 92 percent.

AES Londonderry – New Hampshire

AES Londonderry (LD) is currently constructing a 720MW combined cycle natural gas-fired facility featuring 2x1 501G Siemens Westinghouse power island (under contract), with dual fueled, wet-cooling capability in the Ecological Industrial Park in Londonderry, New Hampshire. LD will be the most efficient (at 6700 heat rate HHV) and one of the lowest cost operating facilities in New England, competitive as a base-load unit, capable of swing-lad, selling wholesale into the NEPOOL. The project has received all necessary federal, state and local approvals to commence construction in 2000 with Siemens Westinghouse Power and Dick Corporation as EPC. and is expected to achieve commercial operation by June 2002.

Electrical interconnection is via New England Electric System 230kV system giving direct access to Massachusetts, with an optional interconnect to Northeast Utilities 115kV to enhance stability and to alleviate congestion, which plagues other new generation in northern New England. LD will have competitive gas supply options from Sable Island and western Canada via the new joint pipeline (Maritimes Northeast/PNGTS), from LNG from Cabot's facility in Everett, Massachusetts, and from the gulf coast via the Tennessee Gas Pipeline. Delivered gas prices in Londonderry should be competitive with all other New England locations and better than the Boston area.

AES Placerita – California

AES Placerita, a wholly owned subsidiary of AES, developed, constructed and now owns and operates a combined cycle gas turbine cogeneration facility near Los Angeles, California. The plant commenced full-scale commercial operation in February 1989 and generates up to 120MW of electricity, while also producing approximately 80,000 pounds per hour of steam to customers for "enhanced oil recovery" operations.

As part of electricity deregulation in California, Southern California Edison successfully bought out AES Placerita's contract in October 1999. In the near-term AES Placerita will operate as a merchant plant with the operators at the plant bidding its output into the day-ahead and real-time energy markets. Learning from this experience will enable AES to apply lessons from the dynamics of the California energy market to other deregulating markets across the United States.

AES Puerto Rico – Puerto Rico

AES Puerto Rico, 100 percent owned and operated by AES, began construction of a 454MW coal-fired CFB cogeneration facility in November 1999. The facility will provide electricity under a 25-year Power Purchase Agreement to the Puerto Rice Electric Power Authority. The facility will also produce and sell up to 400,000 pounds per hour of steam to Phillips Puerto Rico Core Inc., a subsidiary of the Phillips Petroleum Company. The cogeneration facility is projected to start operations in mid-2002. Total cost of developing, financing and constructing the project is estimated to be approximately $800 million.

The AES Puerto Rico facility will provide 9 percent of the island's electric generation capacity while also supplying 15 percent of the existing demand for electricity. As the first solid-fuel-fired plant on the island, the facility will greatly reduce the electrical system's current 98 percent dependence on fuel oil.

The facility is designed and will be constructed under a lump sum engineering, procurement and construction contract by Duke/Fluor Daniel, a joint venture of Duke Corporation and Fluor Corporation. Circulating fluidized bed boilers with additional scrubbing technology on the back-end will be used to achieve extremely low emission levels. The plant will use recycled water from the neighboring wastewater treatment facility in order to conserve scarce fresh water resources. In addition, the plant will employ innovative zero liquid discharge technology.

AES Red Oak – New Jersey

Red Oak is an 830MW gas-fired combined cycle electric generating facility. The facility will be located in Sayreville, New Jersey. AES Red Oak will sell all of the capacity, and provide fuel conversion and ancillary services to a large energy trading company, pursuant to a long-term Power Purchase Agreement. After the expiration of the 20-year term of the PPA, Red Oak will enter into other Power Purchase Agreements or operate as a merchant plant. Red Oak will be designed, engineered, procured and constructed by Raytheon Engineers and Constructors, under a fixed-price, turnkey construction agreement.

The Red Oak facility will use three Siemens Westinghouse model 501F combustion turbines. Siemens Westinghouse Power Corporation will provide Red Oak with specific combustion turbine maintenance services and spare parts for an initial term of between 8-10 years under a maintenance service agreement.

AES Shady Point – Oklahoma

AES developed, constructed and now owns and operates AES Shady Point, a 320MW coal-fired CFB cogeneration facility in Oklahoma. The AES Shady Point facility includes a 240 ton per day food grade, liquid and solid carbon dioxide plant, which utilizes process steam produced by the power plant. The plant commenced commercial operation in January 1991.

AES Shady Point sells electricity to Oklahoma Gas and Electric Company under a contract with an initial termination date of 2007 and three-automatic five year renewal terms succeeding the initial termination unless the contract is terminated by Oklahoma Gas and Electric prior to the start of each renewal term. The price paid by Oklahoma Gas and Electric includes an energy payment based on its cost of fuel plus an inflation adjusted O&M payment. Oklahoma Gas and Electric also pays Shady Point a capacity payment. The fixed capacity payment, which constitutes the bulk of the plant revenues, is paid as long as AES Shady Point's forced (unscheduled) outage rate is below 14.5 percent annually and 5 percent during the months of summer peak. Although Oklahoma Gas and Electric can dispatch AES Shady Point to 65 percent of its output annually, this "dispatching" does not effect the capacity payment.

The AES Shady Point plant uses coal supplied under contracts that expire in 2007 from two Oklahoma coal companies. The coal suppliers also provide limestone supply for the CFB boiler and ash removal services. To assure an alternative source of coal, AES keeps in place a backup supply agreement with a subsidiary of Peabody Coal to provide coal from the Wyoming Powder River Basin.

AES Southland – California

In May 1998, AES acquired from Southern California Edison a portfolio of three gas-fired generation plants totaling 3,956MW in capacity. The plants, AES Alamitos, AES Redondo Beach, and AES Huntington Beach provide critical capacity to the regional electricity supply, especially during the summer peak months. In the non-peak months, the plants help to provide voltage support for the Los Angeles basin. AES has entered into a long-term contract with the Williams Company to toll the output of the plants. Based upon this agreement, AES was able to borrow 90 percent of the $781 million purchase price on a non-recourse basis.

AES Thames – Connecticut

AES developed, constructed and now owns and operates AES Thames, a 181MW cogeneration facility located in Montville, Connecticut. In addition to electricity, the plant produces approximately 100,000 pounds per hour of process steam. AES Thames has operated at an average capacity factor of over 90 percent since beginning commercial operation in March 1990.

Power generated by AES Thames is sold to Connecticut Light & Power (CL&P) under a contract that expires in 2014. AES Thames is paid per KWh under a take-if-delivered contract. Rates for

electricity delivered during on-peak hours are nearly twice those paid for off-peak periods. Both components escalate with inflation over the course of the agreement.

AES has agreed to renegotiate the Power Sales Agreement with CL&P. Under the terms of the Agreement, CL&P will prepay for future electricity sales that will be subsequently delivered under the terms of the Agreement, resulting in significantly reduced rates charged by AES Thames. CL&P will make a prepayment to AES Thames of approximately $540 million, which will be recognized by AES Thames over the remaining life of the contract on an earnings basis. Final regulatory approvals are expected in the first quarter of 2001.

AES Thames also sells steam to Smurfit-Stone Container Corporation. The price paid for steam by Smurfit-Stone is based on the quantity of steam taken and is subject to an adjustment for inflation. The contract has an initial expiration date of 2004 with 7 automatic five-year renewal terms unless Smurfit-Stone terminates prior to a renewal term. Under the steam purchase contract, AES Thames has the right, but not the obligation, to lease the Smurfit-Stone paperboard facility at a nominal rent in order to maintain a productive use of the steam produced by the plant and to protect its Qualifying Facility (QF) status in the event of a default by Smurfit-Stone.

CSX Transportation provides the plant's coal and limestone supply for the CFB boiler and removes all the ash generated in the combustion process under a contract that expires in 2005. All fly ash and bottom ash removed is used to reclaim the mines, which supply the coal for the plant. CSX-T is responsible for the disposal of the ash and the environmental compliance of the disposal sites. The price paid for fuel supply under the agreement by AES Thames escalates pursuant to an inflation index that is and ash removal under the agreement escalates pursuant to an inflation index that is designed to fluctuate with the price of electricity paid by CL&P under the Power Sales Agreement.

AES Warrior Run – Maryland

In September 1995, AES successfully completed the financing and began construction of AES Warrior Run, Inc., a180MW coal-fired thermal cogeneration facility near the city of Cumberland in Allegheny County, Maryland. The Warrior Run facility achieved commercial operations in early 2000. Total project costs were approximately $440 million. The Plant sells power to Potomac Edison, a subsidiary of Allegheny Power System, under a 30 year Power Purchase Agreement.

AES Wolf Hollow – Texas

The AES Wolf Hollow project is a natural gas-fired combined cycle facility under development in Granbury, Texas. Total plant capacity is anticipated to be roughly 700-750MW. Negotiations are underway for a turnkey construction contract as well as with potential tolling partners. Henwood has been engaged to perform a market study of ERCOT. Water for the project has been secured. The project is anticipated to cost approximately $400 million with commercial operations scheduled to begin in mid-2002.

NewEnergy – U.S.

In July 1999, AES acquired New Energy Ventures, subsequently renamed NewEnergy, in a transaction valued at approximately $90 million including assumed debt. NewEnergy is the largest energy service provider in the United States. Formed in 1995 to serve customers in states where a competitive energy market is emerging, this rapidly growing technology-based energy company is active in entering new markets throughout the U.S. In addition to providing energy, NewEnergy's offers, energy efficiency services, site generation telecommunication services, and energy-related equipment and supplies to its customers. AES's acquisition of NewEnergy marks its entrance into the dynamic energy retail marketing business.

Power Direct – U.S.

Power Direct is a new business formed to market electricity and natural gas to residential and small commercial customers. The business, formed in June 1999 by people from CILCORP and

AES, currently consists of 18 team members. Power Direct is participating in the retail electricity programs in Pennsylvania and New Jersey, offering energy users the opportunity to buy their energy supply from someone other than their former monopoly utility. The customer is able to save a certain percentage off their utility bill and can sign up for service by phone, mail, or through Power Direct's web site.

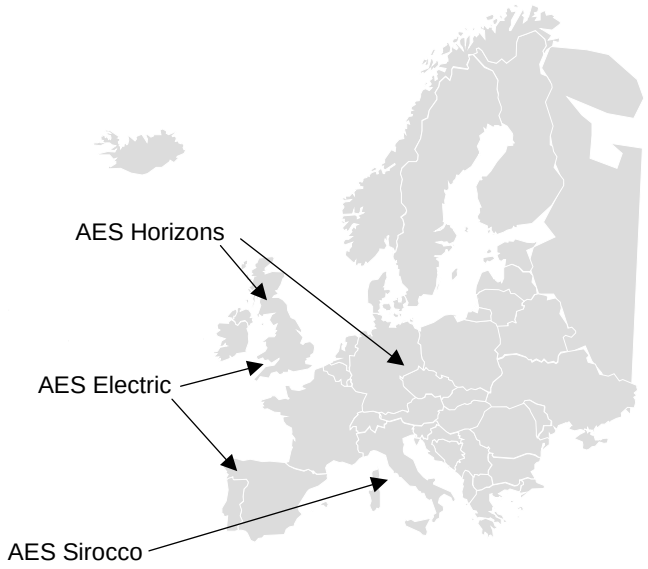
Power Direct currently offers a free calling card to new residential customers, as well as an environmental product, Clear Choice, which allows consumers to purchase and retire emissions allowances that offset pollution caused by their electricity usage. Power Direct markets through local advertising, direct mail, association and affinity group relationships, co-marketing arrangements, and through internet-based "energy stores". Power Direct plans to enter additional states as they become open to competition, to add natural gas as an additional product, and to develop and offer other products and services. Power Direct also emphasizes customer care through its 24x7 customer call center operated by experienced professionals rather than an automated-menu or a voice mail system.

Europe

Exhibit P: European project list

Plant	Fuel	Capacity (MWS)	Location	AES Equity Interest (%)
Kilroot (NIGEN)	Coal/Oil	520	United Kingdom	92
Belfast West (NIGEN)	Coal	120	United Kingdom	92
Medway	Gas	688	United Kingdom	25
Borsod	Coal	171	Hungary	100
Tisza II	Oil/Gas	860	Hungary	100
Tiszapalkonya	Coal	250	Hungary	100
Indian Queens	Oil	140	United Kingdom	100
Elsta	Gas	405	Netherlands	50
Barry	Gas	230	United Kingdom	100
Drax	Coal	3,960	United Kingdom	100

Exhibit Q: Europe project map



AES Barry – Wales

The AES Barry Power Station is a 230MW combined cycle gas-fired power plant that entered commercial operation in September 1998. The plant is wholly owned by AES Barry Limited, a wholly owned subsidiary of AES Electric Ltd.

AES Barry is a merchant plant, selling its output to the U.K. Electricity Pool.

Power is exported via an interconnection with the local REC at a newly built 132kV substation located approximately 300 meters from the AES Barry facility. In May 1999, AES Electric completed a $195 million non-recourse project refinancing at Barry.

AES Cartagena – Spain

AES Energia Cartagena, a wholly owned subsidiary of AES, is currently developing a 1,200MW combined cycle gas fired plant and an 18,000 cubic meter per day water desalination plant in Cartagena, Spain. It is expected that the estimated Euro 500 million project financing will reach financial close in the fourth quarter 2000.

AES Energia Cartagena's land concession Puerto de Escombreras was granted from the Cartagena Port Authority in November 1998. Electricity from the plant will be sold through a combination of contract sales and sales into the pool. Negotiation of these contracts together with gas purchase contracts is at an advanced stage. To date, a successful EPC tender has been conducted and bids are currently being reviewed. Permit applications have been submitted with respect to environmental regulation and connection to the grid. Responses are expected in the fourth quarter 2000.

Drax – England

In November 1999, AES completed the acquisition of the Drax power station from National Power for approximately $3 billion. Drax, a 3,960MW coal-fired electricity generation facility located in

northern England, supplies 8 percent of electricity consumption in England and Wales. It is the largest coal-fired plant in Western Europe and the most efficient coal-fired plant in England.

As the most modern and efficient coal-fired plant in the U.K., Drax has a significant marginal cost advantage over competing coal-fired generators and is well-positioned to meet the challenges proposed by lower electricity prices and increased competition from lower cost gas-fired generators should the U.K. government lifts it present moratorium on gas-fired generation. As the largest single generator, Drax has a material impact on market prices, serving as a price-setter 13 percent of the time in 1998. Drax has a strong environmental reputation. After being fitted with wet-limestone-gypsum flue gas desulferzation units in the 1990s, the Drax facility has produced among the lowest sulfur emissions per KWh for a coal-fired station in the U.K. Drax's emissions are comfortably below present authorized limits.

Under the terms of the Sale Agreement, contracts for differences have been signed with National Power covering 50 percent of output through March 2000. In order to hedge its exposure to merchant power risks thereafter, Drax has entered into a 15-year Electricity Hedging Agreement with an investment-grade rated counter-party to hedge approximately 50 percent of the plant's revenues at the outset. Over time the Hedging Agreement covers a smaller portion of revenues; however, AES intends to pursue additional hedging opportunities to help ensure stable revenues from the plant.

The acquisition of Drax provides a foundation upon which AES intends to build its European franchise to take advantage of liberalizing energy markets. In addition, Drax further reinforces the continued development of the AES portfolio of projects. On the basis of its asset concentration and earnings profile, Drax continues the reorientation of AES's portfolio toward the developed markets while further reducing the Company's dependence on any particular asset as a source of cash flow.

AES Elsta – Netherlands

AES has a 50 percent ownership interest in the Elsta cogeneration facility. Elsta is a 405MW gas-fired, combined-cycle cogeneration plant recently constructed at the chemical manufacturing facilities of Dow Benelux N.V. in the Netherlands. The plant is owned by Elsta B.V. & Co., C.V. Limited Partnership, a Dutch limited liability company comprised of Terneuzen Cogen B.V., a Dutch corporation wholly-owned by AES, and two Dutch utilities, Deltan (25 percent interest) and PNEM (25 percent interest). Elsta is the first major private power project in the Netherlands.

Pursuant to a 20-year Power and Steam Sales Agreement commencing in September 1998, Dow Benelux purchases between 85 and 125MW of electrical capacity. Dow Benelux also purchases an average of 500 MT/hr of multi-pressure process steam energy and has dispatch rights on steam energy subject to minimum and maximum purchase obligations. Delta and PNEM Mega group have a 20 year Electrical Sales Agreement for Elsta to provide 305MW of electrical capacity to the grid. AES provides both the operation people and facility leadership for this business. As the plant's operator, AES is responsible for coordinating and approving the annual operations and maintenance plans, schedules and budgets to ensure the plant operates in a reliable and consistent manner. The Operation and Maintenance Agreement is structured as a cost plus fee based arrangement with modest bonus and penalty provisions designed to provide incentives to the operator to maximize the plant's availability and efficiency.

AES Fifoots Point – Wales

Fifoots Point is a 393MW coal-fired facility located in Newport, Wales. The plant is currently being refurbished, upgraded and environmentally improved. AES Fifoots Point is 100 percent owned by AES Electric, a subsidiary of AES.

AES purchased the site from a demolition contractor in January 1998, three years after it had ceased service. The plant is being comprehensively refurbished, capacity is being expanded, and emission control technology added to make it one of the cleanest coal-fired plants in the U.K. AES has entered into a $109 million turnkey EPC contract with a consortium consisting of General Electric International Inc and ABB Combustion Services Ltd for the refurbishment project, the first of its kind in the U.K. The power station is due to start commercial operations in 2000 and will sell all of its output into the Electricity Pool of England and Wales. Approximately 60 percent of the coal will be sourced locally under a 10-year hedged coal supply contract.

The total cost of the project is approximately $202 million. Non-recourse project financing has been arranged and underwritten by Deutsche Bank AG. AES Fifoots Point is the first coal-fired merchant plant in the U.K. to be project financed.

AES Indian Queens – England

Indian Queens Power Limited is a wholly-owned, 140MW oil-fired, simple cycle plant located in Cornwall, England, acquired by AES in 1997. The plant began commercial operation in October 1996 and has an average availability rate of 96 percent. Indian Queens has a broad-based reserve contract with the National Grid Company and also bids into the Electricity Pool of England and Wales. A flexible and multi-disciplined team of seven people operates the plant. Presently AES is engaged in two projects: first, to pipe natural gas to the site for dual fuel capability; second, to develop a small nearby wind energy project to offset emissions and on site power costs. The Company has an excellent safety record of over 1,200 days without a lost time accident. Indian Queens's environmental record is also strong with no exceedences for over two years.

Medway Power Limited– England

AES Medway Electric, an indirectly owned U.K. subsidiary of AES, and its joint venture partners, Scottish and Southern Electric plc and SEEBOARD plc, own and operate, Medway Power, a 688MW combined cycle gas-fired (distillate back up) power plant on the Isle of Grain in southeast England. Medway Power is owned 25 percent by AES Medway Electric and 37.5 percent each by subsidiaries of SSE and SEEBOARD.

AES Medway Operations Limited, an indirectly owned U.K. subsidiary of AES, managed the construction of the plant and operates and maintains the plant under an O&M Agreement with Medway Power Limited.

NIGEN – Northern Ireland

In 1991, the U.K. government announced that four power plants comprising all 2,260MW of the Northern Ireland Electricity System would be privatized and the remaining transmission and distribution company, Northern Ireland Electricity, Transmission, Distribution and Supply ("NIE TDS"), would be sold to the public through an offering of stock. In 1992, AES and Tractebel formed a joint venture called NIGEN to acquire two of the plants: Kilroot, a 10-year old 520MW coal- and oil-fired plant and Belfast West, a 45-year old 240MW stoker-fired coal plant. These two power plants provide approximately 40 percent of the generating capacity of Northern Ireland.

Kilroot and Belfast West plants have entered into dispatchable Power Sales Contracts, with NIE TDS through 2025 and 1998, respectively, with possible early cancellation in 2010 and 1996, respecitvely. Belfast West Power Purchase Agreements were modified in 1996 to allow two units with a combined 120MW of capacity to remain under contract through 2001. The Power Purchase Agreements provide for (i) capacity payments, based on actual availability at the respective plants and indexed to inflation and (ii) energy payments, indexed to the European coal index and calculated by applying a specified fuel rate to an assumed consumption of fuel for the electricity to be dispatched. Rebates of capacity payments are payable to NIE TDS for periods of unplanned repairs and maintenance, changes to availability with little or no notice and inflexibilities in operations. Availability payments are reduced for planned outages related to repairs and

maintenance. The contracts provide for capacity payments, which are heavily weighted toward the winter months (November through March).

NIGEN has also entered into two long-term Coal Supply Contracts, expected to last for the remaining operating life of the plants, with an affiliate of Tractebel. Either party may terminate the contracts upon six months written notice. Fuel cost increases are tied to the same indices as provided in the Power Sales Contract. Exchange rate risks are passed through to Tractebel.

In May 2000 AES announced that it had acquired 100% of Tractabel Power Ltd ("TPL") from Tractabel. TPL owns a 46% interest in NIGEN, which owns the Kilroot and Belfast West power stations. With this transaction, AES owns approximately 92% of NIGEN's common stock.

AES Phoenix – Hungary

AES Phoenix, a wholly owned subsidiary of AES, is currently developing a 190MW combine cycle gas turbine plant in Tiszaujvaros in Northern Hungary. The total cost of the project is expected to be approximately $110 million.

AES won the right to develop the project following a successful bid in the new capacity tender process administered by the Hungarian electricity utility, MVM, which began in 1997. Under the terms of a Letter of Intent signed with MVM last February, capacity and energy from the plant will be sold to MVM under a 15 or 20 year Power Sales Agreement.

Applications for the preliminary establishment license and the final environmental license are currently being prepared and are scheduled for submission in 2000. Fuel supply negotiations are ongoing and detailed Power Purchase Agreement discussions should commence later in the year. The plant is currently scheduled to go into construction in 2002 with commercial operation targeted for 2004.

AES Tisza – Hungary

AES acquired an 80.81 percent equity interest in Tiszai Eromu, Rt. for $110 million in August 1996. Subsequently, the Company increased its ownership by 15 percent for approximately $20 million to bring its total equity ownership to 95.81 percent. Thereafter, Tisza Eromu purchased further outstanding shares increasing AES ownership to 99.9 percent. Tisza is located in the northeast section of Hungary. The business is comprised of three thermal power plants that generally operate at a contract availability of over 99 percent amounting to 1,281MW and one associated deep coal mine, Lyukobanya. Tisza II, an 860MW multiple fuel (oil/natural gas) power plant, which represents the majority of the economics for AES, expects to operate at an average capacity factor of roughly 45 percent over the next decade. Tiszapalkonya is an older 250MW coal-fired power plant. Borsod is actually a separate company owned by Tisza. It is comprised of a 171MW coal-fired plant and the Lyukobanyo coal mine. The combined entities employ approximately 2,200 people. The power plant also provides heat to the local community. Lyukobanyo produces approximately 1 million tons of low quality coal annually. Tisza was acquired with 100 percent equity from AES. Tisza II is expected to provide the majority of economic value to AES.

Tisza sells electricity to Magyar Villamos Muvek (MVM) under three separate Power Sales Agreements. Tisza II operates under a contract that expires in stages with half the capacity falling away at the end of 2001. The contract for the remaining capacity expires on December 31, 2010. Over the past 18 months, AES has been successful in negotiating a new Power Sales Agreement with the MVM for Tisza II. This Agreement places the capacity under contract until 2018/2019 and requires the plant to undertake a rehabilitation and life extension program. This program will cause Tisza II to use low sulfur fuels, install environmental control equipment and undertake a general modernization. This retrofit program will cost approximately $140 million and be undertaken on a non-recourse project finance basis.

Tiszapalkonya operates under a contract that expires on December 31, 2000, but has been extended to December 31, 2003. Borsod, like Tiszapalkonya, operates under a contract that expires on December 31, 2001, but it will too be extended to December 31, 2003, as part of the new agreements.

The price paid by MVM includes both capacity payments and energy payments. The capacity and energy prices for Borsod and Tiszapalkonya are governed by an agreement that was put in place to extend their lives. The capacity payment for Tisza II is regulated until the Power Sales Agreement for the retrofit becomes effective. At that time the Tisza II capacity payment will be governed by formulas in the Power Sales Agreement. The price will be escalated with movements in the Hungarian domestic producer price index for industry adjusted for Euro to Hungarian Forint exchange rate fluctuations. Payments are made in Hungarian Forints. Energy payments are adjusted in line with movements in the natural gas price index and US dollar/HUF exchange rates applied to a basket of fuels. Fuel costs, however, are a pass-through reflected in the energy payments received, providing Tisza a natural hedge on its commodity risk.

The Tisza plants utilize various fuels (oil, natural gas and coal) supplied under an assumed agreement between the Hungarian Crude Oil and Gas Company Limited (MOL) and MVM, excluding coal purchases. Tisza will use this agreement to supply fuel to MVM until retrofit is completed when a new long-term Fuel Supply Agreement becomes operative. Coal, needed by Borsod, is primarily obtained from Lyukobanya. There are no long-term coal contracts with other mines to supply the excess coal needed but typically some coal from other local mines is burned to assist the government in implementing its energy policy.

Zeg – Poland

Zarnoweicka Elektrownia Gazowa (ZEG), an equal share joint venture between AES and Failure Analysis Associates, is developing a 250MW combined cycle gas turbine facility in northern Poland. In 1995 ZEG won the right to negotiate a Power Purchase Agreement for the output of the plant in a competitive tender to the national electricity utility. ZEG concluded a 20-year PPA in December 1998. ZEG is currently in negotiations with the state oil and gas company, PGNiG, for the supply of gas to the project. Financial close and construction commencement are scheduled for first half 2001 at which time AES will own 94.5 percent of the equity of ZEG. Commercial operation is scheduled for April 2003.

Africa

AES Bujagali – Uganda

AES Nile Power is a power project company formed to facilitate the development of a 200-250MW hydroelectric power plant at Bujagali on the River Nile in Uganda. AES has been active in developing this project since an MOU was signed with the Government of Uganda (GOU) in November 1994. The project will deliver electricity to the Uganda Electricity Board (UEB) under the terms of a 30-year Power Purchase Agreement signed in December 1999. In addition the GOU is committed, under the terms of the Implementation Agreement signed at the same time the PPA was signed, to guarantee the payment obligations of UEB.

The total project cost is estimated at $500 million. The project is expected to complete financing and move into the construction phase in the fourth quarter 2000. Following a 44-month construction period, the project is expected to commence commercial operation during the fourth quarter 2004. The World Bank Group along the Overseas Private Investment Corporation of the USA, the African Development Bank and Export Credit Agencies will be involved in financing the project.

Exhibit R: Latin American generation project list

Plant	Fuel	Capacity (MWS)	Location	AES Equity Interest (%)
San Nicolas	Multiple	650	Argentina	69
Rio Juramento (2 plants)	Hydro	112	Argentina	98
San Juan (2 plants)	Hydro/Gas	78	Argentina	98
Light (4 plants)	Hydro	788	Brazil	18
CEMIG (37 plants)	Hydro	5,668	Brazil	100
Los Mina	Oil	210	Dominican Republic	100
Quebrada de Ullum	Hydro	45	Argentina	100
EGE Bayano (2 plants)	Hydro	192	Panama	49
EGE Chiriqui	Hydro	90	Panama	49
Tieste (10 plants)	Hydro	2,650	Brazil	62

Exhibit S: Latin American distribution project list

Company	Customers	Total GWh Sold	Location	AES Equity Interest (%)
Light	2,800,00	19,981	Rio de Janeiro, Brazil	18
EDEN	270,000	3,572	Buenos Aires, Argentina	60
EDES	129,000	1,182	Buenos Aires, Argentina	60
CEMIG	4,680,000	32,179	Minas Gerais, Brazil	9
Sul	900,000	6,500	Rio Grande do Sul, Brazil	96
CLESA	206,000	530	Santa Ana, El Salvador	64
Eletropaulo	4,319,000	34,789	Sao Paulo, Brazil	10
EDELAP	506,000	2,000	Buenos Aires, Argentina	60
EDE ESTE	400,000	2,990	Dominican Republic	50

Exhibit T: Latin America project map

AES Andres – Dominican Republic

AES is developing a 300MW (nominal) combined cycle facility on Punto Caucedo, Dominican Republic. The plant will feature a MHI 501F combustion turbine and will be designed to be dual fuel capable, utilizing both natural gas and distillate oil #2. The 100 percent AES owned plant is expected to commence commercial operations by mid-2002.

AES Camille – Argentina

AES Camille is the holding company of EDELAP. EDELAP emerged from the break up of the former company Segba with a 5,700Km concession area that includes the cities of La Plata, Berisso, Ensenada, Punto Indio, Brandsen and Magdalena in the province of Buenos Aires. EDELAP distributes electric energy to 278,000 end users along 6,917Km of electric lines.

AES CLESA – El Salvador

In February 1998 AES acquired a 79.66 percent interest in the electricity distribution business AES CLESA for $96 million. Subsequent to this acquisition AES sold 20 percent of its interest to a partner, Energia Global International, Limited. AES CLESA serves approximately 206,000 customers across a service territory that borders Guatemala to the west and Honduras to the north. Santa Ana, El Salvador's second largest city, and the country's largest airport, Acajutla, are located within AES CLESA's service territory.

AES EDE Este – Dominican Republic

In August 1999, AES completed the acquisition of 50 percent of the shares of EDE Este for $110 million. EDE Este is an electricity distribution company serving approximately 400,000 customers in the eastern portion of the Dominican Republic. EDE Este serves the eastern half of the capital city, Santo Domingo, where AES's Los Mina generation facility is also located. Annual electricity sales are approximately 1,500 GWh with pricing fixed under an 8-year tariff structure, allowing EDE Este to realize any incremental cost savings.

AES Los Mina – Dominican Republic

The Los Mina Power Station is an oil-fired, simple-cycle facility located in Santo Domingo, Dominican Republic. The 210MW plant operates two Westinghouse 501 D5A simple-cycle combustion turbine generators on land adjacent to a government owned substation. Los Mina is the largest 100 percent privately owned generator on the island. As the supplier of power to the capital city of Santo Domingo, Los Mina is one of the most important plants in the country. The

facility burns No. 2 fuel oil that is piped to the plant from a nearby barge dock. The facility has been in operation since May 1996 and has maintained an availability of 85 percent to date. AES is currently under discussions with Corporacion Dominicana de Electricidad to provide additional capacity at the Los Mina facility.

AES Merida III – Mexico

A consortium consisting of AES, Nichimen Corporation, and Grupo Hermes, S.A. was selected in January 1997 by an agency of the Federal Government of the United Mexican States to develop, design, engineer, construct, equip, commission, start-up, operate and maintain a new 484MW combined-cycle, gas fired power generation facility.

The project is under construction in Felipe Carrillo Puerto Industrial Park, located southwest of the city of Merida, Yucatan, Mexico. The city of Merida is located 900 miles east of Mexico City, 200 miles southwest of Cancun. The project will consist of two conventional 501-F gas-fired turbines, two heat recovery steam generators and a single steam turbine, and certain other common facilities.

AES Ocean Springs – Argentina

AES Ocean Springs is the holding company that comprises Eden and Edes, two contiguous integrated electricity companies operating under 95-year concession contracts in their respective franchise areas. The companies serve approximately 410,000 customers in the province of Buenos Aires. Annual electricity sales to these customers are approximately 1,800 GWh. Pricing to these customers is fixed under a 15-year contract, which allows EDEN and EDES to retain any incremental cost savings. Together EDEN and EDES employ 1,000 people.

The company's distribution network is comprised of lines ranging from 220V to 66kV in tension with 9,220 substations which transform energy to lower tensions for connection to the majority of customers. The electrical distribution network comprises 20,006 kilometers of lines. The EDEN region has 15,355 kilometers of lines and the EDES region 4,651 kilometers of lines.

AES Panama – Panama

In January 1999, AES acquired 49 percent of two government-owned generation companies, Bayano and Chiriqui. The government of Panama retained a 49 percent interest with the remaining 2 percent available to be purchased by business people. AES has operating control through an administration contract. AES merged these companies to form AES Panama S.A. in October 1999.

AES Panama owns three hydroelectric plants: La Estrella (42MW) and Los Valles (48MW), operated together as the Chiriqui plant; the Bayano plant (150MW); and a gas turbine plant (37MW) which burns light distillate No. 2 fuel oil. AES Panama has an aggregate installed generating capacity of 277MW. As part of the acquisition, AES also acquired the rights to develop, construct and operate Project Esti, a new 132MW hydroelectric project.

AES Esti – Panama

AES Panama is in the late development stage of a new 120MW hydroelectric power plant in the Chriqui province of the Republic of Panama. AES has been active in developing this project since acquiring the rights to develop, construct and operate the Project ESTI from the Government of Panama in January 1999. AES has executed ten-year Electricity Power Purchase Agreements for the Esti project with two privately controlled distribution companies. AES is in the process of finalizing its EPC contract with the consortium ICA of Mexico and GE of Canada. The project is expected to commence commercial operations in the fourth quarter of 2003.

The total cost of the Esti project is estimated at approximately $300 million. The International Finance Corporation and EDC of Canada will be involved in financing the project.

AES Parana – Argentina

AES Parana, an 830MW net gas fired-combined cycle power plant, located adjacent to, and shares certain facilities with the CTSN power plant in San Nicolas, Argentina. The plant is owned 66 percent by AES and 33 percent by PSEG. In June 1999, the project attained financial close and notices to proceed were given to the contractors involved in building the plant, a privately owned transmission line and electrical interconnection to the national grid and a privately owned natural gas pipeline and interconnection facilities to a major gas transmission trunk. The plant is expected to enter commercial service in September 2001 as one of the most efficient thermal power generators in the country. The plant will sell its output directly into the Argentine spot market at prevailing prices. The long-term gas supply contract price is partially hedged against the electrical spot market price. Total capital costs are expected to be approximately $354 million.

Central Termica San Nicolás – Argentina

Central Termica San Nicolás is a 650MW coal, oil and gas-fired plant located in the city of San Nicolás, Argentina. Acquired by AES in May 1993 for approximately $161 million, San Nicolas is owned by a partnership comprised of AES, owning approximately 69 percent and operator of the plant, Public Service Electric and Gas and plant business people through a stock ownership plan.

San Nicolás is the sixth largest thermal plant in Argentina. The facility consists of five operational generating units, the largest of which is 350MW and can be fueled by either oil, coal, natural gas, and/or a blend of coal and petroleum coke. Of the remaining four 75MW units, two are currently fueled with natural gas, oil or coal and two are capable of being fueled with either oil or natural gas.

Pursuant to Electricity Power Sales Agreements (received as transference due to the privatization of Empresa Social de Energia de Buenos Aires S.A. (ESEBA)) with EDEN, EDES, EDEA and EDELAP and cooperative societies, San Nicolas is under contract for a total of 345MW of electricity (approximately 55 percent of the plant's output capability). ESEBA purchases 285MW, except during the month of April of each year when the amount purchased is 57MW. EDELAP purchases 60MW of electricity. Energy payments under the contracts are indexed to natural gas prices and escalate with U.S. inflation. Capacity payments are calculated on a take-if-delivered basis, with prices indexed to the U.S. wholesale price index. San Nicolas can generate contract capacity or purchase electricity on the spot market. Electricity not sold under the two power contracts may be sold in the Argentine spot market.

AES Sul – Brazil

In October 1997, AES purchased a 96 percent interest in Companhia Centro-Oeste de Distibuicao de Energia Eletrica, becoming AES Sul, a distribution company being privatized by Companhia Estadual de Energia Eletrica (CEEE).

AES Sul serves the central and western portion of the state. The concession area is 98,979Km (37 percent of CEEE concession area and 35 percent of the state), representing 113 municipalities with approximately three million inhabitants (31 percent of the state's population). The system consists of 28,648Km of distribution lines and serves 900,160 customers.

Customers of AES Sul are classified into five principal categories: industrial, residential, commercial, rural, and public sector. The percent of energy sold to each of the categories by AES Sul is approximately 49 percent industrial, 23 percent residential, 10 percent commercial, 11 percent rural, and 8 percent public sector. Within AES Sul's concession area, there are 36 large customers with contracted demand greater than 3MW, accounting for 29 percent of total energy sold.

AES Sul's location, the state of Rio Grande do Sul, borders Argentina which will make it easier for AES to integrate its Brazilian and Argentine operations. In addition, AES Sul, along with the other two distribution companies formerly part of CEEE, is the principal customer of AES Uruguaiana.

AES Uruguaiana – Brazil

In April 1997, Companhia Estadual de Energia Eletrica S.A. ("CEEE"), the electric distribution company for the state of Rio Grande do Sul, Brazil, selected AES Uruguaiana to build, own, and operate a 600MW gas-fired combined cycle power plant in the border city of Uruguaiana, State of Rio Grande do Sul, Brazil. AES Uruguaiana will use oil as a backup fuel only in emergencies. The total capital cost of the project is approximately $310 million and completion is expected in late 2000.

CEEE will purchase the electricity under a 20-year Electricity Power Purchase Agreement. AES Uruguaiana will receive both capacity and energy payments. The payments are intended to be in Reais, adjusted annually (or more often if so permitted by applicable laws and regulations). Capacity payments will be adjusted with a Brazilian inflation index called IGPM (closely linked to the U.S. Dollar) while energy payments will be adjusted for the cost of delivered natural gas under the Gas Supply Contract. Should the correlation between the IGPM and Real/U.S. Dollar exchange rate result in a greater than 5 percent deterioration in the project economics, the payments will be adjusted for this deviation.

CEMIG – Brazil

CEMIG provides approximately 92 percent of the electricity consumed in the State of Minas Gerais. The company is engaged in five principal businesses, most of which are heavily regulated. They include electric power generation, electric power transmission, electric power distribution, natural gas distribution (through its subsidiary, GEMIG), and international consulting services. CEMIG has an exclusive distribution concession in the State of Minas Gerais, covering roughly 216,216 square miles, or 96 percent of the state.

Customers of CEMIG are classified into five categories: industrial, (comprising mining, manufacturing and processing activities), residential, commercial (including service-oriented businesses, universities and hospitals), rural and others. Of the energy sold by CEMIG, approximately 60 percent is to large industrial customers, 20 percent to residential customers and 10 percent to commercial customers. CEMIG has entered into standard power sale contracts with approximately 1,100 of its industrial sector customers. The standard contract has a duration of three to five years and contains a minimum demand clause which requires that the customer pay for either contracted demand or, if greater, for actual energy consumed.

CEMIG transmits and distributes electricity, generated or purchased by it, to substantially all areas in the State of Minas Gerais. The Company's fully integrated system provides it an advantage in terms of planning and distributing electricity and maximizing the productivity and efficiency of its generation, transmission and distribution activities. The CEMIG distribution network is one of the largest of any company in Latin America measured by circuit length, with total distribution lines measuring approximately 159,675 miles. The operation of its distribution system provides it an advantage over less integrated electric companies as CEMIG can expand its capacity to serve additional customers within the distribution network with low incremental investment.

CEMIG presently owns and operates 38 power plants, of which 35 are hydroelectric and two are thermoelectric and one is eolic. Aggregate combined capacity of all the plants is 5,514MW. São Simão and Emborcação account for 52.6 percent of CEMIG's installed capacity. All other plants account for less than ten percent of installed capacity. The thermoelectric plants are used primarily to provide backup for the hydroelectric plants.

Infovias – Brazil

In September 1999 AES acquired a controlling 50 percent interest in Infovias, a company established to build a telecommunication transport network in the State of Minas Gerais, Brazil. The network will provide transport services to long distance and local telephone, television cable

and cellular companies, as well as large commercial customers. AES's total investment in Infovias is $118 million, including an equity investment of $57 million over 30 months.

Revenue for Infovias will come from two major sources. Approximately 30 percent will come from a signed contract with Minas Gerais Cable TV concessionaire, where in exchange for providing the access network, Infovias will receive 23 percent of the subscription revenue and 70 percent of the data, Internet and voice revenue. The bulk of the remaining revenue will be derived from carrier to carrier sales to local, long-distance and cellular companies looking for more network reliability. The assumption is Infovias will be able to capture about 25 percent of the transport market.

Construction of the Infovias transport network started in September 1999 and is scheduled to take 30 months to complete. Once finished the network will connect 17 cities with 2,300km of fiber optic long distance cable, as well as 3,800km of local access fiber and coaxial cable for ten cities.

Eletronet – Brazil

In August 1999 AES was announced the winning bidder to acquire a controlling 51 percent interest in Eletronet. The purchase price of approximately $155 million will be paid in installments over a four-year period. The purchase price will be contributed as paid-in-capital to Eletronet and will be used by the company to fund the expansion of its fiber optic network.

Eletronet was created in 1999 to construct a national broadband telecommunications network attached to the existing national electrical transmissions grid in Brazil. It also owns 5,000km of fiber optic cable attached to the transmission grid. Eletronet's network will eventually span approximately 12,000km in Brazil, serving each of the country's major population centers. Eletronet intends to sell transport capacity on its network by entering into contracts with regional and national long distance carriers.

Eletropaulo Metropolitana – Brazil

Eletropaulo Metropolitana emerged from the spin-off of Eletropaulo as the largest electrical energy distributor in Latin America. Eletropaulo Metropolitana was purchased at an auction in April 1998 by LIGHTGAS, a wholly owned subsidiary of Light Servicos de Eletricidade S.A. A consortium of three global energy companies including AES, Reliant Energy and EdF, and CSN, control the Light group. Eletropaulo Metropolitana presently serves approximately 4.4 million customer connections with a total consumption of roughly 35.2 TWh, fixed market. In aggregate the company serves 14 million customers with an above average purchasing potential relative to the rest of Brazil. Eletropaulo Metropolitana serves a concession area covering 4,526 square kms within the State of Sao Paulo, including the state capital. The concession area is considered the most developed economic region in Brazil with significant growth potential.

Eletropaulo Metropolitana possesses 129 distribution transformer stations with a total liquid installed capacity of 11,549MVA, seven distribution system stations with a total of 246MVA, 1,676kms of sub-transmission line circuits (138/88kV), a network of approximately 317,767kms of aerial conductors and 10,628kms of underground cables and 1,007,200 poles. This infrastructure is designed to serve a densely populated, highly demanding and dynamic market, featuring a diversified industrial complex, as well as commerce and services in continuous growth.

In January AES agreed to acquire 59% of the outstanding preferred (non-voting) shares of Eletropaulo representing 35.5% of its total capital. At that time AES owned, directly or indirectly, a 45.5% economic interest in Eletropaulo. In April 2000 AES announced it had launched a tender offer for all outstanding shares of Eletropaulo relating to its purchase of preferred shares of Eletropaulo in January 2000. The offer price for the shares is Reals 129.93 (approximately $72.18 at that time) per 1,000 shares, the same price paid by AES for the shares acquired in January and is to be paid in four annual installments commencing with a payment of 18.5% at closing.

Light – Brazil

AES acquired a 11.35 percent interest in Light Servicos de Electricidade S.A., a vertically integrated electric utility in the State of Rio de Janeiro, Brazil, in May 1996 as part of a consortium including AES, Electricite de France (EdF), Reliant Energy International, CSN, a Brazilian steel conglomerate and BNDES, a Brazilian governmental financial institution. The consortium acquired Light through an auction for an aggregate price of US$1.7 billion. Subsequently, in January 1997 and in June 1999, AES acquired 2.4 percent 3 percent of additional shares, respectively, in Light, raising AES's interest to slightly over 17.5 percent. In October 2000 AES and EdF announced that they had entered into an agreement to jointly acquire the 11.68 percent interest in Light owned by two subsidiaries of Reliant Energy for $430 million. After giving effect to the transaction AES will own 21.13% of Light. Under the shareholders agreement, AES co-manages the business through a control group and is principally responsible for electric generation and bulk power supply.

Light serves 70 percent of the state population in a service area that covers 25 percent of the state. Light employs approximately 7,000 business people and has roughly 2.8 million customers. Gross revenues are derived from residential customers, which account for approximately 40 percent of revenues, commercial customers (roughly 25 percent), industrial customers (25 percent), and other sales (10 percent). Light owns and operates four hydroelectric complexes totaling 778MW: Fontes Nova 144MW, Ilha dos Pombos 164MW, Nilo Pecanha 380MW, and Pereira Passos 100MW. These plants generate 16 percent of the electricity distributed by Light with the balance purchased from Furnas and Itaipu under long-term Electricity Power Purchase Contracts. These contracts differ in that the Itaipu contract specifies energy volumes in proportion to the total volumes that Light sells, while the Furnas contract allows for flexible volumes in response to the remaining need not met by Light's own plants or under the Itaipu contract.

Light's low voltage distribution system is susceptible to energy losses. Approximately 14 percent of Light's electricity is lost from either theft via illegal connections and meter tampering, or technical losses attributable to inefficient equipment. Recapturing these losses and reducing labor costs are a significant opportunity for AES and its partners to increase operating margins at Light.

Light has an extendable 30-year exclusive concession to distribute electricity in the territory it currently serves. Light's electricity rate increases will be capped, placing the benefit of cost reductions (and penalty of cost increases) with the shareholders, thereby providing incentive for operating Light more efficiently. As the exclusivity of the concession does not extend to customers that draw more than 3MW, there is a risk that some of these large customers will choose to disconnect from Light's system and secure an alternate source of power, either through self-generation or new power plants that are anticipated to be built in the region. This potential competition will motivate Light's operators to contain prices and to maintain high levels of system reliability.

Rio Juramento – Argentina

Hidroelectrica Rio Juramento (HRJ), located in the northwest of Argentina's Salta Province, 850 miles from Buenos Aires, was acquired by AES in November 1995 for $42 million. AES owns 98 percent of HRJ. The remaining 2 percent, which is owned by the governmnet, is marked for future transfer to an employee stock ownership plan. HRJ has two hydroelectric plants, Cabra Corral with 102MW and El Tunal with 11MW. Both plants are operated and maintained by only 14 people. HRJ is the only facility in the country with seasonal storage that is not centrally dispatched.

San Juan – Argentina

In March 1996, AES acquired through an indirect wholly-owned subsidiary a 98 percent interest in Hidrotermica San Juan (HTSJ), a 78MW electric generating company in San Juan, Argentina, for approximately $19.6 million. The 98 percent interest in HTSJ was sold by the Energy Secretariat of the Ministry of Economy and Public Works and Services of Argentina and Agua y Energia

Electrica Sociedad de Estado as part of the Argentine privatization program. The government retained the remaining 2 percent in HTSJ for future transfer to an employee stock ownership plan.

Located 630 miles west of Buenos Aires in the San Juan Province, Hidrotermica San Juan consists of two plants. The 45MW hydroelectric plant, Ullum, which consists of two 22.5MW operational generating units, and the 33MW thermal plant, Sarmiento, which consists of three 11MW operational generating units. HTSJ electrical output is sold in the Argentine spot market.

Tiete – Brazil

In November 1999, AES purchased a controlling interest in Tiete, a generating company in Brazil. AES paid US$486 million for 62 percent of the voting stock and 39 percent of the total capital of the company. US$183 million of the acquisition cost was financed by BNDES, the Brazilian development bank. The balance was funded by AES.

Tiete is a 2,650MW generation company with 10 operating hydroelectric plants along the Tiete, Pardo and Grade Rivers in the State of Sao Paulo, Brazil. It is located in the heart of the largest electrical load center in the country and currently has contracts to sell electricity to the major electric distribution companies, including Eletropaulo Metropolitana, which is controlled by AES and its consortium partners. The plants have an average age of 29 years and have been well maintained.

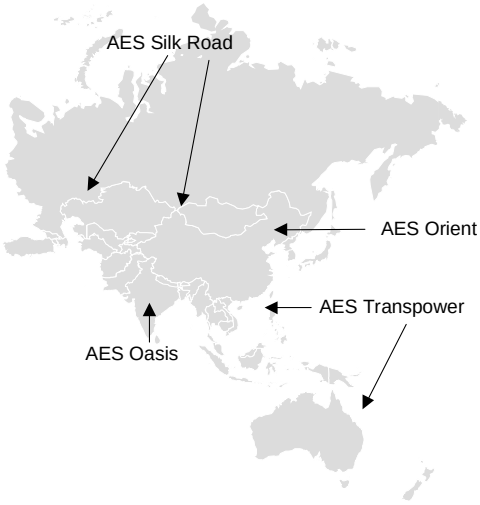
In April 2000 AES announced its intent to launch a tender offer to acquire all outstanding common and preferred shares of Tiete.

Asia/Pacific

Exhibit U: Asia/Pacific project list

Plant	Fuel	Capacity (MWS)	Location	AES Equity Interest (%)
Cili Misty Mountain	Hydro	26	China	51
Yangchun Sun Spring	Oil	15	China	25
Wuhu Grassy Lake	Coal	250	China	25
Ekibastuz	Coal	4,000	Kazakhstan	100
Chengdu Lotus City	Gas	48	China	35
Altai Power (6 plants)	Coal/Hydro	3,909	Kazakhstan	100
Hefei Prosperity Lake	Oil	115	China	70
Jiaozuo Aluminium Power	Coal	250	China	70
Lal Pir	Oil	351	Pakistan	90
Pak Gen	Oil	344	Pakistan	90
Aixi Heart River	Coal	50	China	70
OPGC	Thermal	420	India	49
Mt Stuart	Kerosene	288	Australia	100
Yarra	Gas	500	Victoria	100
Jeeralang	Gas	466	Australia	100

Exhibit U: Asia Pacific project map



AES Altai Power – Kazakhstan

In 1997, AES acquired ownership of four cogeneration plants and a 20-year concession over two hydroelectric plants on the Irtysh River in Eastern Kazakhstan. The combined business has an electric generation capacity of 1,400MW and a thermal capacity of 2,500, and provides employment for 2,400 people. The businesses have tremendous growth opportunity as during the time these facilities were operating in a difficult market with low collection rates and a depressed local industry. In 1998 AES Irtysh Power & Light acquired management control of Ust-Kamenogorsk HeatNets system to obtain direct access to final customers.

Following negotiations with the Government of Kazakhstan, a long-term management agreement was secured giving AES control of two regional distribution companies, East Kazakhstan REC and Semipalatensk REC. This control provides a reliable customer base for the generation assets and enables direct control of end-user collections for the group's production.

Following is a brief survey of each entity:

AES Irtysh Power & Light

In September 1997 AES established Irtysh Power & Light (IP&L) LLP that now operates as one of the Altai Power group of companies in Ust-Kamenogorsk.

In February 1998 IP&L assumed management rights of the Ust-Kamenogorsk Heat Networks JSC (UK Heat Nets), a primary heat and hot water distribution company. In July of 1998 IP&L also assumed management rights of the Vostokteploenergo and Metallurgzhilservice, non-privatized government entities being secondary heat/hot water distribution networks. On a combined basis these distribution companies span a total length of 327km. The network has pipes with diameters ranging from 80 mm to 800 mm. Additionally it has 26 boilers with a general capacity of 375 Gcal per hour that are capable of generating up to 395,000 Gcal per year. With this network, the REC transports 1,994,000 Gcal per year from the Ust-Kamenogorsk Power Station to 89,000 residential and 2,000 commercial customers. These networks are also entitled to collect all customer payments. At present, the network organization employs approximately 1,000 business people. All three above networks will be soon integrated thereby eliminating the duplicate organizations and combining their resources to operate more efficiently.

AES Semipalatinsk TETS

AES Semipalatinsk is one of the oldest operating plants in Kazakhstan. Semipalatinsk is a city of approximately 300,000 people through the center of which the Irytish River flows. Semipalatinsk came into the AES family in October 1997 and since then has invested in the completion of a 12MW turbine as well as advancing the completion of a new chemical water treatment plant. Through two very successful severance programs, the number of people at the plant has been significantly reduced from approximately 1,200 in 1997 to 350. Semipalatinsk supplies heat, hot water and steam to residential, commercial and industrial customers as well as supplying 15MW to Semey REC. The TETS actually consists of four plants, two on the left bank of the river, one on the right bank and one beside AES Shulbinsk GES in the town of Shulbinsk 50km away.

AES Shulbinsk GES

The Shulbinsk plant is located on the Irtysh river, 60km upstream from the city of Semipalatinsk and downstream of the Ust-Kamenogorsk plant. Shulbinsk currently employs a total of 146 people. Construction of the plant began in 1976. The first turbine was commissioned in December 1987. The second, third and fourth units were started in 1988-89. The fifth and sixth units were started in 1990 and 1996, respectively. Total generating capacity is 702MW.

The reservoir was flooded in 1988 although construction of the concrete dam and earth dam was not completed until 1990. The reservoir covers an area of about 250 sq.km and has a total volume of 2.6 billion m^3, with a working capacity of 1.8 billion m^3. Natural summer flow is about 600 m3/second. Month capacity factor of a unit at Shulbinsk hydro is about 22-25 percent. Only during the flood period in April and May is the unit's capacity factor about 100 percent. Annually Shulbinsk generates about 1,400 mln KW/h. All power generated at the plant is purchased by AES Kazakhstan company, which has a PPA with Shulbinsk.

AES took management control over Shulbinsk on concession terms in October 1997 for 20 years and has a right to prolong the concession for 10 more years if desired. When the Shulbinsk hydro management control was given to AES, the construction program including completing the station's construction, modernizing the equipment, and constructing the block, became the company's obligation. AES performed significant work on the project and in December 1999 completed construction of the earth dam. Investments are planned to finish construction under EBRD funding. Construction of the plant is planned to be fully complete by 2003. The original design concept envisioned a second stage expansion of the reservoir which would approximately double its present size to 1,380MW.

AES Sogrinsk TETS

AES Sogrinsk TETS, LLP (Sogrinsk) is situated in a village approximately 20 kilometers outside Ust-Kamenogorsk, located in the northeast section of the Republic of Kazakhstan, and provides the south-east region of Ust-Kamenogorsk with heat, hot water, and electricity. The plant is 100 percent owned by AES. The station was originally designed to supply electric power to the Titanium/Magnesium producing plant (TMK) in the Novaya Sogra settlement. Construction started in 1956 using prefabricated reinforced concrete for the first time in Kazakhstan.

Sogrinsk is a coal-fired CHP station, which is considered a monopoly for heat produced, thus is regulated. The tariff mechanism used is merely a cost recovery system with no profit margin recovered. However, the electricity market was recently deregulated and Sogrinsk competes for customers forming direct bilateral contracts with industrial customers like TMK or sales electrical power through AES's sales entity AES Kazakhstan. Sogrinsk finds it difficult competing in eastern Kazakhstan's overcapacity market because AES owns and operates two hydroelectric stations in the same market. However, Sogrinsk does have the best solvent industrial paying customer in the region which pays 100 percent in cash and has a collection rate of greater than 90 percent from the local residential customers, many times higher than most stations in Kazakhstan.

At present, the station has an installed thermal capacity of approximately 366MW and 50MW of electrical capacity. Sogrinsk is improving the design of the ash hoppers, and constructing a second ash dump both tasks when complete will help to reduce environmental pollution. Hot water and steam (heat) is supplied to approximately 4,000 domestic residential customers along with some large industrial customers.

After completing two successful severance programs, Sogrinsk has reduced the original number of people, from over 400 to the currently employed 230 business people (inclusive of some seasonal fuel unloaders).

Ust-Kamenogorsk TETS

AES Ust-Kamenogorsk TETS is a combined heat and electricity plant. The first two 4MW turbines and the two 19MW boilers were put into operation in 1947. The plant now has 9 boilers and 8 turbines generating installed capacity of 242MW (electric) and 1,050 Gkal/h (thermal). Ust-Kamenogorsk is coal-fired with heavy fuel oil used to start blocks. The boilers were designed to burn Kuznetsk coals mined in Russia but have been modified to burn Kazakhstani coal. Today the plant is a unique and complicated set-up with the intercrossed structure including middle-pressing units – four boilers and five turbines and high-pressure units, i.e. five boilers and three turbines. All of the turbines are of different types and functions.

The Ust-Kamenogorsk plant supplies heat to the majority of the region's residents. In addition, the numerous industrial plants in the area are supplied by hot water and steam produced by the plant. Despite its age, the plant operates in a safe and reliable way. Ust-Kamenogorsk's efficiency rate is high, approaching 80 percent. The total fuel rate of the plant is a comparatively low 4,530 btu/kWh. Over the past two years, the facility has undergone a significant upgrading. A new control system for collection and processing information from the boilers and turbines were put into operation in addition to a new coal tipper and hot water pump station. The construction of a new ash pond is planned shortly to reduce water and air pollution in the region.

Ust-Kamenogorsk GES LLP

AES Ust-Kamenogorsk GES is also located on the Irytsh River in Eastern Kazakhstan. The facility is the second hydroelectric facility in the river cascade, which consists of three separate plants: Bukhtarma GES (owned by Kazzink), AES UK GES, and AES Shulba GES. The facility serves as a counter-regulator for the Bukhtarma plant and balances weekly-daily water regime. The plant was constructed in 1939 but suspended from operating during the war. Unit 1 of the facility was started in 1952, followed by three additional operating units during the succeeding seven years. Installed capacity of the facility is 332MW with water head of 39.8 million. The facility employs 101 people.

The unique complex of AES UK GES consists of the concrete dam 395km long, the generating building with four units and a separately owned navigating lock. The capacity of the reservoir is 655mln m^3. Electricity is dispatched along nine transmission lines of 100kV. AES Kazakhstan LLP is the plant's wholesale customer.

East Kazakhstan and Semipalatensk RECs

In June 1999, AES signed an MOU with the Republic of Kazakhstan, whereby AES assumed management control of two regional electricity distribution companies (RECs) in East Kazakhstan. The two RECs, East Kazakhstan REC and its affiliate, Semey REC, serve an area of 283,300 square km and deliver electricity through 45,778km of distribution lines to 1.5 million people in the region.

East Kazakhstan REC has approximately 291,000 customers and employs 2,055 people. Customers of East Kazakhstan REC fall into four main categories: residential, industrial, commercial and others (including budget, non-profit organizations and rural customers). Of the

energy sold by East Kazakhstand REC, 38.5 percent is to residential customers, 34.7 percent to industrial customers, 6.9 percent to commercial customers and the remainder to others.

Semey REC employs 1,149 people and delivers electricity to 178,513 customers. The sales structure of Semey REC is comprised of residential customers, accounting for approximately 34 percent of sales, industrial, 37 percent, commercial, 7 percent and the remainder to others.

Ekibastuz – Kazakhstan

AES Ekibastuz is a 4,000MW mine-mouth coal-fired power plant located in Ekibastuz, Kazakhstan. The plant is 100 percent owned by AES. It was purchased in August 1996 from the Republic of Kazakhstan.

The plant is comprised of eight 500MW turbines, four of which were manufactured in Kharkov and four in St. Petersburg. Construction on the facility began in 1979 and the last block was installed in 1984. The boilers are supercritical in design, with output steam at 540C and 240 bars. Coal from an open pit mine located 25kms from the station is burned, and heavy fuel oil is used to start blocks and as a reserve fuel. The plant possesses its own substation through which it is connected by 220kV and 500kV lines to the Kazakhstani power grid and by 500kV lines to the Russian power grid. Due to chronic lack of maintenance before the AES acquisition, the plant can now reliably produce only between 1,000MW and 1,500MW of power. Investments are being made to improve the actual capacity of the station. Currently AES Ekibastuz has contracts for roughly 350MW of power with industrial consumers and distribution companies, and is therefore operating at 350MW as a large merchant plant competing for direct sales in the Kazakhstani power market. The plant plans to increase the amount of power sold. Opportunities exist to export to the Russian grid as well, given the negotiation of a mutually satisfactory power purchase contract.

AES Leninogorsk TETS – Kazakhstan

Leninogorsk CHP was acquired in October 1997 as part of the Altai acquisition. The station supplies over 90 percent of the hot water and 25-30 percent of the electricity used by the 70,000 residents of Leninogorsk. The facility began operating in July 1956 with approximately 64MW (CHP) and since then through various expansion projects has now reached an installed thermal capacity of 403.9MW and 35MW of electric capacity. The station supplies not only domestic customers with thermal energy, but also has a number of large industrial customers. The main customer is OJSC Kazzinc which purchases 50 percent of the heat generated. AES's future plans include effecting repairs on heat networks (both main lines and quarter nets) and equipment in the short term, and installing three 12MW turbines if there is sufficient demand. To increase the reliability of heat and electricity supply, AES has invested almost $6 million since October 1997.

AES Chongqing Nanchuan - Aixi

The Aixi Heart River power plant is a 50MW coal-fired circulating fluidized bed power plant located in Nanchuan, Chongqing Municipality. Construction of the power plant commenced in February 1996 and commercial operation begin in December 1998. Aixi owns the Aixi Heart River power plant, a 25-year cooperative joint venture formed by Chongqing Nanchuan Banxi Colliery and a wholly owned subsidiary of the company. The company appoints three of the five members of the board of directors as well as the chairman, the general manager and financial controller.

Chengdu Lotus City

The Chengdu Lotus City power plant is a 2 x 24MW natural gas-fired power plant located in Chengdu, Sichuan Province. Construction of the power plant commenced in September 1996 and the facility is now operational. Chengdu AES-Kaihu, a 16-year cooperative joint venture formed by AES, HUAXI ELECTRIC POWER SHAREHOLDING COMPANY LTD., Huachuan Petrolum & Natural Gas Exploration and Development Company and CAREC, owns the Chengdu Lotus City power plant. AES is entitled to appoint three members of the nine-member board of directors of Chengdu AES-Kaihua and the general manager.

Cili Misty Mountain AES Xiangci

The Cili Misty Mountain power plant, located in Cili County, Hunan Province, consists of 8 0.65MW hydroelectric generating units (A Station), a 10.5MW hydroelectric generating unit (Unit 1 of B Station) and the other hydroelectric generating unit of 10.5MW (Unit 2 of B Station). A Station, the original power plant, has been in commercial operation since 1979. Unit 1 of B Station went into commercial operation in May 1996. Unit 2 of B Station commenced commercial operation in March 1997.

The Cili Misty Mountain power plant is owned by Xiangci-AES, a 25-year joint venture formed by Hunan Cili Electric Power Company and the company. The company appoints three of the five members of the joint venture's board of directors, and appoints the general manager and the chief financial officer.

Hefei Prosperity Lake

The Hefei Prosperity Lake power plant is an oil-fired combined cycle power plant consisting of 2 x 38.2MW gas turbines generating units and a 1 x 38.8MW heat recovery steam turbine generating unit. It is located within the boundaries of an existing 325MW coal fired power plant in Hefei, Anhui Province. The gas turbine unit commenced commercial operation in August 1997 and the steam turbine unit commenced commercial operation in December 1998.

The Hefei Prosperity Lake power plant is owned by Liyuan-AES and Zhongli Energy, two 16-year cooperative joint ventures formed among a wholly owned subsidiary of AES, Hefei Municipal Construction and Investment Company and Anhui Liyuan. In accordance with the joint venture contracts, AES is entitled to appoint four of the seven members of the board of directors and the general manager of each of the joint ventures.

Jiaozou Aluminum Power

A 2 x 125MW coal-fired power plant located adjacent to the Jiaozou Aluminum Mill aluminum production mill in DaiWang Town, Henan Province. Construction of the power plant commenced in the first quarter of 1995. The first unit of the power plant commenced commercial operation in the third quarter of 1997 and the second unit in the third quarter of 1998.

The Jiaozou Aluminum Power power plant is owned by Jiaozou AES Wan Fang, a 23-year cooperative joint venture formed by Jiaozou Mill and a wholly-owned subsidiary of the company, Jiaozuo Power Partners, L.P. Pursuant to the joint venture contract, the company is entitled to recover its registered capital (equity) during the term of the joint venture. The Company, as the majority shareholder of Jiaozou AES Wan Fang Power Company Ltd, is entitled to appoint four of the six members of the board of directors of the joint venture, including the chairman of the board and the general manager. Pursuant to a co-development agreement, an entity unaffiliated with the company is entitled to no more than ten percent of the Company's equity distributions from Jiaozou AES Wan Fang Power Company Ltd.

Wuhu Grassy Lake

The Wuhu Grassy Lake power plant is a 2 x 125MW coal-fired power plant located near Wuhu, Anhui Province. It is the phase IV expansion of an existing 325MW coal-fired power station. Both units of the power plant have commenced commercial operations.

Wuhu Shaoda owns the Wuhu Grassy Lake power plant, a 20-year equity joint venture formed by China Power International Holdings Limited, Anhui Liyuan Electric Power Development Company Limited, Wuhu Energy Development Company Limited and a wholly owned subsidiary of AES. The board of directors of Wuhu Shaoda consists of nine directors, of which two are appointed by AES. The company also appoints one of the two vice chairmen and the deputy general manager responsible for supervising the operation and maintenance of the power plant.

In 1999, the plant received the National Citation for being a Model Plant, meeting all criteria set by the Ministry of Power Industry.

Yangcheng International Power Generating Company Limited

The Yangcheng International Power Generating Company Limited power plant is a 6 X 350MW coal-fired mine-mouth power plant located in the Yangcheng Shanxi Province. Construction of the power plant commenced in the second quarter of 1997. The project is being constructed over a 60-month period by the Shanxi Provincial Power Company under a fixed-price, fixed schedule turnkey contract. The 20-year joint venture formed in October 1996 among six companies of which AES China Corporation, a subsidiary of AES China Generating Company, Ltd., has a 25 percent ownership interest. AES China Corporation has committed to put $98 million of equity into the project.

Yangchun Sun Spring

The Yangchun Sun Spring power plant, located in Yangchun, Guangdong Province, consists of one existing 8.6MW diesel engine generating facility which was constructed prior to the Company's involvement, and another 6.5MW Stork-Wartsila diesel engine generating facility which commenced commercial operation in April 1996.

Yangchun Fuyang, a 12-year cooperative joint venture formed by Yangchun Municipal Power Supply, Shenzhen Futian Gas Turbine Power Co., Ltd. and a wholly owned subsidiary of AES own Yangchun Sun Spring. AES has the right to appoint one of the four members of the board of directors of the Joint Venture.

AES Haripur and AES Megnhaghat – Bangladesh

AES is currently in the process of constructing two natural gas-fired power plants in Bangladesh: AES Haripur and AES Meghnaghat. The combined new production capacity of 810MW will represent over 25 percent of Bangladesh's power supply. In addition, the Haripur and Meghnaghat projects together constitute the largest private direct investment in Bangladesh.

AES Haripur is a 360MW combined cycle gas turbine facility located approximately 25km southeast of Dhaka, the capital of Bangladesh. The plant will utilize a M111 701F gas turbine and a Fuji steam turbine. The plant is currently under construction with an expected commercial operation date in the third quarter of 2001.

AES Meghnaghat is a 450MW combined cycle gas turbine facility located approximately 35km southeast of Dhaka. The plant will utilize two Ansaldo V94.2 gas turbines and a steam turbine. The plant will soon begin construction with an expected commercial operation date in the 4th quarter 2001.

Both facilities are under contract to sell power to Bangladesh Power Development Board for a term of 22 years. The plants will be constructed to be in compliance with World Bank and Bangladesh Environmental Standards. The facilities will provide Bangladesh clean and reliable low-cost electricity to contribute to the nation's development.

Ib Valley – India

A project subsidiary of the Company, AES Ib Valley Corporation, is developing a 452MW (net) plant in the State of Orissa, India. The Grid Corporation of Orissa (Gridco) has agreed to purchase at least 85 percent of the capacity of the facility through a 30-year power sales contract. Gridco's obligations are guaranteed by the Government of Orissa, a portion of which the Government of India has guaranteed. The project contracts and approvals are currently being modified as a result of a reconfiguration agreed to between the Government of Orissa and AES Ib Valley in an effort to reduce the electricity tariff. Financial closure is expected by late 2000. Fuel for the project will be provided through a contract with Mahanadi Coalfields Ltd., a subsidiary of Coal India Ltd. Of the total estimated project cost of $560 million, it is expected that $390 million will be provided by the

ECA's, foreign commercial banks and All-India Financial Institutions. AES expects to contribute the balance of $170 million as equity to the project.

AES Kelanitissa – Sri Lanka

In December 1998, AES Kelanitissa, a subsidiary of the AES Corporation, was awarded a Letter of Intent for developing a 165MW diesel fuel based combined cycle power project in Colombo, Sri Lanka after an international competitive process. The project is in advanced stage of development. Major permits and concessions have been obtained and the project agreements slated for signing in February 2000. The project is expected to achieve financial closure in the third quarter 2000 and to commence commercial operation in open cycle by 2001. Combining cycle operation is expected to commence in 2002.

Lal Pir and Pak Gen – Pakistan

AES has a 90 percent interest in both Lal Pir and in Pak Gen. Lal Pir is a 337MW oil-fired power plant developed, owned and operated by AES that began commercial operations in November 1997. Pak Gen is a slightly large oil-fired plant of 351MW that came into commercial operation just after Lal Pir. Pak Gen has a FGD unit to mitigate sulphur emissions from the plant, which is the first of its kind in Pakistan. AES has also started a forestation program at a rate of 10 acres perMW to offset carbon dioxide emission. AES is planting 250 acres per year with Eucalyptus trees at a rate of 765 trees per acre.

Under a 30-year agreement, Pakistan Water and Development Authority (WAPDA), the state-owned utility, purchases electricity from the Lal Pir and Pak Gen facilities. The agreement indexes the rupee to the U.S. dollar and Japanese yen in proportion to the currencies comprising the capital structure of the project to protect the cash flows from currency fluctuations and devaluations. Implementation Agreements guarantee currency convertibility and the payment obligations of WAPDA and the fuel supplier. Under a 30-year fuel supply agreement Pakistan State Oil supplies heavy fuel oil by tank lorries and trains to fuel the plants.

AES Mt. Stuart – Australia

AES Mt. Stuart, solely owned by AES, is a 288MW power station at Townsville, North Queensland. The facility consists of two open-cycle Mitsubishi Heavy Industries 701D gas turbines. Output from the facility is delivered to the Queensland Grid via a double circuit 132kV transmission line to the Townsville South Switchyard. Mt. Stuart began commercial operations in January 1999 under a 10-year Power Purchase Agreement with the Queensland Power Trading Corporation, a government entity. The facility operates as a peaking station and expects to operate for approximately 3 percent to 5 percent of the year.

AES Yarra and AES Jeeralang (Ecogen) – Australia

In May 1999, AES acquired two gas-fired power stations in Australia for A$350 million. The two power stations, Yarra and Jeeralang, have a total installed capacity of 966MW. As the only gas-fired plants in Victoria, they provide peaking capacity for the National Electricity Market.

The Yarra plant is located on the West Bank of the River Yarra approximately 7km south west of Melbourne. The station has one 500MW gas/oil generating unit of a site of approximately 23 acres. The Yeeralang Plant is located in the Latrobe Valley approximately 160km from Melbourne. The station consists of 4 Siemens V93.1 and 3 General Electric MS9001b gas turbines. In addition three diesel generators provide a black start service. Both plants trade as Ecogen Energy and have a twenty year hedged agreement.

CESCO – India

In September 1999, AES purchased 51 percent of the Central Electricity Supply Company of Orissa Limited (CESCO) through a limited holding company in which AES has a 95 percent interest. A five percent interest is held by a local Indian partner. CESCO serves the eastern and central parts of Orissa, including the communities of Bhubaneshwar, Puri, Dhenkanal and

Paradeep. It supplies electricity to more than 600,000 customers in an area with a population of 10,000,000. CESCO has a total network of 28,300km and an average load demand of 450MW.

Garbadani – Republic of Georgia

In December 1999, AES signed agreements to purchase three power stations in the Republic of Georgia. Two of these are storage hydroelectric stations, Khrami I with 113MW and Khrami II with 110MW. These stations are approximately two hours drive from Tbilisi and are fully contracted to AES Telasi. AES completed the purchase of these stations on January 6, 2000. The stations are approximately forty years old and require some rehabilitation. Khrami I will be funded mostly by cash flow and will cost approximately $8 million over the next ten years. Khrami II has signed and EPC contract with Ansaldo for approximately $23 million, funding for this is committed and will come from OECD through an on-lending arrangement in Georgia.

The third station consists of Units 9 and 10 of the large thermal station, Gardabani, which is 15km from Tbilisi. The two units are 300MW gas and oil-fired supercritical units and form part of a larger station. The old units at the station are expected to close within the next three years and hence AES did not wish to acquire them. The AES units will sell one-third of their output under a twenty-year PPA to AES Telasi. The remainder of the output will be sold into the Georgian Wholesale Energy Market. Under this second agreement AES will have significant export rights over Electricity Power Purchase to Turkey.

OPGC – India

In 1998, AES participated in the first government privatisation of an electric generation business in India. AES, through two wholly owned subsidiaries, acquired a 49 percent stake in Orissa Power Generation Corporation (OPGC), a government of Orissa undertaking. The Government of Orissa owns the remaining 51 percent of OPGC. The most significant asset of OPGC is a 2 x 210MW coal-fired facility, located at Ib Valley, in the eastern state of Orissa. The facility is considered to be mine-mouth, and has a 30-year PPA with the Government Electric Distribution Company.

Leadership profiles

Dennis W. Bakke, 54 years old, co-founded AES with Roger Sant in 1981 and has been a director of AES since 1986. He has been President of AES since 1987 and Chief Executive Officer since January 1994. From 1987 to 1993, he served as Chief Operating Officer of AES, from 1982 to 1986, he served as Executive Vice President of AES, and from 1985 to 1986 he also served as Treasurer of AES. He served with Mr. Sant as Deputy Assistant Administrator of the Federal Energy Agency ("FEA") from 1974 to 1976 and as Deputy Director of the Energy Productivity Center, an energy research organization affiliated with The Mellon Institute at Carnegie-Mellon University, from 1978 to 1981. He is a trustee of Rivendell School and a member of the Board of Directors of MacroSonix Corporation in Richmond, Virginia.

Mark S. Fitzpatrick, 49 years old, was appointed Executive Vice President in February 2000, was Senior Vice President until February 2000, and was appointed Vice President of AES in 1987. Mr. Fitzpatrick became Managing Director of Applied Energy Services Electric Limited for the United Kingdom and Western Europe operations in 1990. From 1984 to 1987, he served as a project director of the AES Beaver Valley and AES Thames projects.

Paul T. Hanrahan, 42 years old, has been a Senior Vice President since 1997, and was appointed Vice President of AES effective January 1994. Since May 1, 1998, Mr. Hanrahan has been Managing Director of AES Americas South, a business group within AES responsible for all of AES's activities in Argentina, Paraguay, Southern Brazil, Peru and Chile. From February 1995 until becoming Managing Director of AES Americas South, he was President and Chief Executive Officer of AES Chigen, where he served as Executive Vice President, Chief Operating Officer and

Secretary from December 1993 until February 1995. He was General Manager of AES Transpower, Inc., a subsidiary of AES, from 1990 to 1993.

Lenny M. Lee, 41 years old, was appointed Vice President in February 2000 and has served as Managing Director of AES Transpower since June 1998. As Managing Director of AES Transpower, Mr. Lee leads the AES group responsible for all of AES's business, including project development and plant operations, in Australia, New Zealand, portions of Southeast Asia (Thailand, Indonesia, Malaysia and Vietnam) Hawaii and Southern China. Prior to his appointment, Mr. Lee developed various projects within the same group. Mr. Lee has been with the Company since August 1987.

William R. Luraschi, 36 years old, has been Vice President of AES since January 1998, Secretary since February 1996 and General Counsel of AES since January 1994. Prior to that, Mr. Luraschi was an attorney with the law firm of Chadbourne & Parke L.L.P.

David G. McMillen, 61 years old, was named Vice President of the Company in December 1991. He was appointed President of AES Shady Point in 1995 and is currently plant manager of the AES Shady Point facility. He was President of AES Thames from 1989 to 1995. From 1985 to 1988, he served as plant manager of the AES Beaver Valley plant and from 1986 to 1988 he served as President of AES Beaver Valley.

Dr. Roger F. Naill, 52 years old, has been Vice President for Planning at AES since 1981. Prior to joining AES, Dr. Naill was Director of the Office of Analytical Services at the U.S. Department of Energy.

Shahzad S. Qasirn, 45 years old, was appointed Vice President of the Company in February 2000 and has served as Managing Director of AES Oasis since April 1998. As Managing Director of AES Oasis, Mr. Qasim leads the AES group responsible for all of AES's business, including project development and plant operations, in Pakistan, India, portions of South Asia and the Middle East. Prior to his appointment, Mr. Qasim had been developing various projects within the same geographical region for the Company. Mr. Qasirn has been with the Company since November 1992; before he joined the Company Mr. Qasim was with the international management consulting firm of McKinsey & Company.

William Ruccius, 48 years old, was appointed Vice President of the Company in February 2000 and has served as Managing Director of AES Orient since June 1998. As Managing Director of AES Orient, Mr. Ruccius leads the AES group responsible for all of AES's business, including project development and plant operations, in Northern China and most of North and East Asia including the Philippines. From June 1996 until his appointment as Managing Director, he was President and CEO of AES Lal Pir and AES Pak Gen, the Company's duel Pakistani generating facilities. Prior to that Mr. Ruccius was Plant Manager at AES Hawaii from April 1995 to June 1996 and worked at AES Deepwater from June 1993 to April 1995.

John Ruggirello, 49 years old, was appointed Executive Vice President of the Registrant in February 2000, was Senior Vice President until February 2000 and was appointed Vice President in January 1997. Mr. Ruggirello heads an AES group responsible for project development, construction and plant operations in much of the United States and Canada. He served as President of AES Beaver Valley from 1990 to 1996.

J. Stuart Ryan, 41 years old, was appointed Executive Vice President of AES in February 2000, was Senior Vice President until February 2000 and is Managing Director of the AES Pacific group

which is responsible for the Company's business in the western United States. Between 1994 and 1998, Mr. Ryan lead the AES Transpower group responsible for AES's activities in Asia (excluding China). From 1994 through 1997, he served as Vice President of AES. Prior to 1994, Mr. Ryan served as general manager of a group within AES.

Roger W. Sant, 68 years old, co-founded the Company with Dennis Bakke in 1981. He has been Chairman of the Board and a director of AES since its inception, and he held the office of Chief Executive Officer through December 31, 1993. He currently is Chairman of the Boards of Directors of The Summit Foundation and The World Wildlife Fund U.S., and serves on the Boards of Directors of The World Resources Institute, the World Wide Fund for Nature and Marriott International, Inc. He was Assistant Administrator for Energy Conservation and the Environment of the Federal Energy Agency from 1974 to 1976 and the Director of the Energy Productivity Center, an energy research organization affiliated with The Mellon Institute at Carnegie-Mellon University, from 1977 to 1981.

Barry J. Sharp, 40 years old, was appointed Senior Vice President and Chief Financial Officer effective January 1998 and had been Vice President and Chief Financial Officer since 1987. He also served as Secretary of AES until February 1996. From 1986 to 1987, he served as the Company's Director of Finance and Administration. Mr. Sharp is a certified public accountant.

Sarah Slusser, 37 years old, was appointed Vice President of AES in January 1999, and was appointed President of AES Aurora, Inc., effective April 1997. AES Aurora is a wholly owned subsidiary of the Company and a group of AES which is responsible for business development, construction and operations of facilities and projects in Mexico, Central America, the Caribbean and the Gulf States in the United States. Prior to that, Ms. Slusser served as Project Director for various AES projects in the same region from 1993 to 1997.

Paul D. Stinson, 43 years old, was appointed Vice President of AES effective January 1998. Since April 1997 Mr. Stinson has been Managing Director of AES Silk Road, Ltd., a wholly owned subsidiary of the Company, which is a group of AES responsible for business development, construction and operations of facilities and projects in Russia, Kazakhstan, Pakistan and other parts of Asia. Mr. Stinson served as Managing Director of Medway Power Ltd. from 1994 until 1997 and was Plant Manager of the Medway Power Station owned by Medway Power Ltd. from 1992 to 1997.

Thomas A. Tribone, 47 years old, Executive Vice President since January 1998, and had been Senior Vice President of AES from 1990 to January 1998. Mr.
Tribone and leads AES Americas, a group responsible for power marketing, project development, construction and plant operations in northern portions of South America including much of Brazil. From 1987 to 1990 he served as Vice President for project development and from 1985 to 1987 he served as project director of the AES Shady Point plant.

Kenneth R. Woodcock, 56 years old, has been Senior Vice President of AES since 1987. Mr. Woodcock is responsible for coordinating AES' relationships with the investment community, and he provides support for AES business development activities worldwide. From 1984 to 1987, he served as a Vice President for Business Development. Prior to the founding of AES he served in the United States federal government in energy and environment departments.

APPENDIX A – AES SUL QUARTERLY INFORMATION REPORT AS OF SEPTEMBER 30TH, 1999 AND 2000

AES Sul

Distribuidora Gaúcha de Energia S.A.

Financial Statements for the Nine-Month Periods Ended September 30, 2000 and 1999, and Independent Auditors Report on the Limited Review

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Deloitte Touche Tohmatsu Auditores Independentes

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999

Table of Contents

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REVIEW REPORT

To the Management of
AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.
Porto Alegre - RS

1. We have conducted a limited review of the accompanying balance sheets of AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A., as of September 30, 2000 and 1999, and the related statements of income (loss), changes in shareholders' equity, and changes in financial position for the nine-month periods then ended, prepared under its management's responsibility.

2. We conducted our reviews in accordance with special standards set forth by the Brazilian Institute of Accountants - "IBRACON", and such review consisted primarily of applying analytical review procedures to financial data, and of ascertaining, together with those responsible for the accounting and financial areas, the criteria adopted to prepare the financial statements. Since such a review does not represent an audit in accordance with the Brazilian Accounting Standards, we are not expressing herein an opinion on such financial statements.

3. Based on our limited reviews, we have no knowledge of any significant changes to be made to the financial statements of AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A., referred to in the first paragraph, in order for them to be in accordance with generally accepted accounting principles established by the Brazilian Corporate Law.

Porto Alegre, November 1, 2000.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC-SP 11609 S/RS

Fernando Carrasco
Accountant
CRC number SP 157760/T-1

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

BALANCE SHEETS
AS OF SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*)

ASSETS

	2000	1999
CURRENT ASSETS		
Cash and cash equivalents	3,282	10,333
Marketable Securities	3,702	3,468
Customers and retailers	117,614	124,867
Allowance for doubtful accounts	(3,717)	(10,567)
Receivables	1,780	
Sundry debtors	2,490	4,389
CEEE accounts receivable	3,742	470
Taxes and contributions recoverable	7,957	9,428
Warehouse inventory	733	1,360
Other credits	10,993	9,502
Pre-paid expenses	13,430	4,691
Total current assets	162,006	157,941
LONG-TERM ASSETS		
Customers and retailers	22,727	
Pledges and deposits in guarantee	35,469	32,295
Intercompany loans		16,652
Deferred income tax and social contribution	291,970	255,759
Others	4,753	
Total long-term assets	354,919	304,706
PERMANENT ASSETS		
Investments	5,076	5,847
Property, plant and equipment - net	819,951	771,404
Deferred – net	741,380	808,836
Total permanent assets	1,566,407	1,586,087
TOTAL	2,083,332	2,048,734

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

BALANCE SHEETS
AS OF SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 2000	1999
CURRENT LIABILITIES		
Suppliers	70,680	52,048
Debt charges	161,770	65,366
Taxes and social contributions	18,649	17,757
Loans and financing	34,557	9,595
Estimated liabilities	5,637	5,283
Sundry provisions	25,284	34,395
Other liabilities	28,812	13,898
Total current liabilities	345,389	198,342
LONG-TERM LIABILITIES		
Loans and financing	1,368,313	1,433,301
Sundry provisions	81,448	102,898
Provision for further contribution to pension funds	32,982	29,694
Technical operator fee	55,712	33,789
Other liabilities	7,949	
	1,546,404	1,599,682
Special liabilities	41,567	35,599
Total long-term liabilities	1,587,971	1,635,281
SHAREHOLDERS' EQUITY		
Capital stock	463,254	463,213
Capital reserve	177,209	176,046
Accumulated losses	(490,491)	(424,148)
Total shareholders' equity	149,972	215,111
TOTAL	2,083,332	2,048,734

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED AS OF SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*, except for losses per share)

	2000	1999
GROSS OPERATING REVENUES		
Electric power sales	750,446	631,337
Electric power supply	10,941	3,545
Others	10,158	11,764
	771,545	646,646
DEDUCTIONS FROM OPERATING REVENUES		
Allotment for global reversal reserve	(10,204)	(6,550)
Taxes and contributions for revenues	(178,995)	(150,094)
	(189,199)	(156,644)
NET OPERATING REVENUES	582,346	490,002
OPERATING INCOME (EXPENSES)		
Personnel	(22,153)	(50,047)
Material	(2,995)	(2,982)
Third parties' services	(34,568)	(28,712)
Electric power purchased for sale	(312,276)	(224,866)
Electric power transportation	(36,785)	(33,276)
Depreciation and amortization	(66,185)	(61,729)
Allotment for fuel consumption account	(25,791)	(17,481)
Other	(17,679)	(3,283)
	(518,432)	(422,376)
SERVICE RESULT	63,914	67,626
FINANCIAL REVENUES (EXPENSES)		
Income from financial applications	341	4,746
Monetary and foreign exchange rate variances - net	(43,070)	(523,511)
Debt charges	(173,849)	(133,596)
Others	683	3,936
	(215,895)	(648,425)
OPERATING LOSS	(151,981)	(580,799)
NON-OPERATING INCOME (EXPENSES)		
Non-operating income	672	8,038
Non-operating expense	(656)	(5,707)
	16	3,698
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	(151,965)	(577,101)
Provision for social contribution		
Deferred social contribution	12,063	45,423
Provision for income tax		
Deferred income tax	37,661	141,823
	49,724	187,246
NET LOSS FOR THE YEAR	(102,241)	(389,855)
Loss per share	(0.19)	(0.73)

The accompanying notes are an integral part of the financial statements.

ALS SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*)

	Capital social	Capital Reserve	Accumulated Losses	Total
BALANCES AS OF JANUARY 1, 1999	461,106	180,215	(34,293)	606,938
Capital increase	2,107			2,107
Cancellation of treasury stocks		(2,182)		(2,182)
Reversal of interest on construction in progress		(1,897)		(1,897)
Net loss for the period			(389,855)	(389,855)
BALANCES AS OF SEPTEMBER 30, 1999	463,213	176,046	(424,148)	215,111
BALANCES AS OF JANUARY 1, 2000	463,254	177,213	(388,250)	252,217
Dividend payment		(4)		(4)
Net loss for the period			(102,241)	(102,241)
BALANCES AS OF SEPTEMBER 30, 2000	463.254	177,209	(490,491)	149,972

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*)

	2000	1999
SOURCES OF FUNDS		
From operations:		
Net loss for the year	(102,241)	(389,855)
Expenses (income) not affecting working capital, net:		
Depreciation and amortization	66,185	61,729
Long-term monetary and foreign exchange rate variances	42,206	521,799
Computation (reversal) of sundry provisions	(680)	(6,080)
Deferred income tax and social contribution	(49,723)	(187,242)
Long-term technical assistance and services payable	17,470	14,795
Cost of permanent assets written-off	2,527	2,074
Total arising from (applied in) operations	(24,256)	17,220
From Shareholders':		
Capital increase with assets, rights and obligations		2,107
From third parties:		
Loans and financing obtained	1,815	459
Customers and financial interest	4,910	4,656
Transfer from current to long-term assets	497	
	7,222	5,115
Total sources	(17,034)	24,442
APPLICATIONS OF FUNDS		
Mandatory dividends distributed	4	
Long-term asset increase	2,584	21,752
Increase in investments		870
Increase (decrease) in property, plant and equipment	47,189	38,534
Increase in deferred assets	1,960	
Reversal of interest on construction in progress		1,897
Purchase of own shares		2,182
Transfer of long-term to current assets	16,523	19,185
Total applications	68,260	84,420
DECREASE IN THE CURRENT CAPITAL, NET	(85,294)	(59,978)
CHANGES IN NET CURRENT CAPITAL		
Current assets:	31,786	3,347
At the beginning of the period	130,220	154,594
At the end of the period	162,006	157,941
Current liabilities:	(117,080)	(63,325)
At the beginning of the year	(228,309)	(135,017)
At the end of the year	(345,389)	(198,342)
Decrease in current capital, net	(85,294)	(59,978)

The accompanying notes are an integral part of the financial statements.

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

NOTES TO FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999 - UNAUDITED
(Amounts in thousands of Brazilian *reais*)

1. COMPANY OPERATIONS

AES Sul Distribuidora Gaúcha de Energia S.A. is a public corporation operating as a public concessionaire for electric power services, estabilished on July 28, 1997, under the designation Companhia Centro-Oeste de Distribuição de Energia Elétrica. It was privatized on October 21, 1997, and, on December 18, 1997, its company name was changed to AES Sul Distribuidora Gaúcha de Energia S.A.

The Company's corporate objective is to conduct studies, projects, construct and operate electric power generating plants, transmission lines, and electric power distribution, and to develop activities related to electric power service provision.

The Company, pursuant to the Contract for Distribution Concession number 12/97, has a concession for electric power distribution for a 30 year period, covering more than three million inhabitants of the Center-West Region of the State of Rio Grande do Sul, in Brazil, comprising 128 municipalities.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements were prepared in Brazilian *Reais*, in accordance with the accounting principles issued by the Brazilian Corporate Law (Law number 6.404/76 and Law number 9.457/97), under the special standards of Comissão de Valores Mobiliários - CVM [a Brazilian equivalent body to the Security and Exchange Commission - SEC] and the rules applicable to public concessionaires for electric power service provision, issued by the Granting Power, represented by Agência Nacional de Energia Elétrica - ANEEL, pursuant to the accounting practices detailed in note 3.

3. SUMMARY OF ACCOUNTING PRACTICES

a) Special accounting practices for the electric power sector

Overhead costs for work-in-progress – on a monthly basis a portion of the Central Management cost, corresponding up to 10% of the direct expenditures with third parties' labor and personnel related to the work-in-progress, is appropriated to the acquisitons of fixed assets under construction.

Special liabilities – refer to the customer contributions, and represent funds received to pay for connections for electric power service provision.

b) General Accounting Practices

Statement of income - revenues and expenses are recorded on an accrual basis. The indexed assets and liabilities are updated on a "*pro rata tempore*" basis.

Marketable Securities - the financial applications are recorded at cost, including the respective yields earned up to the balance sheet date.

Customers and retailers - customers and retailers include the invoiced electric power provision and the provided electric power not billed up to the balance sheet date, ascertained on an accrual basis.

Allowance for doubtful accounts – the allowance consists of an amount considered sufficient to cover possible losses related to receivables.

Warehouse inventory - consists of materials destined for operations maintenance and reflects the average purchase cost, which does not exceed market value.

Pre-paid expenses - refer mainly to the Fuel Consumption Account - "CCC" - charges, to be appropriated to the results for the following period to the extent that the corresponding revenue is billed to customers in 2000, and to the amount incurred during the first quarter of 1999 regarding the electric power supply generated by Itaipu, which is being appropriated in relation to the results for the period over which it shall be recovered from customers.

Investment - by the acquisition cost and, if lower, adjusted to the market value.

Property, plant and equipment **,** net **–** such assets are registered at purchase or construction cost, monetarily restated up to 12/31/95, plus the amount paid by the controlling company corresponding to the goodwill paid in 1998, less depreciation calculated by the straight-line method at annual rates equivalent to 4% for buildings, civil works, and improvements; from 3.3% to 10% for machinery and equipment related to distribution, subtransmission lines, and substations; and from 10% to 20% for the other equipment.

Deferred, net – is primarily represented by the premium paid by the controlling company incorporated during the year of 1998, based on a future profitability expectation. The premium amortization is calculated by the straight-line method, based on the concession term of 30 years.

Income tax and social contribution - the income tax and the social contribution are calculated in conformity with the tax laws in force. See note number 5.

Loans and financing - the loans and financing are updated based on the indexes set forth in agreements up to the balance sheet date, and interest is accrued considering the days elapsed up to the balance sheet date and included in the debt charges classification.

Provision for further contribution to pension funds – The future obligation, estimated to cover contribution cost to the employee's fund, prepared annually based on the Independent Actuaries, is recognized on an accrual basis.

Leasing agreements - the assets purchased through leasing operations are registered under fixed assets on the date of operation, as well as under loans and financing, and are depreciated by the straight-line method, upon the estimated useful lives of each assets.

Provisions for contingencies - are computed based on the loss risk evaluation on pending lawsuits, based on reports prepared by Company's legal counsels.

Loss per share – is determined considering the actual quantity of shares at the balance sheet date.

4. CUSTOMERS AND RETAILERS

	Number of Costomers			
	2000	1999	2000	1999
CURRENT ASSETS:			R$	R$
Residential	742,688	721,750	27,690	25,781
Industrial	18,444	18,331	9,649	10,468
Trade and services	71,263	69,382	9,851	8,764
Rural	79,453	76,466	6,381	5,793
Public Power	6,388	6,354	3,484	6,633
Public lighting	107	109	12,940	21,234
Public service	658	600	3,350	2,499
Supply	3	3	6,714	278
Non-billed revenues			37,555	43,417
Total current assets	919,004	892,995	117,614	124,867
LONG-TERM ASSETS:				
Public power			2,228	
Public lighting			20,499	
Total long -term assets			22,727	
Total customers and retailers			140,341	124,867

The Company's management negotiating solutions together with sundry customers' classes and, particularly, with the public sector for reducing over-due balances.

The long-term values refer to customers from the governmental sector and to public lighting, which are negotiating with the objective of dividing their debts into installments.

5. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Refers to the deferred income tax and social contribution on temporarily non-deductible provisions, tax loss (income tax), and negative basis (social contribution), as follows:

Description	**2000**	**1999**
	R$	R$
On provisions for tax and labor contingencies	17,255	20,462
On provisions for further contribution to pension funds	10,884	9,799
On provision for retirement incentive	13,463	14,857
On provision for contractual losses	1,889	7,050
On tax loss (Income Tax) and negative basis (Social Contribution) in the year	243,383	197,579
On other provisions	50,096	6,012
Total	291,970	255,759

6. PROPERTY, PLANT AND EQUIPMENT, NET

a) Composition of balances and average annual depreciation and amortization rates:

Description	2000	1999
	R$	R$
Fixed assets in service:		
Distribution	1,222,956	1,109,247
Management:	27,322	40,740
	1,250,278	1,160,943
(-) Accumulated depreciation:		
Distribution	(461,048)	(395,108)
Management	(7,170)	(11,227)
	(424,505)	(406,335)
Fixed assets under construction:		
Distribution	34,189	15,155
Management	2,677	1,641
	3,702	16,796
Total	819,951	771,404

7. PROPERTIES USED BY THE CONCESSION

Pursuant to the Articles 63 and 64 of the Decree number 41.019, of 2/26/57, properties and installations used in production, transmission, distribution and trade are an integral part of such services, and cannot be removed, disposed of, assigned or given as mortgage without the

Regulatory Body prior and express consent. The ANEEL Resolution number 20/99, regulates the liberation of the properties of Electric Power Public Service concessions, granting a prior consent to the liberation of properties unsuitable to the concession, when destined for disposal. It also determines that the proceeds from the disposal are deposited to a blocked bank account, to be applied to the concession.

8. DEFERRED

	2000 R$	1999 R$
Premium – expectation of future profitability	802,164	847,706
Accumulated amortization	(65,583)	(40,694)
Premium – net	736,581	807,012
Others	4,799	1,824
Total	741,380	808,836

9. SUPPLIERS

Description	2000 R$	1999 R$
ELETROSUL – Itaipu transfer	24,032	25,450
Companhia Estadual de Energia Elétrica – CEEE	4,145	4,086
Companhia de Geração Térmica de Energia Elétrica – CGTEE	2,619	3,064
Centrais Geradoras do Sul do Brasil S.A. – Gerasul	14,482	11,766
Companhia Paranaense de Energia – Copel	1,110	2,368
AES Uruguaiana Empreendimentos	735	
Bilateral contract	471	
Short term electric power	10,054	
Total electric power suppliers	57,648	46,734
Transmission use	4,259	925
Other suppliers	8,773	4,389
Total	70,680	52,048

10. TAXES AND SOCIAL CONTRIBUTIONS

The composition of the balances of taxes and social contributions, on September 30, is the following :

Description	2000 R$	1999 R$
ICMS [State Valued-added Tax]	13,800	13,845
PIS[1] / PASEP[2]	436	464
COFINS [Social Contribution on Billings]	2,617	2,157
INSS [National Institute of Social Security]	559	231
FGTS [Government Severance Indemnity Fund for Employees]	79	146
Withholding income tax	430	651
Others	728	263
Total	18,649	17,757

[1] PIS - Employees' Profit and Participation Program
[2] PASEP - Public Service Employee Savings Program

11. LOAN AND FINANCING

Description	Index	Interest rate (%)	2000 Short Term R$	2000 Long Term R$	Total 2000 R$	Total 1999 R$
Local currency						
Fundação Eletroceee	INPC[3]	9 p.a.	1,953	21,160	23,113	23,436
Leasing		From 27.92 to 34.32 p.a.	1,275	71	1,346	1,972
Customers			6,796	350	7,146	6,412
Eletrobrás		7 p.a.	333	759	1,092	883
BNDES	TJLP	4.50 p.a.		1,481	1,481	
Loans - Working capital	CDI[4]	18.44 p.a.	22,737		22,737	1,919
Total National currency			33,094	23,821	56,915	34,622
Foreign currency						
Bank Boston – Floating	Dollar	14.72 p.a.		1,344,490	1,344,490	1,401,807
Leasing	Dollar	From 16.98 to 19.20 p.a.	1,463	2	1,465	6,467
Total foreign currency			1,463	1,344,492	1,345,955	1,408,274
TOTAL			34,557	1,368,313	1,402,870	1,442,896

[3]INPC - National Consumer Price Index
[4]CDI - Interbank Deposit Certifcate

The long-term installments regarding loans obtained from Fundação Eletroceee and Floating Rate Notes, will be due as follows:

Maturity years	September 2000 R$
2001	498
2002	1,953
Thereafter	1,363,199
	1,365,650

Fundação Eletroceee

The amount of the loan from Fundação Eletroceee, refers to a debt assumption agreement, assumed a result of the agreement entered into with Companhia Estadual de Energia Elétrica - CEEE. The amortizations are on a monthly basis and, as a guarantee, the electric power sale receivables held by a number of banks, was offered.

Leasing

The leasing agreements include computer equipment, vehicles, and furniture and fixtures and the Company has registered the leases as a fixed asset due to its intention to purchase the asset at the end of the leasing period. The agreement terms vary from 24 to 36 months.

Customers

The loan designated Customers refers to advances paid by customers interested in electric power supply for their installations, generally including a distribution network expansion. Such amounts shall be returned within a four-year term from the date the installation is completed, without the payment of interest or monetary restatements. The advances received from year of 1998 onwards started to be returned within a one-year term, restated by the IGP-M [General Price Index - Market] variance.

Bank Boston - Floating Rate Notes

On March 23, 1998, the Company signed an external reserve line of credit agreement, via the issue, via a Public Placing, of Floating Rate Notes in the amount of US$ 729,234,000, on 23 March, 1998 resulting in the amount of R$ 781,839, equivalent to US$ 690,000,000, and on March 26, 1998 R$ 44,511, equivalent to US$ 39,234,000, to mature on April 2009, with quarterly interest payments till the end of the contract.

For the debtor, there is an option to anticipate the maturity of the principal quarterly on any date; for the creditor, on the following dates: April 24, 2002, 2003, 2005 and 2007. The Company shares held by its Controlling company were given as warranty for this transaction.

12. SUNDRY PROVISIONS

Description	Short-term		Long-term	
	2000	1999	2000	1999
	R$	R$	R$	R$
Provision for labor contingencies	8,826	9,775	16,983	24,244
Provision for tax contingencies	3,757	5,268	29,887	29,887
Provision for temporary supplementation of earnings and for the incentivized retirement plan – "PAI"	8,112	8,270	32,685	36,751
Provision for contractual losses	4,461	10,851	1,264	10,511
Other provisions	128	231	629	1,505
Total	25,284	34,395	81,448	102,898

Provision for labor contingencies

Companhia Estadual de Energia Elétrica - CEEE is the defendant in a number of labor legal claims. As a successor to such company, the Company is responsible for the indemnities paid to employees transferred.

The Company, relying on the opinion of legal counsels, registered a provision for labor contingencies with the purpose of covering likely future expenditures with labor indemnities.

Provision for tax contingencies

Short-term

Fundação Eletroceee [Eletroceee Foundation] is the defendant in two legal claims of a tax nature, in which is being discussed the incidence of withholding income tax calculated on the revenues earned by the Foundation on its fixed-income financial applications (CDB [Bank Deposit Certificates], CDI, etc.), and on those providing a variable income (stock market). Such processes total R$ 89,246 (R$ 117,006). The Company, relying on the opinion of its legal counsels, set aside the amount of R$ 3,757 (R$ 5,268 in 1999), based on its percentage of interest in such Foundation.

Long-term

The company filed two writs applying for the tax immunity of the operation relevant to the electric power supply in relation to PIS / PASEP and COFINS, based on the provisions contained in paragraph 3, Article 155, of the Federal Constitution, and it also filed, during the first quarter of 1999, a writ questioning the new basis for the calculation of PIS and Cofins, and the increment of the Cofins rate. Up to June 1999, the amount of such levies regarding electric power operations, amounting to R$ 6,793 for PIS / Pasep, and R$ 23,094 for COFINS, was deposited with the courts. From July, upon instructions by its legal advisory, such amounts started to be directly paid to the Federal Revenue as a result of an [illegible]orable determination issued by the Supreme Court in a lawsuit of another company on the

same matter as that questioned by Sul. In relation to the process filed against the increase of PIS calculation basis, Sul, up to December 1999, is making monthly deposits with the courts. As from January 2000, it started to pay directly to the Federal Revenue Service the amount of PIS on financial revenues.

As to the COFINS levied on revenues different from those arising from the sale of properties and services, Sul deposited the COFINS with the courts from March 1999 to June 2000, and it remains making court deposits on a monthly basis.

The Company, through its legal advisors, requested in court the transfer to the Government of judicial deposits made for PIS/PASEP and Cofins calculated on billings. Such request remains under analyses and to date it has not been granted.

Provision for temporary supplementation of earnings and for the retirement plan – PAI - incentive

As a result of the labor bargaining agreement, the Company is responsible for the payment on the benefit for supplementing the pension (arising from service years) granted by the Regular Social Security Body to the participant registered in Fundação Eletroceee, who, on December 31st, 1997, had not complied with all of the requisites for receiving the benefits by Sul. The benefit shall be paid by the Company until the compliance with all of the requisites required for its receipt, when shall be definitely retired by the Foundation.

The Company is providing for future commitments considering the term of payment for such benefit, discounted to the current amount using the 12% rate per year relevant to the additional salary of those whom, as of that date, have exercised their rights to the regular pension. The salary supplementation shall be paid until to the acknowledgement of the benefit by the Foundation.

Provision for losses on contracts

This refers to the provision for likely losses in electric power selling agreements to large-sized industrial customers, cooperatives and power purchased energy from power Companies.

13. PROVISION FOR FURTHER CONTRIBUTION TO PENSION FUNDS

The Company is a co-sponsor of Fundação CEEE de Seguridade Social - Eletroceee, in a proportion of 4.21%, whose main purpose is the supplementation of social security benefits to the participants. The benefit plan was formed in accordance with “determined benefit” features, under a financial capitalization system, using as actuarial method the projected unit credit.

The sponsors are responsible for the coverage of any deficit ascertained in the Foundation benefit plan.

On September 30, 2000 based on the actuarial evaluation result conducted under the responsibility of independent actuaries, Sul registered an additional provision for future supplementation for contribution to the pension fund, as follows:

Description	2000	1999
Granted benefits – benefits to retired employees	74,304	53,385
Benefits to be granted - Active employees	25,061	25,276
Total	99,365	78,661
Plan net assets – Proportional	(63,900)	(50,266)
Total provision	35,465	28,395
Actuarial earn	(2,483)	(1,299)
Provision for additional contribution to the Pension fund – Net value	32,982	29,694

14. SHAREHOLDERS' EQUITY

The capital of the Company amounts R$ 463.254 (R$ 463.213 on September 30, 1999), and is represented by 537.163 thousand shares with no par value, being 276.941 thousand of ordinary shares and 260.222 thousand of preferential shares.

Each ordinary share has one vote at the deliberations of the General Meetings. Preferred shares will not vote, but will enjoy the following advantages: a) priority capital refund, without premium, in the case of liquidation of the Company; b) right to receive, related to the business year ended on December 31, 1998 and subsequent business year, an accumulated minimum dividend of 38.925% of the portion of paid-in capital related to this class of shares, and payable (the dividends) up to the limit of capital reserves, in the business years that profit is declared insufficient; c) right to receive, related to the business years ended after December 31, 2000 (included), non-cumulative minimum dividend of 6% of the portion of the paid-in capital related to this class of shares.

Calculation of compulsory dividend to the preferred shares:

Portion of paid-in capital related to preferred shares	223,718
Minimum compulsory dividend	38.925%
Total compulsory dividend payable	87,082
Dividend per share	0.334645682

The Company, by deliberation of the controlling shareholder, calculated the allocation of the minimum compulsory dividend calculated on the portion of paid-in capital related to the preferred shares only for minority shareholders. The amount corresponding to the controlling shareholder, R$ 86,296 will remain to be allotted in the future.

15. PRIVATIZATION PROCESS

On October 21, 1997, through a Special Auction conducted by the Extreme South Stock Exchange - BVES, the privatization of Companhia Centro-Oeste de Distribuição de Energia Elétrica, currently AES Sul Distribuidora Gaúcha de Energia S. A., took place in which Companhia Estadual de Energia Elétrica - CEEE held 100% of its capital stock. The sale price was R$ 1,510,000, with a 93.55% premium. As set forth in the Invitation to Bid related to the privatization, the following obligations were assumed by the auction winner (AES Guaíba Empreendimentos Ltda.):

- To ensure that at least one member of the Company's Board of Directors is freely appointed by the employees. Should the shares held thereby, including those purchased upon the offer to the employees, are not enough to ensure an election, the election process related to the election of the representative of employees shall be coordinated by the union representing the majority of respective employees;

- To keep the Company as a "Public Company", during the term of concession.

- To assume, in connection with the Company's employees, for no more than a 3 year term, the social security benefit plan in force, as co-sponsor, without the joint participation by Fundação CEEE de Seguridade Social - Eletroceee;

- To be responsible for the funding of Fundação Eletroceeee, as to the participants vested thereto, for the time period required for the complete amortization of unfunded deficit, at rates calculated by the responsible actuary as to the plan costing, and to the extent of the sum of Actual Contribution Salaries - SRCs;

- To keep, in relation to employees, up to August 31, 2004, the conditions in force for assistance and health activities provided through a covenant entered into with the Labor Union - Senergisul;

- To assume, upon subrogation, the rights and obligations set forth in the power supply agreements, including as to the guarantees provided by CEEE to the supplier in such agreements.

16. FINANCIAL INSTRUMENTS

CVM, through its Instruction number 235 of March 23, 1995, determined mechanisms for disclosing, through an explanatory note, the market value and the conditions agreed upon in the financial instruments, whether or not they are recognized on an accounting basis.

The assets and liabilities considered as financial instruments (loans, financial applications, etc.), included in the financial statements do not present significant deviations between the accounting value and the market, at the date of these financial statements.

The company does not have any operations with financial instruments nor operations with the derivatives market at the date of these financial statements.

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APPENDIX B – AES SUL FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER 31ST, 1998 AND 1999

AES Sul

Distribuidora Gaúcha de Energia S.A.

Financial Statements for the Years Ended December 31, 1999 and 1998, and Independent Auditors Report

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Deloitte Touche Tohmatsu Auditores Independentes

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 and 1998

Table of Contents

Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Management of
AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.
Porto Alegre - RS

1. We have audited the accompanying balance sheets of AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A., as of December 31, 1999 and 1998, and the related statements of income, changes in the shareholder's equity, and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A., as of December 31, 1999 and 1998, and the results of its operations, the changes in its shareholder's equity and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles determined by the Brazilian Corporate Law.

Porto Alegre, January 28, 2000.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC-SP 11609 S/RS

Fernando Carrasco
Accountant
CRC number SP 157760/T-1

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

BALANCE SHEETS
AS OF DECEMBER 31 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

ASSETS

	1999	1998
CURRENT ASSETS		
Cash and cash equivalents	3,206	9,173
Marketable Securities	3,335	36,573
Customers and retailers	103,278	92,137
Allowance for doubtful accounts	(4,050)	(3,553)
Receivables	192	641
Sundry debtors	2,165	3,636
CEEE accounts receivable	3,717	1,856
Taxes and contributions recoverable	8,347	4,453
Warehouse inventory	622	4,197
Other credits	2,827	5,356
Pre-paid expenses	6,581	125
Total current assets	130,220	154,594
LONG-TERM ASSETS		
Customers and retailers	22,496	
Pledges and deposits in guarantee	32,887	13,735
Intercompany loans		13,460
Deferred income tax and social contribution	242,247	68,517
Others	5,479	
Total long-term assets	303,109	95,712
PERMANENT ASSETS		
Investments	5,631	4,977
Property, plant and equipment – net	820,592	774,066
Deferred – net	759,747	831,443
Total permanent assets	1,585,970	1,610,486
TOTAL	2,019,299	1,860,792

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1999	1998 (Reclassified)
CURRENT LIABILITIES		
Suppliers	59,844	45,960
Debt charges	60,621	14,290
Taxes and social contributions	19,149	14,900
Loans and financing	24,866	4,848
Estimated liabilities	5,559	3,366
Sundry provisions	35,714	39,418
Other liabilities	22,556	12,235
Total current liabilities	228,309	135,017
LONG-TERM LIABILITIES		
Loans and financing	1,334,610	914,559
Sundry provisions	91,636	106,654
Provision for further contributions to pension plan	29,894	47,012
Technical operator fee	38,242	18,994
Other liabilities	7,690	
	1,502,072	1,087,219
Special liabilities	36,701	31,618
Total long-term liabilities	1,538,773	1,118,837
SHAREHOLDERS' EQUITY		
Capital stock	463,254	461,106
Capital reserve	177,213	180,125
Accumulated losses	(388,250)	(34,293)
Total shareholders' equity	252,217	606,938
TOTAL	2,019,299	1,860,792

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31 1999 AND 1998
(Amounts in thousands of Brazilian *reais*, except for losses per shares)

	1999	1998
GROSS OPERATING REVENUES		
Electric power sales	848,757	727,671
Electric power supply	1,972	1,724
Others	15,093	16,557
	865,822	745,952
DEDUCTIONS FROM OPERATING REVENUES		
Allotment for global reversal reserve	(16,363)	(10,230)
Taxes and contributions for revenues	(211,035)	(173,824)
	(227,398)	(184,054)
NET OPERATING REVENUES	638,424	561,898
OPERATING INCOME (EXPENSES)		
Personnel	(61,231)	(20,318)
Material	(3,893)	(4,209)
Third parties' services	(40,093)	(33,894)
Electric power purchased for sale	(313,288)	(268,178)
Electric power transportation	(47,880)	(36,518)
Depreciation and amortization	(57,130)	(31,477)
Allotment for fuel consumption account	(22,796)	(17,049)
Provision reversal (computation)	12,404	(34,107)
Other	(23,151)	(40,502)
	(557,058)	(486,252)
SERVICE RESULT	81,366	75,646
FINANCIAL REVENUES (EXPENSES)		
Income from financial applications	5,882	7,452
Monetary and foreign exchange rate variances – net	(417,423)	(44,301)
Debt charges	(194,271)	(52,862)
Others	(5,938)	(1,917)
	(611,750)	(91,628)
OPERATING LOSS	(530,384)	(15,982)
NON-OPERATING INCOME (EXPENSES)		
Non-operating income	5,043	8,038
Non-operating expense	(2,269)	(5,707)
	2,774	2,331
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	(527,610)	(13,651)
Provision for social contribution	(19)	(66)
Deferred social contribution	42,151	1,157
Provision for income tax	(58)	(4,348)
Deferred income tax	131,579	7,420
	173,653	4,163
NET LOSS FOR THE YEAR	(353,957)	(9,488)
Loss per share (R$)	(0.66)	(0.02)

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

	Capital	Capital reserve	Accumulated losses	Total
BALANCES AS OF JANUARY 1, 1998	536,344	616	(75,238)	461,722
Capital reduction	(75,238)		75,238	
Interest on construction in progress		1,804		1,804
Capital reserve generated by the downstream merger – AES Guaiba Empr. Ltda.		177,705		177,705
Interim dividend			(24,805)	(24,805)
Net loss for the year			(9,488)	(9,488)
BALANCES AS OF DECEMBER 31, 1998	461,106	180,125	(34,293)	606,938
Capital increase	2,148			2,148
Cancellation of treasury stocks		(2,182)		(2,182)
Interest on construction in progress		56		56
Dividend payment		(786)		(786)
Net loss for the year			(353,957)	(353,957)
BALANCES AS OF DECEMBER 31, 1999	463,254	177,213	(388,250)	252,217

The accompanying notes are an integral part of the financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

AES SUL DISTRIBUIDORA GAÚCHA DE ENERGIA S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

	1999	1998
SOURCES OF FUNDS		
From operations:		
Net loss for the year	(353,957)	(9,488)
Expenses (income) not affecting working capital, net:		
Depreciation and amortization	85,137	54,259
Long-term monetary and foreign exchange rate variances	425,996	49,669
Computation (reversal) of sundry provisions	(12,795)	8,988
Deferred income tax and social contribution	(173,730)	(8,577)
Long-term technical assistance and services payable	19,248	18,640
Cost of permanent assets written-off	2,184	5,055
Total arising from (applied in) operations	(7,917)	118,546
From Shareholders':		
Capital increase with assets, rights and obligations	2,148	
From third parties:		
Loans and financing obtained	498	5,455
Effect of controlling company incorporation on the working capital		2,388
Customers and financial interest	5,529	10,754
	6,027	18,597
Total sources	258	137,143
APPLICATIONS OF FUNDS		
Transfer from current to long-term assets	22,496	
Long-term asset increase	11,173	16,596
Increase in investments	654	359
Increase in property, plant and equipment	62,094	73,688
Increase in deferred assets		3,448
Purchase of own shares	2,182	
Mandatory dividends distributed	786	24,805
Transfer of long-Term to current assets	18,539	10,791
Total applications	117,924	129,687
INCREASE (REDUCTION) IN THE CURRENT CAPITAL, NET	(117,666)	7,456
CHANGES IN NET CURRENT CAPITAL		
Current assets:	(24,374)	32,728
At the beginning of the year	154,594	121,866
At the end of the year	130,220	154,594
Current liabilities:	(93,292)	(25,272)
At the beginning of the year	(135,017)	(109,745)
At the end of the year	(228,309)	(135,017)
Increase (decrease) in the current capital, net	(117,666)	7,456

The accompanying notes are an integral part of the financial statements.

15. COMPANY OPERATIONS

AES Sul Distribuidora Gaúcha de Energia S.A. is a public corporation operating as a public concessionaire for electric power services, established on July 28, 1997, under the designation Companhia Centro-Oeste de Distribuição de Energia Elétrica. It was privatized on October 21, 1997 and, on December 18, 1997, its company name was changed to AES Sul Distribuidora Gaúcha de Energia S.A.

On May 29, 1998, the downstream merger of AES Guaíba Empreendimentos Ltda. occurred. The incorporation objective was to increase the capacity, experience and technical and management knowledge of the merged company, with the objective of not only the reorganization of the group in Brazil, but also the expansion of the company's operations.

The Company's corporate objective is to conduct studies, projects, construct and operate electric power generating plants, transmission lines, and electric power distribution, and to develop activities related to electric power service provision.

The Company, pursuant to the Contract for Distribution Concession number 12/97, has a concession for electric power distribution for a 30 year period, covering more than three million inhabitants (*) of the Center-West Region of the State of Rio Grande do Sul, in Brazil, comprising 128 municipalities (*).

(*) (unaudited)

16. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of Sul pursuant to the practices mentioned in note 3.a, were prepared in Brazilian *Reais*, in accordance with the accounting principles determined by the Brazilian Corporate Laws (Law number 6.404/76 and Law number 9.457/97), and the special standards of Comissão de Valores Mobiliários - CVM [a Brazilian equivalent body to the Security and Exchange Commission - SEC] and the rules applicable to public concessionaires for electric power service provision, issued by the Granting Power, represented by Agência Nacional de Energia Elétrica - ANEEL, pursuant to the accounting practices detailed in note 3.

17. SUMMARY OF ACCOUNTING PRACTICES

a) Special accounting practices for the electric power sector

Interest on work-in-progress – the acquisition of fixed assets under construction via the use of Company funds are compensated under the laws in force at the Long-Term Interest Rate ("TJLP") up to December 31, 1998. From January 1, 1999, such practice was no longer applied.

Overhead costs for work in progress – on a monthly basis, a portion of the Central Management cost, corresponding to up to 10% of the direct expenditures with third parties' labor and personnel related to the work in progress is appropriated to the acquisitions of fixed assets in course.

Special liabilities – refer to the customer contributions, and represent funds received to pay for connections for electric power service provision. Because of their nature, such customers' contributions do not represent actual financial liabilities and, accordingly, they should not be treated as liabilities for purposes of determining economical-financial indicators. Should the Company wind-up such liabilities would represent amounts to be returned to the Federal Government.

b) General Accounting Practices

Statement of income - revenues and expenses are recorded on an accrual basis. The indexed assets and liabilities are updated on a "*pro rata tempore*" basis.

Marketable Securities - the financial applications are recorded at cost, including the respective yields earned up to the balance sheet date.

Customers and retailers - customers and retailers include the invoiced electric power provision and the provided electric power not billed up to the balance sheet date, ascertained on an accrual basis.

Allowance for doubtful accounts – the allowance consists of an amount considered sufficient to cover possible losses related to receivables.

Warehouse inventory - consists of materials destined for operations maintenance based on the average purchase cost, which does not exceed market value.

Pre-paid expenses - refer mainly to the Fuel Consumption Account - "CCC" - charges, to be appropriated to the results for the following period to the extent that the corresponding revenue is billed to customers in 2000, and to the amount incurred during the first quarter of 1999 regarding the electric power supply generated by Itaipu, which is being appropriated in relation to the results for the period over which it shall be recovered from customers. Investment - by the acquisition cost and, if necessary, adjusted to reflect the market value, if lower.

Property, plant and equipment**,** net **–** such assets are registered at purchase or construction cost, monetarily restated up to 12/31/95, plus the amount paid by the controlling company corresponding to the goodwill paid in 1998, less depreciation calculated by the straight-line method at annual rates equivalent to 4% for buildings, civil works, and improvements; from 3.3% to 10% for machinery and equipment related to distribution, subtransmission lines, and substations; and from 10% to 20% for other equipment.

Deferred, net – is primarily represented by the premium paid by the controlling company incorporated during the year of 1998, based on a future profitability expectation. The premium amortization is calculated by the straight-line method, based on the concession term of 30 years.

Income tax and social contribution - the income tax and the social contribution are calculated in conformity with the tax laws in force. The Company records tax credits on the social contribution negative basis, tax losses, and temporarily non-deductible provisions. See note number 6.

Loans and financing - the loans and financing are updated based on the indexes set forth in agreements up to the balance sheet date, and interest is accrued considering the days elapsed up to the balance sheet date and included in the debt charges classification.

Provision for further contributions to pension funds – the future liability is estimated based on the actuarial valuation which is annually prepared by independent actuaries, for covering expenditures with contributions to employees' pension fund recorded on an accrual basis.

Leasing agreements - the assets purchased through leasing operations are registered under fixed assets on the date of operation, as well as under loans and financing, and are depreciated by the straight-line method, using the rates set forth in note 7.

Loss per share – it is determined considering the actual quantity of shares issued at the balance sheet date.

18. CUSTOMERS AND RETAILERS

	Not yet due balances		Overdue balances				Total	
			Up to 90 days		More than 90 days			
	1999	1998	1999	1998	1999	1998	1999	1998
CURRENT ASSETS:								
Residential	8,209	13,454	10,756	5,706	3,668	611	22,633	19,771
Industrial	1,434	1,783	3,779	3,008	3,214	1,293	8,427	6,084
Trade and services	2,294	3,650	3,439	2,200	2,466	894	8,199	6,744
Rural	2,709	1,405	1,296	1,030	1,240	177	5,245	2,612
Public Power	572	977	1,547	2,120	1,979	2,167	4,098	5,264
Federal	210	212	336	323	538	372	1,084	907
State	238	253	989	872	1,025	603	2,252	1,728
Local	124	512	222	925	416	1,192	762	2,629
Public lighting	630	1,716	860	3,723	4,025	6,380	5,515	11,819
Public service	1,570	743	1,196	514	141	57	2,907	1,314
Supply	264	349	2		5		271	349
Non-billed revenues	45,983	38,180					45,983	38,180
Total current assets	63,665	62,257	22,875	18,301	16,738	11,579	103,278	92,137
LONG-TERM ASSETS:								
Public power								
Local	2,733						2,733	
Public lighting	19,763						19,763	
Total long –term assets	22,496						22,496	
Total customers and retailers	86,161	62,257	22,875	18,301	16,738	11,579	125,774	92,137

Company's management continues negotiating solutions together with sundry customers' classes and, particularly, with the public sector for reducing over-due balances.

The long-term values refer to customers from the governmental sector and to public lighting, which are negotiating with the objective of dividing their debts into installments.

19. PLEDGES AND DEPOSITS IN GUARANTEE

	1999	1998
	R$	R$
Cofins and PIS on billing – Deposits with the courts	29,887	13,252
Others	3,000	483
Total	32,887	13,735

The deposits with the courts concerning Employees' Profit Participation Program ("PIS") and the Social Contribution on Billings ("Cofins") were made with the Federal Revenue within the period from March 1998 to July 1999 (see explanatory note 13).

20. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Refers to the deferred income tax and social contribution on temporarily non-deductible provisions, tax loss (income tax), and negative basis (social contribution), as follows:

Description	**1999**	**1998**
	R$	**R$**
On provisions for tax and labor contingencies	18,332	22,497
On provisions for further contribution to pension funds	9,865	15,514
On provision for retirement incentive	14,326	14,861
On provision for contractual losses	2,550	9,517
On tax loss (Income Tax) and negative basis (Social Contribution) in the year	189,741	
On other provisions	7,433	6,128
Total	242,247	68,517

21. PROPERTY, PLANT AND EQUIPMENT, NET

a) Composition of balances and average annual depreciation and amortization rates:

Description	Annual average depreciation rates (%)	1999 R$	1998 R$
Fixed assets in service:			
Distribution			
Adjusted historical cost	4.55	1,199,990	913,296
Management			
Adjusted historical cost	15.36	24,310	23,633
Premium – Surplus value of properties			159,302
		1,224,300	1,096,231
(-) Accumulated depreciation:			
Distribution			
Historical cost		(419,854)	(352,314)
Management			
Historical cost		(4,651)	(9,776)
Premium – Surplus value of properties			(3,600)
		(424,505)	(365,690)
Fixed assets under construction:			
Distribution		18,120	25,656
Management		2,677	17,869
		20,797	43,525
Total		820,592	774,066

b) Depreciation

From January 1999, in accordance with the Resolution number 2, of December 24, 1997 issued by ANEEL, Sul started to use new annual depreciation rates, which resulted in a R$ 16,496 increase in the depreciation expense. The rates used up to December 31, 1998, were as follows: 3% for intangibles, buildings and improvements, vehicles, and furniture and fixtures; 3% and 4% for machinery and equipment.

c) Properties used for the concession

Pursuant to the Articles 63 and 64 of the Decree number 41.019, of 2/26/57, properties and installations used in production, transmission, distribution and trade are an internal part of such services, and cannot be removed, disposed of, assigned or given as mortgage without the Regulatory Body's prior and express consent. The ANEEL Resolution number 20/99, regulates the liberation of the properties of Electric Power Public Service concessions, granting a prior consent to the liberation of properties unsuitable to the concession, when destined for disposal. It also determines that the proceeds from the disposal are deposited in a blocked bank account, to be applied to the concession.

22. DEFERRED

	Average amortization rate		1999	1998
	1999	1998	R$	R$
Premium – expectation of future profitability			802,164	847,397
Accumulated amortization	3.50%	2.84%	(45,254)	(19,150)
Premium – net			756,910	828,247
Others			2,837	3,196
Total			759,747	831,443

23. SUPPLIERS

Description	1999 R$	1998 R$
Centrais Elétricas do Sul do Brasil S.A. – ELETROSUL	474	4,201
ELETROSUL - Transfer Itaipu	22,257	13,127
Companhia Estadual de Energia Elétrica – CEEE	3,845	4,304
Companhia de Geração Térmica de Energia Elétrica – CGTEE	3,922	3,655
Centrais Geradoras do Sul do Brasil S.A. – Gerasul	14,163	13,615
Companhia Paranaense de Energia – Copel	3,254	266
Others		508
Total eletric power suppliers	47,915	39,676
Transmission use	3,699	
Other suppliers	8,230	6,284
Total	59,844	45,960

The main electric power suppliers to Sul are Itaipu and Gerasul, having a 33.51% and 30.51% share, respectively, in the total supply and transmission. From June 10, 1999, the electric power sector structure was altered as to the transfer related to the electric power supply and transportation of the electric power generated by Itaipu, which was performed by Eletrosul, and began to be performed exclusively by Furnas. As a result of the new sector regulation, the basic network use and the connection to the network began to be charged, in addition to the rate payable to the National System Operator – "ONS" [Operadora Nacional do Sistema - "ONS"], whose intent is to manage and optimize relationships among the participants in the market.

24. TAXES AND SOCIAL CONTRIBUTIONS

The composition of the balances of taxes and social contributions, in December 31, is the following:

Description	1999 R$	1998 R$
ICMS [State Valued-added Tax]	14,213	13,260
PIS[1] / PASEP[2]	468	
COFINS [Social Contribution on Billings]	2,166	
INSS [National Institute of Social Security]	1,099	564
FGTS [Government Severance Indemnity Fund for Employees]	160	222
Withholding income tax	300	446
Social contribution on profits		66
Others	743	342
Total	19,149	14,900

[1]PIS - Employees' Profit and Participation Program

[2]PASEP - Public Service Employee Savings Program

25. LOANS AND FINANCING

Description	Index	Interest rate (%)	1999 Short term R$	1999 Long Term R$	1999 Total R$	1998 Short term R$	1998 Long term R$	1998 Total R$
National currency								
Fundação Eletroceee	INPC[3]	9% p.a.	1,868	21,641	23,509	1,729	21,751	23,480
Leasing		From 27.92% to 34.32% p.a.	1,327	942	2,269	887	2,382	3,269
Customers				6,373	6,373		5,927	5,927
Eletrobrás		7% p.a.		897	897		399	399
Loans – Working Capital	TJLP CDI[4]	From 2.4% to 8.4% p.a.	16,767		16,767			
Total National currency			19,962	29,853	49,815	2,616	30,459	33,075
Foreign currency								
Bank Boston – Floating Rate Notes	Dollar	16.5% p.a.		1,304,600	1,304,600		881,426	881,426
Leasing	Dollar	From 16.98% to 19.20% p.a.	4,904	157	5,061	2,232	2,674	4,906
Total foreign currency			4,904	1,304,757	1,309,661	2,232	884,100	886,332
TOTAL			24,866	1,334,610	1,359,476	4,848	914,559	919,407

[3]INPC - National Consumer Price Index
[4]CDI - Interbank Deposit Certifcate

The long-term installments regarding loans obtained from Fundação Eletroceee and Floating Rate Notes, will be due as follows:

Maturity years	1999	1998
	R$	R$
2001	1,868	1,728
2002	1,868	1,728
2003	1,868	1,728
2004	1,868	1,728
2005	1,868	1,728
Thereafter	1,316,901	894,537

Bank Boston – Floating Rate Notes

On March 23, 1998, the Company signed an external reserve line of credit agreement, via the issue, via a Public Placing, of Floating Rate Notes, in the amount of US$ 729,234,000, on 23 March, 1998 resulting in the amount of R$ 781,839, equivalent to US$ 690,000,000, and on March 26, 1998 R$ 44,511, equivalent to US$ 39,234,000, to mature on April 2009, with quarterly interest payments till the end of the contract.

For the debtor, there is an option to anticipate the maturity of the principal quarterly on any date; for the creditor, on the following dates: April 24, 2002, 2003, 2005 and 2007.

The guaranty of the operation, was given by the controlling company through the pledge of its shares.

Fundação Eletroceee

The amount of the loan from Fundação Eletroceee, refers to a debt assumption agreement, assumed a result of the agreement entered into with Companhia Estadual de Energia Elétrica - CEEE. The amortizations are on a monthly basis and, as a guarantee, the electric power sale receivables held by a number of banks, was offered.

Leasing

The leasing agreements include computer equipment, vehicles, and furniture and fixtures. The Company has registered the leases as a fixed asset due to its intention to purchase the assets as the end of the leasing period. The agreement terms vary from 24 to 36 months.

Customers

The loan designated Customers refers to advances paid by customers interested in electric power supply for their installations, generally including a distribution network expansion. Such amounts shall be returned within a four-year term from the date the installation is completed, without the payment of interest or monetary restatements. The advances received from the year of 1998 onwards started to be returned within a one-year term, restated by the IGP-M [General Price Index - Market] variance.

26. ESTIMATED LIABILITIES

	1999 R$	1998 R$
Accrual for vacation and bonus pay	1,406	1,344
Accrual for social charges on vacation and bonus pay	574	1,323
Employees' profit sharing	3,418	
Others	161	699
Total	5,559	3,366

27. SUNDRY PROVISIONS

Description	Short-term 1999 R$	Short-term 1998 R$	Long-term 1999 R$	Long-term 1998 R$
Provision for labor contingencies	8,386	16,802	20,440	30,489
Provision for tax contingencies	4,006	5,268	29,887	15,615
Provision for temporary supplementation of earnings and for the retirement incentive plan – "PAI"	8,179	6,311	35,234	38,724
Provision for contractual losses	2,670	9,970	5,057	18,869
Other provisions	12,473	1,067	1,018	2,957
Total	35,714	39,418	91,636	106,654

Provision for labor contingencies

Companhia Estadual de Energia Elétrica - CEEE is the defendant in a number of labor legal claims. As a successor to such company, the Company is responsible for the indemnities paid to employees transferred.

The Company, relying on the opinion of legal counsels, registered a provision for labor contingencies with the purpose of covering likely future expenditures with labor indemnities of different natures.

Provision for losses on contingencies

Short-term

Fundação Eletroceee [Eletroceee Foundation] is the defendant in two legal claims of a tax nature, in which is been discussed the incidence of withholding income tax calculated on the revenues earned by the Foundation on fixed-income financial applications (CDB [Bank Deposit Certificates], CDI, etc.), and on those providing a variable income (stock market). Such processes total R$ 95,153. The Company, relying on the opinion of its legal counsels, set aside the amount of R$ 4,006 (R$ 5,268 in 1998), based on its percentage of interest in such Foundation.

Long-term

The Company filed two writs applying for the tax immunity of the operation relevant to the electric power supply in relation to PIS / PASEP and COFINS, based on the provisions contained in paragraph 3, Article 155, of the Federal Constitution, and it also filed, during the first quarter of 1999, a writ questioning the new basis for the calculation of PIS and COFINS, and the increment of the Cofins rate. Up to June 1999, the amount of such levies regarding electric power operations, amounting to R$ 6,793 for PIS / PASEP, and R$ 23,094 for Cofins, was deposited with the courts. From July, upon instructions by its legal advisory, such amounts started to be directly paid to the Federal Revenue as a result of an unfavorable determination issued by the Supreme Court in a lawsuit of another company on the same matter questioned by the Company. In relation to the process filed against the increase of PIS calculation basis, the Company is making monthly deposits with the courts. As to the increase of the Cofins calculation basis, the Company is not making deposits with the courts because it is under a judicial order protection.

The Company, through its legal advisors, requested in court the transfer to the Government of judicial deposits made for PIS/PASEP and Cofins calculated on billings. Such request remains under analysis and to date it has not been granted.

Provision for temporary supplementation of earnings and for the retirement plan – PAI - incentive

As a result of the labor bargaining agreement, the Company is responsible for the payment of the benefit for supplementing the pension (arising for services years) granted by the Regular Social Security Body to the participant registered in Fundação Eletroceee, who, on December 31st, 1997, had not complied with all of the requisites for receiving the benefits. The benefit shall be paid by the Company until the compliance with all of the requisites required for its receipt, when it shall be definitely retired by the Foundation.

The Company is providing for future commitments considering the term of payment for such benefit, discounted to the current amount using the 12% rate per year relevant to the additional salary of those whom, as of that date, have exercised their rights to the regular pension. The salary supplementation shall be paid until the acknowledgement of the benefit by the Foundation.

Provision for losses on contracts

This refers to the provision for likely losses in electric power selling agreements to large-sized industrial customers, cooperatives and purchased energy from power Companies.

28. OTHER LIABILITIES

	1999		1998
	Current R$	Long Term R$	Current R$
Global Reversal Reserve Installment – RGR	3,727	7,690	853
Other liabilities – Eletrobrás Interests	6,308		6,508
Others	12,521		4,874
	22,556	7,690	12,235

The balance of the Global Reversal Reserve Installment – RGR refers to the amount to be paid, calculated based on 2.5% on the movement in fixed assets in the years 1997 and 1999, excluding the amounts paid by the Company based on ANEEL's determinations. The long-term installment maturity is due in 2001 and 2002.

29. SHAREHOLDERS' EQUITY

The capital stock is 537,163,482 (536,344,395 in 1998) no par-value shares, being 276,941,307 (278,577,279 in 1998) ordinary shares and 260,222,175 (257,767,116 in 1998) preferred shares.

Each ordinary share has one vote at the deliberations of the General Meetings. Preferred shares will not vote, but will enjoy the following advantages: a) priority capital refund, without premium, in the case of liquidation of the Company; b) right to receive, related to the business year ended on December 31, 1998 and subsequent business year, an accumulated minimum dividend of 38.925% of the portion of paid-in capital related to this class of shares, and payable (the dividends) up to the limit of capital reserves, in the business years that profit is declared insufficient; c) right to receive, related to the business years ended after December 31, 2000 (included), non-cumulative minimum dividend of 6% of the portion of the paid-in capital related to this class of shares.

Calculation of compulsory dividend to the preferred shares:

Portion of paid-in capital related to preferred shares	223,718
Minimum compulsory dividend	38.925%
Total compulsory dividend payable	87,082
Dividend per share	0.334645682

The Company, by deliberation of the controlling shareholder, calculated the allocation of the minimum compulsory dividend calculated on the portion of paid-in capital related to the preferred shares only for minority shareholders. The amount corresponding to the controlling shareholder, R$ 86,296 will remain to be allotted in the future.

30. INSURANCE

The fixed assets, pursuant to its nature and risk level, and in accordance with the policy adopted, is covered by insurance policies.

31. PROVISION FOR FURTHER CONTRIBUTION TO PENSION FUNDS

The Company is a co-sponsor (4.21%) of Fundação CEEE de Seguridade Social - Eletroceee, whose main purpose is the supplementation of social security benefits to the participants. The benefit plan was formed in accordance with "determined benefit" features, under a financial capitalization system, using as actuarial method the projected unit credit.

The sponsors are responsible for the coverage of any deficit ascertained in the Foundation benefit plan.

On December 31, based on the actuarial evaluation result conducted under the responsibility of independent actuaries, Sul registered an additional provision for future supplementation for contribution to the pension fund, as follows:

Description	1999 R$	1998 R$
Granted benefits – benefits to retired employees	61,334	45,512
Benefits to be granted - Active employees	26,766	46,689
Total	88,100	92,201
Plan net assets – Proportional	(55,770)	(39,465)
Total provision	32,330	52,736
Actuarial earnings	(2,436)	(5,724)
Provision for additional contribution to the Pension fund – Net value	29,894	47,012

The main assumptions used by the independent actuary are:

- Discount rate: IGP + 6% per year
- Salary increases: IGP + 2% per year
- Plan return rate: IGP + 6% per year

32. SERVICE AND TECHNICAL ASSISTANCE

This refers to service and technical assistance payable, rendered by the indirect controlling company. The ending balance on December 31, 1998 was reclassified from current to long term to permit comparability.

33. FINANCIAL INSTRUMENTS

CVM, through its Instruction number 235 of March 23, 1995, determined mechanisms for disclosing, through an explanatory note, the market value and the conditions agreed upon for financial instruments, whether or not they are recognized or not on an accounting basis.

All of the assets and liabilities considered as financial instruments (loans, financial applications, etc.), included in the financial statements do not present significant deviations between the accounting and the market value.

34. ELECTRIC POWER SUPPLY

The composition of the gross revenue per customer class is as follows:

	Number of Customers (*)		MWh (*)		Revenue	
Description	1999	1998	1999	1998	1999 R$	1998 R$
Residential	727,155	695,391	1,578,864	1,508,581	311,713	316,100
Industrial	18,336	17,775	3,253,719	3,055,033	288,577	204,781
Trade and Services	69,874	66,917	690,616	635,193	124,003	106,121
Rural	77,512	74,011	767,354	639,220	56,051	41,658
Public Power	6,264	6,118	118,200	112,278	19,773	16,755
Public Lighting	108	111	215,226	195,599	21,106	17,094
Public Service	603	564	173,299	167,331	19,731	17,903
Subtotal	899,852	860,887	6,797,278	6,313,235	840,954	720,412
Non-invoiced supply					7,803	7,259
Subtotal	899,852	860,887	6,797,278	6,313,235	848,757	727,671
Supply	3	3	44,735	39,309	1,972	1,724
Others					15,093	16,557
TOTAL	89,855	860,890	6,842,013	6,352,544	865,822	745,952

(*) Unaudited

21. DEDUCTIONS FROM OPERATING REVENUES

	1999 R$	1998 R$
Global reversal reserve installments	16,363	10,230
ICMS on electric power	180,303	154,126
COFINS and PIS	30,732	19,698
	227,398	184,054

22. CHANGES TO THE BRAZILIAN TAX LAWS

In 1999, the Brazilian Federal Government made changes to the tax laws, from which the most significant are:

- The COFINS rate remains at 3%, but from January 2000, no longer offset 33.33% of this contribution with the social contribution on the net profit;
- Reduction of social contribution rate on the net profit from 12% to 9%, as from February 2000, and from 9% to 8%, as from January 2003;
- From October 1999, social contribution is chargeable on the net profit earned abroad;
- Possibility of using the IPI [Excise Tax] assumed credit for PIS and COFINS.

23. PRIVATIZATION PROCESS

On October 21, 1997, through a Special Auction conducted by the Extreme South Stock Exchange - BVES, the privatization of Companhia Centro-Oeste de Distribuição de Energia Elétrica, currently AES Sul Distribuidora Gaúcha de Energia S. A., took place in which Companhia Estadual de Energia Elétrica - CEEE held 100% of its capital stock. The sale price was R$ 1,510,000, with a 93.55% premium. As set forth in the Invitation to Bid related to the privatization, the following obligations were assumed by the auction winner (AES Guaíba Empreendimentos Ltda.):

- To ensure that at least one member of the Company's Board of Directors is freely appointed by the employees. Should the shares held thereby, including those purchased upon the offer to the employees, are not enough to ensure an election, the election process related to the election of the representative of employees shall be coordinated by the union representing the majority of respective employees;

- To keep the Company as a "Public Company", during the term of concession.

- To assume, in connection with the Company's employees, for no more than a 3 year term, the social security benefit plan in force, as co-sponsor, without the joint participation by Fundação CEEE de Seguridade Social - Eletroceee;

- To be responsible for the funding of Fundação Eletroceeee, as to the participants vested thereto, for the time period required for the complete amortization of unfunded deficit, at rates calculated by the responsible actuary as to the plan costing, and to the extent of the sum of Actual Contribution Salaries - SRCs;

- To keep, in relation to employees, up to August 31, 2004, the conditions in force for assistance and health activities provided through a covenant entered into with the Labor Union - Senergisul;

- To assume, upon subrogation, the rights and obligations set forth in the power supply agreements, including as to the guarantees provided by CEEE to the supplier in such agreements.

24. DOWNSTREAM MERGER – AES GUAÍBA EMPREENDIMENTOS LTDA.

The following assets and liabilities were received by the downstream merger of AES Guaíba Empreendimentos Ltda. based on its balance sheet as of April 30, 1998.

	R$
Cash and cash equivalents	10,211
Premium paid at the acquisition	1,006,699
Overvaluation of assets	159,302
Future profitability	847,397
Loan	(839,205)
Capital reserve generated by downstream merger	177,705

MANAGEMENT REPORT

SHAREHOLDERS,

In accordance with the Statutory Requeriments, we present to you the Financial Statements related to the year ending on December 31, 1999, which is composed of the Balance Sheet, Statement of Income, Statement of Changes in financial position, and Statement of Changes in Shareholder's Equity, together with the respective Explanatory Notes and the Report of Independent Auditors.

1. Presentation

In keeping with the values and principles of the Company, which are observed in all its dealings in the various countries where it has investments, management concepts such as empowerment are effectively applied and practiced within the Company. The collaborators (employees), organized in autonomous, high-performance working teams, are effectively involved in the business and this fact favors the emergence and strengthening of a challenging and enjoyable working environment, where the individual's potential is highly stimulated, thus benefiting the quality of customer service.

Through its collaborators, fairness, integrity, and social responsibility guide the Company's positioning in every decision-making process. This positioning has guaranteed the Company's absolute success in all of the countries of the world where it operates, which reinforces our conviction that profit needs to be, and is, the consequence of service being provided with quality and reliability.

Throughout 1999, we concentrated our efforts on technological updating, at the level of distribution systems and sub-transmission as well as at the level of computing systems, with the goal of furnishing our customers with clean, reliable energy at fair prices.

As planned, the Aurora Project, which included the implantation of a frame-relay data communication network as well as all the main computing systems of the Company, among which we highlight the Commercial Management System (SGC), SAP R/3, the Management of Incidents System (SGI), and the Works Management System (SGT) was entirely concluded in 1999, with complete success.

In conjunction with the National Electrical Energy Agency (ANEEL), the National System Operator (ONS), the State Secretary of Energy, Mines, and Communications (SEMC), and the other energy companies in the state we invested heavily in that which has to do with preventing the so-called millenium bug. Thanks to our collaborators' efforts and investments that were made, among which we highlight the substitution of computing systems, we overcame that problem without any anomaly, both at the level of energy distribution systems and at the level of computing systems.

At the end of the first biweekly period of January, 1999, the Central Bank of Brazil altered the exchange rate policy in effect at that time, doing away with the "Exchange Band" by which it administered the margin of fluctuation of the Real in relation to the U.S. Dollar, thus leaving the

market free to negotiate the exchange rate. This devaluation of the Real in relation to the U.S. Dollar has had a significant impact on the Company, not only in regards to debts in foreign currencies, but also in terms of other costs, such as that portion of energy that comes from Itaipu Binacional.

Significant regulatory changes were introduced by ANEEL in 1999. Examples are: the energy spot market; approving and implementing the first stage of rules for the Wholesale Energy Market (MAE), resulting in the creation of the MAE Service Administrator (ASMAE); consolidation of changes in the energy purchasing process for the suppliers, who came to be regulated by way of initial contracts, with amounts, prices, and time periods being defined; and establishing conditions and prices for the use of, and connection to, the transmission system. These had an important influence on the results.

2. Concession Area

The Company's concession area takes in the center-west region of the state of Rio Grande do Sul, having an area of more than 99.5 thousand square kilometers that is divided among 128 political municipalities. This area begins in Canoas, continuing through São Leopoldo, Novo Hamburgo, Santa Cruz do Sul, Santa Maria, Santana do Livramento, and Uruguaiana, where respectively, it borders Uruguay and Argentina, constituting what is undeniably the most important and strategic business corridor in Mercosur.

3. Market

According to data from Eletrobrás, the national average of growth in terms of energy furnished was 2.2%, while the Company experienced growth in the order of 9.2%, mainly resulting from the rural, commercial, and industrial classes, that presented variations of 23.4%, 9.8%, and 7.7% respectively, in relation to the previous year. The amount of energy that was invoiced in 1999 corresponded to 6,842 GWh, as opposed to 6,266 GWh in the previous year, while the number of customers varied by 4.8%, going from 858.8 thousand to 899.9 thousand, and benefiting more than 3 million people.

With a plan of expanding to make its services universal, the Company had an increase of 62% in terms of new consumers, increasing from 25,410 new connections in 1998 to 41,211 new connections in 1999.

4. Commercial Area

Resulting from the implementation of the new Commercial Management System (SGC), which was concluded at the end of the second quarter of 1999, improved performance was obtained in the commercial processes because of modern management and verification tools being made available that permit making the most of the previously referred processes. To highlight some of these we may cite:

- Reducing the delay (that period between reading the meter and the due-date of the energy bill) from an average of 18 days to 13 days, in the case of consumers who are connected to low tension lines, while for those consumers who are connected to high tension lines the delay is 6 days.
- Up-dating the customers' registrations: this process is underway, with those customers whose billing represents more than 50% of the total already having been re-registered. This measure introduces previously non-existent information into the registrations, thus permitting us to know our customers better, thereby providing effective, differentiated service.

- Implantation of the Call Center, in the consolidation phase, was another benefit resulting from implementing the SGC (Commercial Management System), providing our customers with service by telephone for practically all their needs and preventing the need for them to go to our service centers.
- The following was a first for Rio Grande do Sul: Beginning in July, 1999, we made available to our customers the convenience of choosing the most appropriate due-date for their electrical energy bills, permitting it to be compatible with the time they receive their income.

5. Investments

In 1999, investments were made, having in mind the execution of numerous projects and actions to improve the quality of services and electrical energy distribution. The amounts invested were R$ 8.4 million in lines and substations and R$ 12.9 million in distribution networks. In addition to the investments in electrical systems, R$ 7.9 million were invested in management systems and automation, and R$ 2.3 million in general investments were intended to improve working conditions and safety.

In 1999, the Company developed the first Program to Combat Waste of Electrical Energy (PROCEL) in conjunction with ANEEL, with prioritized investments of R$ 5.8 million and with the potential of conserving 31,735MWh per year and avoiding a demand of 9,049 kW per year.

6. Quality of Service

The efforts of the Company, with the purpose of providing services of diversified quality, are paying off and are demonstrated by the indicators of Equivalent Duration per Consumer per year (DEC) and Equivalent Frequency per Consumer per year (FEC), as is shown below:

The indicators measured in 1999, as compared with those of 1998, presented the following results: 20.03 interruptions per year (Equivalent Frequency per Consumer – FEC) and 17.57 hours of duration (Equivalent Duration per Consumer – DEC) in 1998 and, for the year of 1999, there was a reduction of 17.13%, going as low as 17.10 interruptions (Equivalent Frequency per Consumer – FEC), equivalent to 18.22 hours of duration of interruptions (Equivalent Duration per Consumer – DEC). It should be emphasized that, even with the implantation of the Management System of Incidents (SGI) being completely automated, which results in much more precise quality of information, and would tend to higher indicators of DEC and FEC, the results were considered to be excellent.

7. Technical Area

In 1999 the Company finished implementing the incident management system, the SGI. The function of this system is managing and verifying requests made by customers regarding interruptions and supply of electrical energy. The implementation of the SGI made it practical to perfect the operation of the distribution system by installing four Distribution Operation Centers (COD's), which are located in São Leopoldo, Venâncio Aires, Santa Maria, and Alegrete, permitting the re-establishment of electrical energy supply in shorter periods of time.

Likewise, the implementation of the SGT was completed, of which the main function is administrating and speeding up the process of estimating and following up the projects in the distribution system.

Another project in the final stages is the implementation of the BDI (database of installations), a registration system of networks and geo-referenced equipment that will make possible the implementation of a new system of distribution management networks - the Module of Studies, predicted to be completed in March of 2000, and that will make it possible to improve conditions for verifying assets and planning expansion.

8. Administration

The constant modernization of the working processes, based on worldwide best practices, is one of the premises of the Company. In accordance with this premise, in 1999 the Company elaborated a voluntary dismissal plan with the intention of renewing and certifying its personnel, obtaining the participation of 334 collaborators.

Moreover, it promoted a significant improvement in the R/3 SAP System, which was implemented in 1998, with the objective of better attending to the demands of its administration and of the regulating agencies.

In order to attend to its Projects Program, the Company generated more than 886 indirect jobs in the state of Rio Grande Do Sul, resulting from a partnership with the subcontractors that work in the maintenance of its entire system of lines, networks, and substations.

In the year of 1999, the employees tried new technologies, such as compact networks, which are environmentally correct as they prevent the trimming of trees planted beneath the network, and for this very reason are less subject to interruptions of the electrical energy supply on stormy days. Our objective is to attain a zero level of on-the-job accidents, which is why we are evaluating the efforts in training our collaborators and also out-sourced personnel, aiming to appropriately qualify all those who are exposed to situations of risk in operating and maintaining the distribution system.

We are developing a project together with the general population with the intention of orienting the community as to the risks that electrical energy may cause when misused. That is why a "Campaign for the Prevention of Electrical Risks" was initiated in 1999 with the distribution of notices alerting the population as to the risks and tips for better use of electrical energy.

This project also includes distribution of this notice in schools within the concession area of the Company, reaching approximately 50,000 children, with its implementation planned for the year 2000. Likewise, our professionals give lectures in schools, demonstrating the workings of the electrical system and the inherent risks and benefits of electrical energy.

Yet in terms of social responsibility, among other activities, we donated computers to needy schools, and began a project of increasing awareness as to adult literacy, with a pilot project underway in the municipality of Triunfo.

9. Conclusion

Upon closing the year of 1999, the Management feels content for having presented growth in the electrical energy supply and an increase in the number of customers being served, as well as presenting improvement in the indices of quality of services provided, even though the change in the exchange rate policy had a very strongly negative long-term effect on our business.

Additionally, the Company feels fulfilled in having attained its goal of commitment in providing quality service to the people of Rio Grande do Sul in all of the communities where it is present. The Management attributes this success to the action of its collaborators and their adherence to the values of the Company.

10. Statement of Added Value

The statement of added value shows the origins of the Company's revenue as well as its distribution to the various segments of the society:

	R$ 1999	R$ 1998
Income		
Gross Operating Revenues	865.822	745.952
Gross Nonoperating Income	2.774	2.331
	868.596	**748.283**
Purchases of consumption materials		
Eletric Power purchased for sale	(361.168)	(304.696)
Third parties' services	(40.093)	(33.894)
Materials	(3.893)	(4.209)
Other Expenses	(56.011)	(53.981)
	(461.165)	**(396.780)**
Gross added value	**407.431**	**351.503**
Depreciation and Amortization	(57.130)	(31.477)
Net Added Value	**350.301**	**320.026**
Financial income	17.621	16.369
Reversal (computation) of provision for labor Contingencies	1.263	(5.268)
Reversal (computation) of provision for further contribution to pension funds	16.045	(1.429)
Reversal (computation) other provisions	6.935	(30.558)
Income tax and Social Contribution	173.730	8.577
Added value to be added	**565.895**	**307.717**
Distribution of added value		
Personnel	61.231	20.318
Government	229.250	188.890
Financial expenses	629.371	107.997
Net loss the year	(353.957)	(9.488)
	565.895	**307.717**

STATEMENT OF SOCIAL INDICATORS –as of December 31, 1999 and 1998

1. Basis		**1999 (R$)**			**1998 (R$)**	
1.1 – Gross Income		865.822			745.952	
1.2 – Operating Loss		(530.384)			(15.982)	
1.3 – Payroll		32.586			37.852	
	1999			**1998**		
2. Labor Indicators	**Amount**	**% of Payroll**	**% of Operating Loss**	**Amount**	**% of Operating Loss**	**% of Operating Loss**
2.1 – Meals	136	0.417%	0.026%	264	0.697%	1.652%
2.2 – Compulsory payroll charges	8.681	26.640%	1.637%	3.653	9.651%	22.857%
2.3 – Pension plan	10.553	32.385%	1.990%	10.297	27.203%	64.429%
2.4 – Health	241	0.740%	0.045%	1.446	3.820%	9.048%
2.5 – Education	427	1.310%	0.081%	330	0.872%	2.065%
2.6 – Profit sharing	0	0.000%	0.000%	0	0.000%	0.000%
2.7 – Other benefits	162	0.497%	0.031%	0	0.000%	0.000%
Total – Labor Indicators (2.1 to 2.7)	**20.200**	**61.990%**	**3.809%**	**15.990**	**42.243%**	100.050%
3. Social Indicators	**Amount**	**% of Payroll**	**% of Operating Loss**	**Amount**	**% of Payroll**	**% of Operating Loss**
3.1 – Tax (excluding payroll charges)	211.219	648.189%	39.824%	181.083	478.397%	1133.043%
3.2 – Contribution to the society/Social responsability	18	0.055%	0.003%	0	0.000%	0.000%
3.3 – Environmental investment	0	0.000%	0.000%	283	0.748%	1.771%
Total – Social Indicators (3.1 to 3.3)	**211.237**	**648.245%**	**39.827%**	**181.366**	**479.145%**	**1134.814%**
	1999			**1998**		
4. Head Count Indicators	**Head Count**			**Head Count**		
4.1 – Head Count at the end of the year		718			937	
4.2 – People hired during the year		188			339	

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APPENDIX C – AES CAYMAN GUAIBA CONSOLIDATED QUARTERLY INFORMATION REPORT AS OF SEPTEMBER 30TH, 1999 AND 2000

AES Cayman Guaiba, Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine-Month Periods Ended September 30, 2000 and 1999, and Independent Auditors Report on the Limited Review

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Deloitte Touche Tohmatsu Auditores Independentes

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999

Table of Contents

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors
AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES
Cayman

1. We have conducted a limited review of the accompanying consolidated balance sheets of AES CAYMAN GUAIBA, LTD., AND SUBSIDIARIES, as of September 30, 2000 and 1999, and the related consolidated statements of income (loss), changes in shareholders' equity (controlling company), and changes in financial position for the nine-month periods then ended, prepared under its management's responsibility.

2. We conducted our reviews in accordance with special standards set forth by the Brazilian Institute of Accountants - "IBRACON", and such review consisted primarily of applying analytical review procedures to financial data, and of ascertaining, together with those responsible for the accounting and financial areas, the criteria adopted to prepare the consolidated financial statements. Since such a review does not represent an audit in accordance with the Brazilian Accounting Standards, we are not expressing herein an opinion on such consolidated financial statements.

3. Based on our limited reviews, we have no knowledge of any significant changes to be made to the consolidated financial statements of AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES, referred to in the first paragraph, in order for them to be in accordance with generally accepted accounting principles established by the Brazilian Corporate Law.

Porto Alegre, November 1, 2000.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC-SP 11609 S/RS

Fernando Carrasco
Accountant
CRC number SP 157760/T-1

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2000 AND 1999
(Amounts in thousands of Brazilian *reais*) – UNAUDITED

ASSETS

	2000	1999
CURRENT ASSETS		
Cash and cash equivalents	3,286	10,373
Marketable securities	3,805	3,603
Customers and retailers	117,614	124,867
Allowance for doubtful accounts	(3,717)	(10,567)
Receivables	1,780	
Sundry debtors	2,490	276
CEEE accounts receivable	3,742	470
Taxes contributions recoverable	7,962	9,428
Warehouse inventory	733	1,360
Other credits	11,243	13,083
Pre-paid expenses	17,711	15,943
Total current assets	166,649	168,836
LONG-TERM ASSETS		
Customers and retailers	22,727	
Pledges and deposits in guarantee	35,469	32,295
Intercompany loans		16,652
Deferred income and social contribution taxes	291,970	255,759
Others	4,753	
Total long-term assets	354,919	304,706
PERMANENT ASSETS		
Investments	5,076	5,847
Property, plant and equipment – net	819,951	771,404
Deferred – net	741,380	808,836
Total permanent assets	1,566,407	1,586,087
TOTAL	2,087,975	2,059,629

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2000 AND 1999
(Amounts in thousands of Brazilian *reais)* - UNAUDITED

LIABILITIES AND SHAREHOLDERS' EQUITY

	2000	1999
CURRENT LIABILITIES		
Suppliers	70,680	52,048
Debt charges	21,988	19,175
Taxes and social contributions	18,649	17,757
Loans and financing	34,557	9,595
Estimated liabilities	5,637	5,283
Sundry provisions	25,284	34,395
Other liabilities	28,812	13,898
Total current liabilities	205,607	152,151
LONG-TERM LIABILITIES		
Loans and financing	779,740	819,637
Sundry provisions	81,448	102,898
Provision for further contribution to pension funds	32,982	29,694
Payable to Parent company	15,068	36,464
Other liabilities	21,878	6,213
Special liabilities	41,567	35,599
Total long-term liabilities	972,683	1,030,505
MINORITY INTEREST	6,550	9,395
SHAREHOLDERS' EQUITY		
Capital	1,320,724	1,320,724
Accumulated losses	(417,589)	(453,146)
Total shareholders' equity	903,135	867,578
TOTAL	2,087,975	2,059,629

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999
(Amounts in thousands of Brazilian *reais*) - UNAUDITED

	2000	1999
GROSS OPERATING REVENUES		
Electric power sales	750,446	631,337
Electric power supply	10,941	3,545
Others	10,158	11,764
	771,545	646,646
DEDUCTIONS FROM OPERATING REVENUES		
Allotment for global reversal reserve – RGR	(10,204)	(6,550)
Taxes and contributions on revenues	(178,995)	(150,094)
	(189,199)	(156,644)
NET OPERATING REVENUES	582,346	490,002
OPERATING INCOME (EXPENSES)		
Personnel	(22,153)	(50,047)
Material	(2,995)	(2,982)
Third parties' services	(34,568)	(28,712)
Electric power purchased for sale	(312,276)	(224,866)
Electric power transportation	(36,785)	(33,276)
Depreciation and amortization	(66,185)	(61,729)
Allotment for fuel consumption account	(25,791)	(17,481)
Other	(282)	6,654
	(501,035)	(412,439)
SERVICE RESULT	81,311	77,563
FINANCIAL INCOME (EXPENSES)		
Income from financial applications	357	4,927
Monetary and foreign exchange rate variances – net	(24,439)	(466,886)
Debt charges	(89,577)	(80,603)
Other	(3,331)	2,405
	(116,989)	(540,157)
OPERATING LOSS	(35,678)	(462,594)
NON-OPERATING INCOME (EXPENSES)		
Non-operating income	672	5,308
Non-operating expense	(657)	(1,612)
	15	3,696
LOSS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	(35,663)	(458,898)
Current social contribution	(19)	
Deferred social contribution	12,063	45,423
Provison for income tax	(5,058)	(6,213)
Deferred income tax	37,661	141,823
	44,647	181,033
MINORITY INTEREST	4,465	17,033
NET INCOME (LOSS) FOR THE PERIOD	13,449	(260,832)

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTROLLING COMPANY)
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999
(Amounts in thousands of Brazilian *reais*) - UNAUDITED

	Capital	Accumulated Losses	Total
BALANCES AS OF JANUARY 1, 1999	765,184	(192,314)	572,870
Capital increase	555,540		555,540
Net loss for the period		(260,832)	(260,832)
BALANCES AS OF SEPTEMBER 30, 1999	1,320,724	(453,146)	867,578
BALANCES AS OF JANUARY 1, 2000	1,320,724	(431,038)	889,686
Net income for the period		13,449	13,449
BALANCES AS OF SEPTEMBER 30, 2000	1,320,724	(417,589)	903,135

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999
(Amounts in thousands of Brazilian *reais*) - UNAUDITED

	2000	1999
SOURCES OF FUNDS		
From operations:		
Net income (loss) for the period	13,449	(260,832)
Expenses (income) not affecting working capital:		
Depreciation and amortization	66,185	61,729
Long-term monetary and foreign exchange rate variances	24,744	454,886
Computation (reversal) of sundry provisions	(1,175)	(14,861)
Deferred income and social contribution taxes	(49,724)	(187,242)
Cost of permanent assets written-off	2,527	2,074
Minority interest	(4,465)	(19,973)
Total arising from operations	51,541	35,781
From Shareholders:		
Capital increase		555,540
Parent company Loans	10,798	10,788
	10,798	566,328
From third parties:		
Loans and financing obtained	1,815	459
Customers and third party resources	4,910	4,656
Decrease in long-term assets	2,412	
	9,137	6,162
Total sources	71,476	607,224
APPLICATIONS OF FUNDS		
Payment of long – term loan “Sul Project”		546,944
Long-term asset increase		21,752
Increase in investments		870
Increase in property, plant and equipment	47,189	38,534
Increase in deferred assets	1,960	
Transfer of long-term to current liabilities	10,362	3,998
Total applications	59,511	612.098
INCREASE (DECREASE) IN WORKING CAPITAL	11,965	(4,874)
VARIANCES IN WORKING CAPITAL		
Current assets:	30,233	12,260
At the beginning of the period	136,416	156,576
At the end of the period	166,649	168,836
Current liabilities:	(18,268)	(17,134)
At the beginning of the period	(187,339)	(135,017)
At the end of the period	(205,607)	(152,151)
Increase (decrease) in working capital	11,965	(4,874)

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000 AND 1999 (UNAUDITED)
(Amounts in thousands of Brazilian *reais-R$*)

1. COMPANY OPERATIONS

The AES Cayman Guaíba, Ltd. Group and Subsidiaries are composed of two holding companies, AES Cayman Guaíba, Ltd and AES Guaíba II Empreendiments Ltda., and an operating company AES Sul Distribuidora Gaúcha de Energia S.A.

AES Cayman Guaiba, Ltd., (hereinafter referred to as "Guaiba"or the "Company"), a company organized and existing under the laws of the Cayman Islands, commenced operations on September 15, 1997. Guaiba, a holding company and wholly owned subsidiary of AES Corporation ("AES"), was organized for the purpose of developing, funding, purchasing and operating certain electricity distribution projects in Brazil. Guaiba is vested in a 99% interest in AES Guaíba II Empreendimentos Ltda. ("Guaiba II") capital stock, a holding company with its principal place of business in Brazil, holding 96.6% of the shares in AES Sul Distribuidora Gaúcha de Energia S.A. (hereinafter referred to as "Sul").

Sul, a public corporation operating as a public concessionaire for electric power services, organized on July 28, 1997, under the designation Companhia Centro-Oeste de Distribuição de Energia Elétrica, was taken over on October 21, 1997, through the privatization process arising from the Companhia Estadual de Energia Elétrica - CEEE split-up. On December 18, 1997, its corporate name was changed to AES Sul Distribuidora Gaúcha de Energia S.A.

Sul's corporate objective is to conduct studies, projects, construct and operate electric power generating plants, transmission lines, and electric power distribution, and to develop activities related to electric power service distribution.

Sul, pursuant to the Contract for Distribution Concession number 12/97, has a concession for electric power distribution for a 30 year period, covering more than three million inhabitants* of the Center-West Region of the State of Rio Grande do Sul, in Brazil, comprising 128 municipalities*.

* Not subject to auditor's review

2. PRESENTATION OF THE FINANCIAL STATEMENTS

Guaiba, the controlling company, is located in the Cayman Islands and maintains its accounting records in United States dollars, and in accordance with generally accepted accounting principles in the United States of America. Guaiba's financial statements were translated into Brazilian *reais* and consolidated with its subsidiaries based on the accounting principles established by the Brazilian Corporate Law with the purpose of presenting financial information which includes the source of the resources and the energy

operation distribution. In translating the original operations amounts in US$ to the currency in which the financial statements are presented - Brazilian *Reais*, the following criteria was used: assets and liabilities were translated into Brazilian *Reais* at the exchange rate in force on the date of the balance sheet; the capital stock was translated at the exchange rate in force on each pay-up date; and revenues and expenses arising from operations, at the current average exchange rate in force in the month of the accounting entry.

The financial statements of Guaíba II and Sul included in the consolidation, pursuant to the practices mentioned in note 3.a, were prepared in Brazilian *Reais*, in accordance with the accounting principles established by the Brazilian Corporate Law (Law number 6.404/76 and Law number 9.457/97), under the special standards of Comissão de Valores Mobiliários - CVM [a Brazilian equivalent body to the Security and Exchange Commission - SEC] and the rules applicable to public concessionaires for electric power service provision, issued by the Granting Power, represented by Agência Nacional de Energia Elétrica - ANEEL, pursuant to the main accounting practices detailed in note 3b and c.

3. SUMMARY OF ACCOUNTING PRACTICES

a) Consolidation

The main accounting practices adopted in the consolidation were as follows:

- elimination of investments in subsidiaries by the controlling company, as well as the intercompany investment;
- elimination of accounting balances between the controlling and controlled companies included in the consolidation;
- calculation of minority shareholders interest in the balance sheets and statements of income.

The following companies are included in the consolidation:

- AES Cayman Guaiba, Ltd. (Guaiba), holding a 99% interest in AES Guaiba II Empreendimentos Ltda.;
- AES Guaiba II Empreendimentos Ltda. (Guaiba II), holding a 96.6% interest in AES Sul Distribuidora Gaúcha de Energia S.A.
- AES Sul Distribuidora Gaúcha de Energia S.A.

b) Special accounting practices for the electric power sector

Overhead costs for work in progress – a portion of the Central Management costs is appropriated to the acquisitions of fixed assets under construction. Such an appropriation is carried out on a monthly basis, and it is limited to 10% of the direct expenditures with third parties' labor and personnel related to the work in progress.

Special liabilities – refer to the customer contributions, and represent funds received to pay for connections for electric power service provision. Because of their nature, such customers' contributions do not represent actual financial liabilities and, accordingly, they should not be treated as liabilities for purposes of determining economical-financial

indicators. Should the Company wind-up such liabilities would represent amouts to be returned to the Federal Government.

c) General Accounting Practices

Statement of income (loss) - revenues and expenses are recorded on an accrual basis. The indexed assets and liabilities are updated on a "*pro rata* tempore" basis.

Marketable securities - the financial applications are recorded at cost, including the respective yields earned up to the balance sheet date.

Customers and retailers - customers and retailers include the invoiced electric power provision and the provided electric power not billed up to the balance sheet date, ascertained on an accrual basis.

Allowance for doubtful accounts – the allowance consists of an amount considered sufficient to cover possible losses related to the collection of receivables.

Warehouse inventory- consists of materials destined for operations maintenance and reflects the average purchase cost, which does not exceed the market value.

Pre-paid expenses - refer mainly to the Fuel Consumption Account - "CCC" - charges, to be appropriated to the results for the period to the extent that the corresponding revenue is billed to customers in 2000, and to the amount incurred during the first quarter of 1999 regarding the electric power supply generated by Itaipu, which is being appropriated in relation to the results for the period over which it shall be recovered from customers.

Deferred financial costs – The prepaid financial costs on loans were deferred and are being amortized by the straight-line method, in accordance with the agreements effective terms.

Property, plant and equipment, net – such assets are registered at purchase or construction cost, being monetarily restated up to 12/31/95, plus the amount paid by the controlling company corresponding to the goodwill paid in 1998, less depreciation calculated by the straight-line method at annual rates equivalent to 4% for buildings, civil works, and improvements; from 3.3% to 10% for machinery and equipment related to distribution, subtransmission lines, and substations; and from 10% to 20% for other equipment.

Deferred net – is primarily represented by the goodwill paid in the acquisition of Sul, based on a future profitability expectation. The goodwill amortization is calculated by the straight-line method, based on the concession term of 30 years.

Income tax and social contribution – Since Guaiba is organized in the Cayman Islands its operations are tax exempt, the amounts presented at the balance sheet and income statement refers to the operating company - Sul calculated in conformity with the tax laws in force. The Company records deferred income tax and social contribution tax on the social contribution negative basis, tax losses, and temporarily non-deductible provisions.

Loans and financing - the loans and financing are updated based on the indexes set forth in agreements up to the balance sheet date, and interest is accrued considering the days elapsed up to the balance sheet date and included in the debt charges classification.

Provision for further contribution to pension funds – the future liability estimated based on the actuarial valuation, annually prepared by independent actuaries for covering expenditures with contributions to employees' pension fund recorded on an accrual basis.

Leasing agreements - the assets purchased through leasing operations are registered under fixed assets on the date of operation, as under loan and financing, and are depreciated by the straight-line method, upon the application of the rates set forth in note 6.

Provisions for contingencies - are computed based on the loss risk evaluation on pending lawsuits, based on reports prepared by Company's legal counsels.

4. CUSTOMERS AND RETAILERS

	Number of Customers			
	2000	1999	2000	1999
	R$	R$	R$	R$
CURRENT ASSETS:				
Residential	742,688	721,750	27,690	25,781
Industrial	18,444	18,331	9,649	10,468
Trade and services	71,263	69,382	9,851	8,764
Rural	79,453	76,466	6,381	5,793
Public Power	6,388	6,354	3,484	6,633
Public lighting	107	109	12,940	21,234
Public service	658	600	3,350	2,499
Supply	3	3	6,714	278
Non-billed supply			37,555	43,417
Total current assets	919,004	892,995	117,614	124,867
LONG-TERM ASSETS:				
Public power			2,228	
Public lighting			20,499	
Total long -term assets			22,727	
Total customers and retailers			140,341	124,867

The long-term values refer to customers from governmental sector and to public lighting, which are negotiating with the objective of dividing their debts into installments.

5. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

Refers to the deferred income tax and social contribution on temporarily non-deductible provisions, tax loss (income tax), and negative basis (social contribution) recorded by Sul, as follows:

Description	2000 R$	1999 R$
On provisions for tax and labor contingencies	17,255	20,462
On provisions for further contribution to pension funds	10,884	9,799
On provision for retirement incentive	13,463	14,857
On provision for contractual losses	1,889	7,050
On tax loss (Income Tax) and negative basis (Social Contribution)	243,383	197,579
On other provisions	5,096	6,012
Total	291,970	255,759

6. PROPERTY, PLANT AND EQUIPMENT, NET

Description	2000 R$	1999 R$
Fixed assets in service:		
Distribution -	1,222,956	1,120,203
Management:	27,322	40,740
	1,250,278	1,160,943
(-) Accumulated depreciation:		
Distribution -	(461,048)	(395,108)
Management	(7,170)	(11,227)
	(468,218)	(406,335)
Fixed assets under construction:		
Distribution	34,189	15,155
Management	3,702	1,641
	37,891	16,796
Total	819,951	771,404

7. PROPERTIES USED BY THE CONCESSION

Pursuant to Articles 63 and 64 of the Decree number 41.019, of 2/26/57, properties and installations used in production, transmission, distribution and trade are an integral part of such services, and they may not be removed, disposed of, assigned or given as mortgage without the Regulatory Body's prior and express consent. The ANEEL Resolution number 20/99, regulates the liberation of the properties of Electric Power Public Service concessions, granting a prior consent to the liberation of properties unsuitable to the concession, when destined for disposal. It also determines that the proceeds from the disposal are deposited in a blocked bank account, to be applied to the concession.

8. DEFERRED

	2000 R$	1999 R$
Premium – expectation of future profitability	802,164	847,706
Accumulated amortization	(65,583)	(40,694)
Premium – net	736,581	807,012
Others	4,799	1,824
Total	741,380	808,836

9. SUPPLIERS

Description	2000 R$	1999 R$
ELETROSUL – ITAIPU Transfer	24,032	25,450
Companhia Estadual de Energia Elétrica – CEEE	4,145	4,086
Companhia de Geração Térmica de En. Elétrica – CGTEE	2,619	3,064
Centrais Geradoras do Sul do Brasil S,A – GERASUL	14,482	11,766
Companhia Paranaense de Energia – COPEL	1,110	2,368
AES Uruguaiana Empreendimentos	735	
Bilateral Contracts	471	
Short-Term Electric Power	10,054	
Total electric power suppliers	57,648	46,734
Transmission Use	4,259	925
Other suppliers	8,773	4,389
Total	70,680	52,048

10. TAXES AND SOCIAL CONTRIBUTIONS

Description	2000 R$	1999 R$
ICMS [State Valued-added Tax]	13,800	13,845
INSS [National Institute of Social Security]	559	231
FGTS [Government Severance Indemnity Fund for Employees]	79	146
PIS[1] / PASEP[2]	436	464
COFINS [Social Contribution on Billings]	2,617	2,157
Withholding income tax	430	651
Others	728	263
Total	18,649	17,757

[1]PIS - Employees' Profit and Participation Program

[2]PASEP - Public Service Employee Savings Program

11. LOANS AND FINANCINGS

Description	*Index*	Rates	Short-Term	Long-Term	Total 2000	1999
		% per year	R$	R$	R$	R$
Local currency						
Fundação ELETROCEEE	INPC[3]	9 p.a.	1,953	21,160	23,113	23,436
Leasing	-	From 27.92 Up to 34.32 p.a.	1,275	71	1,346	1,972
Customers	-	-	6,796	350	7,146	6,412
Eletrobrás	-	7 p.a.	333	759	1,092	883
BNDES	TJLP[4]	4.50 p.a.		1,481	1,481	
Working Capital Loans	CDI[5]	18.44 p.a.6	22,737	-	22,737	1,919
Total National Currency			33,094	23,821	56,915	34,622
Foreign Currency						
Funding of "Sul Project"	Dollar	14.72 p.a.		755,917	755,917	788,143
Leasing	Dollar	From 16.98 Up to 19.20 p.a.	1,463	2	1,465	6,467
Total Foreign Currency			1,463	755,919	757,382	794,610
TOTAL LOANS AND FINANCING			34,557	779,740	814,297	829,232

[3]INPC - National Consumer Price Index
[4]TJLP - Long-Term Interest Rate
[5]CDI - Interbank Deposit Certifcate

The long-term installments regarding loans obtained from Fundação Eletroceee and funding of "Sul Project", will be due as follows:

Maturity years	2000 R$
2001	498
2002	757,870
2003	1,953
2004	1,953
2005	1,953
Thereafter	12,850
	777,077

Funding "Sul Project"

The funding "Sul Project" refers to a loan obtained by Guaiba in an amount corresponding to US$ 410 million, having as loan coordinator the BankBoston, N.A., in a consortium loan

operation (Credit Agreement). Pursuant to the terms in the Credit Agreement, interest is due on a quarterly basis, at a rate equivalent to the three month LIBOR – London Interbank Offered Rate plus 8% per year. The weighted average interest rate as of September 30, 2000 was 14.72%.

The Credit Agreement's maturity date is April 26, 2002. Partial settlements are allowed, upon written notice to the investors, without any penalty or premium.

As a guarantee to funding "Sul Project", Guaiba provided shares in Sul representing approximately 97% of Sul's capital stock. The Credit Agreement requires the performance of certain restrictive conditions, including those restricting Company's capability of paying dividends to its controlling company before complying with the requirements related to debt service, and that restricting the contracting of additional financing.

In connection to the Credit Agreement, the Company has entered into a collar hedging agreement, for obtaining protection from the interest rate variance, in an amount corresponding to at least 50% of the Credit Agreement principal (see note 12).

Up to April 1999, Sul had obligations arising out of FRN's – Floating Rate Notes issue, in the amount of US$ 730 million, with BankBoston acting as agent to a group of investors, which were refinanced through the Credit Agreement, in the amount of US$ 410 million and, also, through the capital increase in the amount of approximately US$ 320 million.

Fundação Eletroceee

The amount of the loan from Fundação Eletroceee, refers to a debt assumption agreement, assumed due to the agreement entered into by Companhia Estadual de Energia Elétrica – CEEE before the privatization process. The amortizations are on a monthly basis and, as a guarantee, the electric power sale receivables held by a number of banks, was offered.

Leasing

The leasing agreements include computer equipment, vehicles, and furniture and fixtures. The Company has registered the leases as a fixed asset due to its intention to purchase the asset at the end of the leasing period. The agreement terms vary from 24 to 36 months.

Customers

The loan designated Customers refers to advances paid by customers interested in electric power supply for their installations, generally including a distribution network expansion. Such amounts shall be returned within a four-year term from the date the installation is completed, without the incurrence of interest or monetary restatements. The advances received from the year of 1998 started to be returned within a one-year term, restated by the IGP-M [General Price Index - Market] variance.

12. HEDGING AGREEMENT

During 1999, Guaíba entered into a collar-type hedging agreement without cost, equivalent to 50% of the Credit Agreement principal amount. Such hedging agreement provides protection related to the floating of variable interest rates set forth in the Credit Agreement at a rate equivalent to no less than 4.7%, and not to exceed 8%. There are no unrealized losses since they are based on the market value as of September 30, 2000.

13. SUNDRY PROVISIONS

Description	Short-term		Long-term	
	2000	1999	2000	1999
	R$	R$	R$	R$
Provision for labor contingencies	8,826	9,775	16,983	24,244
Provision for tax contingencies	3,757	5,268	29,887	29,887
Provision for temporary supplementation of salaries and for the retirement incentive plan – "PAI"	8,112	8,270	32,685	36,751
Provision for bad contracts	4,461	10,851	1,264	10,511
Other provisions	128	231	629	1,505
Total	25,284	34,395	81,448	102,898

Provision for labor contingencies

Companhia Estadual de Energia Elétrica - CEEE is the defendant in a number of labor legal claims. As a successor to such company, the Company is responsible for the indemnities paid to employees transferred.

Sul, relying in the opinion of legal counsels, registered a provision for labor contingencies with the purpose of covering likely future expenditures with labor indemnities.

Provision for tax contingencies

Short-term

Fundação Eletroceee [Eletroceee Foundation] is the defendant in two legal claims of a tax nature, in respect on the incurrence of withholding income tax calculated on the revenues earned by the Foundation on its fixed-income financial applications (CDB [Bank Deposit Certificates], CDI, etc.), and on those providing a variable income (stock market). Such processes total R$ 89,249. Sul, relying in the opinion of its legal counsels, set aside the amount of R$ 3,757 (R$ 5,268 in 1999), based on its percentage of interest in such Foundation.

Long-term

Sul filed two writs applying for the tax immunity of the operation relevant to the electric power supply in relation to PIS / PASEP and COFINS, based on the provisions contained in the paragraph 3, Article 155, of the Federal Constitution, and it also filed, during the first quarter of 1999, a writ questioning the new basis for the calculation of PIS and COFINS, and the increment of COFINS rate. Up to June 1999, the share of such levies regarding electric power operations, amounting to R$ 6,793 for PIS / PASEP, and R$ 23,094 for COFINS, was deposited with the courts. From July, upon instructions by its legal advisory, such amounts started to be directly paid to the Federal Revenue as a result of an unfavorable determination issued by the Supreme Court in a lawsuit of another company on the same matter as that questioned by Sul. In relation to the process filed against the increase of PIS calculation basis, Sul, up to December 1999, is making monthly deposits with the courts. As from January 2000, it started to pay directly to the Federal Revenue Service the amount of PIS on financial revenues.

As to the COFINS levied on revenues different from those arising from the sale of properties and services, Sul deposited the COFINS with the courts from March 1999 to June 2000, and it remains making court deposits on a monthly basis.

Sul, through its legal advisors, requested in court the transfer to the Government of judicial deposits made for PIS/PASEP and Cofins calculated on billings. Such request remains under analyses and to date it has not been granted.

Provision for temporary supplementation of salaries and for the retirement plan – PAI - incentive

As a result of the labor bargaining agreement, the Company is responsible for the payment of the benefit of supplementing the pension (arising from service years) granted by the Regular Social Security Body to the participant registered in Fundação Eletroceee, who, on December 31, 1997, had not complied with all of the requisites for receiving the benefits from the Foundation. The benefit shall be paid by Sul up to the compliance with all of the requisites required for its receipt, when he/she shall be definitely retired by the Foundation.

Sul is providing for future commitments considering the term of payment for such benefit, discounted to the current amount using the 12% rate per year relevant to the additional salary of those whom, as of that date, have exercised their rights to the regular pension. The salary supplementation shall be paid until the acknowledgement of the benefit by the Foundation,.

Provision for losses on contracts

This refers to the provision for likely losses in electric power selling agreements to large-sized industrial customers, cooperatives and purchase energy from power companies.

14. PAYABLE TO PARENT COMPANY

Description	2000	1999
	R$	R$
Borrowings from AES Corporation	14,418	32,748
Loan interest	650	3,716
Total	15,068	36,464

Monthly fixed-interest rates based on the United States Federal Rate Variance are due on the loan balance. The term for such loans is 10 years, and there are no penalties or premiums for advance payments, whether on a partial basis or as a whole.

15. CAPITAL

Authorized common stock of Guaiba is represented by 50,000 shares of US$ 1.00 per share. Additional paid in capital amounted to US$ 1,019,669.

16. PROVISION FOR FURTHER CONTRIBUTION TO PENSION FUNDS

Sul is a co-sponsor (4.21%) of Fundação CEEE de Seguridade Social - Eletroceee whose main purpose is the supplementation of social security benefits to the participants. The benefit plan was formed in accordance with “determined benefit” features, under a financial capitalization system, using as actuarial method the projected unit credit.

The sponsors are responsible for the coverage of any deficit ascertained in the Foundation benefit plan.

On September 30, 2000 based on the actuarial evaluation result conducted under the responsibility of independent actuaries, Sul registered an additional provision for future supplementation for contribution to the pension fund, as follows:

Description	2000	1999
	R$	R$
Granted benefits - benefits to retired employees	74,304	53,385
Benefits to be granted - Active employees	25,061	25,276
Total	99,365	78,661
Plan net assets – Proportional	(63,900)	(50,266)
Total provision	35,465	28,395
Amortizable actuarial earnings (loss)	(2,483)	1,299
Provision for additional contribution to the Pension fund	32,982	29,694

The main assumptions used by the independent actuary are:

- Discount rate: IGP – General Price Index + 6% per year
- Salary increases: IGP + 2% per year
- Plan return rate: IGP + 6% per year

-

17. PRIVATIZATION PROCESS

On October 21st, 1997, through a Special Auction conducted by the Extreme South Stock Exchange - BVES, the privatization of Companhia Centro-Oeste de Distribuição de Energia Elétrica, currently AES Sul Distribuidora Gaúcha de Energia S. A., in which Companhia Estadual de Energia Elétrica - CEEE held 100% of its capital stock took place. The sale price was R$ 1,510,000, with a 93.55% premium. As set forth in the Invitation to Bid related to the privatization, the following obligations were assumed by the auction winner (AES Guaíba Empreendimentos Ltda.):

- To ensure that at least one member of the Company's Board of Directors is freely appointed by the employees. Should the shares held thereby, including those purchased upon the offer to the employees, are not enough to ensure an election, the election process related to the election of the representative of employees shall be coordinated by the union representing the majority of respective employees;

- To keep the Company as a "Public Company", during the term of concession.

- To assume, in connection with the Company's employees, for no more than a 3 year term, the social security benefit plan in force, as co-sponsor, without the joint participation by Fundação CEEE de Seguridade Social - Eletroceee;

- To be responsible for the funding of Fundação Eletroceeee, as to the participants vested thereto, for the time period required for the complete amortization of the unfunded deficit, at rates calculated by the responsible actuary as to the plan costing, and to the extent of the sum of Actual Contribution Salaries - SRCs;

- To keep, in relation to employees, up to August 31, 2004, the conditions in force for assistance and health activities provided through a covenant entered into with the Labor Union - Senergisul;

- To assume, upon subrogation, the rights and obligations set forth in the power supply agreements, including as to the guarantees provided by CEEE to the supplier in such agreements.

18. FEATURES OF THE SHARES HELD IN THE INDIRECT SUBSIDIARY SUL

Sul's capital stock is divided into 537,163,482 (536,344,395 in 1999) shares with no par value, comprising 276,941,307 (278,577,279 in 1999) of common shares and 260,222,175 (257,767,116 in 1999) of preferred shares.

Each common share shall be vested of the right to one vote in resolutions made at the General Shareholders' Meetings. Preferred shares shall not have voting rights, but shall be granted the following advantages: a) priority in equity return, without right to premium in the case that the Company is wound-up; b) right to receive, in connection to the fiscal year ending on December 31, 1998, and in the following fiscal year, cumulative dividends corresponding to no less than 38.925% from the portion of paid-up capital stock related to such shares; if profits are not sufficient to pay that dividends then reserves should be used; and c) the right to receive, in connection with the years ending from December 31, 2000, non-cumulative dividends corresponding to no less than 6% of the portion of paid-up capital related to such kind of shares.

Calculation of mandatory dividends, as of December 31, 1999, for preferred shares:

Description	R$
Paid-up capital stock corresponding to preferred shares	223,718
Minimum mandatory dividend	38.925 %
Total mandatory dividends distributable	87,082
Amount in R$ of dividend per share	0.334645682

Sul, upon Guaíba II's resolution, proposed the distribution of the minimum mandatory dividends calculated on the capital corresponding to preferred shares only to minority Shareholders. The portion corresponding to the shares held by the controlling Shareholders, amounting R$ 86,296, shall remain as a reserve held in Sul to be distributed in the future.

APPENDIX D – AES CAYMAN GUAIBA CONSOLIDATED QUARTERLY INFORMATION REPORT AS OF DECEMBER 31ST, 1998 AND 1999

AES Cayman Guaiba, Ltd and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 1999 and 1998, and Independent Auditors Report

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Deloitte Touche Tohmatsu Auditores Independentes

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 and 1998

Table of Contents

(CONVENIENCE TRANSLATION INTO ENGLISH FROM THE ORIGINAL PREVIOUSLY ISSUED IN PORTUGUESE)

INDEPENDENT AUDITORS' REPORT

To the Management of
AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES
Cayman

1. We have audited the accompanying consolidated balance sheets of AES CAYMAN GUAIBA, LTD., AND ITS SUBSIDIARIES, as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in shareholder's equity (controlling company), and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES, as of December 31, 1999 and 1998, the results of its operations, the changes in its shareholder's equity, and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles established by the Brazilian Corporate Law.

Porto Alegre, January 28, 2000.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC-SP 11609 S/RS

Fernando Carrasco
Accountant
CRC number SP 157760/T-1

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

ASSETS

	1999	1998
CURRENT ASSETS		
Cash and cash equivalents	3,242	9,173
Marketable securities	3,471	36,573
Customers and retailers	103,278	92,137
Allowance for doubtful accounts	(4,050)	(3,553)
Receivables	192	641
Sundry debtors	2,165	3,636
CEEE accounts receivable	3,717	1,856
Taxes and contributions recoverable	8,347	4,453
Warehouse inventory	622	4,197
Other credits	2,827	5,356
Pre-paid expenses	12,605	2,107
Total current assets	136,416	156,576
LONG-TERM ASSETS		
Customers and retailers	22,496	
Pledges and deposits in guarantee	32,887	13,735
Intercompany loans		13,460
Deferred income and social contribution taxes	242,247	68,517
Others	9,978	
Total long-term assets	307,608	95,712
PERMANENT ASSETS		
Investments	5,631	4,977
Property, plant and equipment – net	820,592	774,066
Deferred – net	759,747	831,443
Total permanent assets	1,585,970	1,610,486
TOTAL	2,029,994	1,862,774

The accompanying notes are an integral part of the financial statements.

CAYMAN GUAIBA, LTD, AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1999	1998
CURRENT LIABILITIES		
Suppliers	59,844	45,960
Debt charges	19,653	14,290
Taxes and social contributions	19,149	14,900
Loans and financing	24,866	4,848
Estimated liabilities	5,559	3,366
Sundry provisions	35,714	39,418
Other financings	22,554	12,235
Total current liabilities	187,339	135,017
LONG-TERM LIABILITIES		
Loans and financing	763,500	914,559
Sundry provisions	91,636	106,654
Provision for further contribution to pension funds	29,894	47,012
Payable to parent company	4,270	25,676
Other financings	15,953	
Special liabilities	36,701	31,618
Total long-term liabilities	941,954	1,125,519
MINORITY INTEREST	11,015	29,368
SHAREHOLDERS' EQUITY		
Capital	1,320,724	765,184
Accumulated losses	(431,038)	(192,314)
Total shareholders' equity	889,686	572,870
TOTAL	2,029,994	1,862,774

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

	1999	1998
GROSS OPERATING REVENUES		
Electric power sales	848,757	727,671
Electric power supply	1,972	1,724
Others	15,093	16,557
	865,822	745,952
DEDUCTIONS FROM OPERATING REVENUES		
Allotment for global reversal reserve – RGR	(16,363)	(10,230)
Taxes and contributions on revenues	(211,035)	(173,824)
	(227,398)	(184,054)
NET OPERATING REVENUES	638,424	561,898
OPERATING INCOME (EXPENSES)		
Personnel	(61,231)	(20,318)
Material	(3,893)	(4,209)
Third parties' services	(40,093)	(33,894)
Electric power purchased for sale	(313,288)	(268,178)
Electric power transportation	(47,880)	(36,518)
Depreciation and amortization	(57,130)	(55,690)
Allotment for fuel consumption account	(22,796)	(17,049)
Provision reversal (computation)	12,404	(34,107)
Other	(7,949)	(35,083)
	(541,856)	(505,046)
SERVICE RESULT	96,568	56,852
FINANCIAL INCOME (EXPENSES)		
Income from financial applications	6,071	7,825
Monetary and foreign exchange rate variances - net	(405,351)	(93,159)
Debt charges	(110,706)	(75,965)
Other	(7,536)	(9,184)
	(517,522)	(170,483)
OPERATING LOSS	(420,954)	(113,631)
NON-OPERATING INCOME (EXPENSES)		
Non-operating income	5,043	8,038
Non-operating expense	(2,269)	(5,707)
	2,774	2,331
LOSS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	(418,180)	(111,300)
Current social contribution	(19)	(66)
Deferred social contribution	42,151	1,157
Provision for income tax	(9,709)	(4,348)
Deferred income tax	131,579	7,420
	164,002	4,163
MINORITY INTEREST	15,454	899
NET LOSS FOR THE YEAR	(238,724)	(106,238)

accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTROLLING COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

	Capital	Accumulated Losses	Total
BALANCES AS OF JANUARY 1, 1998	728,276	(86,076)	642,200
Capital increase	36,908		36,908
Net loss for the year		(106,238)	(106,238)
BALANCES AS OF DECEMBER 31, 1998	765,184	(192,314)	572,870
Capital increase	555,540		555,540
Net loss for the year		(238,724)	(238,724)
BALANCES AS OF DECEMBER 31, 1999	1,320,724	(431,038)	889,686

The accompanying notes are an integral part of the financial statements.

AES CAYMAN GUAIBA, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
(Amounts in thousands of Brazilian *reais*)

	1999	1998
SOURCES OF FUNDS		
From operations:		
Net loss for the year	(238,724)	(106,238)
Expenses (income) not affecting the working capital:		
Depreciation and amortization	85,137	78,472
Long-term monetary and foreign exchange rate variances	401,829	84,827
Computation (reversal) of sundry provisions	(4,532)	8,988
Deferred income and social contribution taxes	(173,730)	(8,577)
Residual value of permanent assets written-off	2,184	5,055
Minority interest	(18,353)	(27,000)
Total arising from operations	53,811	35,527
From Shareholders':		
Capital increase with assets, rights and obligations	555,540	36,908
Parent company loans		25,676
	555,540	62,584
From third parties:		
Loans and financing obtained	498	5,455
Customers and third parties financing	5,529	10,754
	6,027	16,209
Total sources	615,378	114,320
APPLICATIONS OF FUNDS		
Payment of long-term loan "Sul project"	546,944	
Payment of parent company loans	21.406	
Long-term asset increase	38,166	16,596
Increase in investments	654	359
Increase in property, plant and equipment	62,151	73,688
Increase in deferred assets		3,448
Transfer of long-term to current liabilities	18,539	10,791
Total applications	687,860	104,882
INCREASE (DECREASE) IN WORKING CAPITAL	(72,482)	9,438
VARIANCES IN WORKING CAPITAL		
Current assets:	(20,160)	34,710
At the beginning of the year	156,576	121,866
At the end of the year	136,416	156,576
Current liabilities:	(52,322)	(25,272)
At the beginning of the year	(135,017)	(109,745)
At the end of the year	(187,339)	(135,017)
Increase (decrease) in the working capital, net	(72,482)	9,438

The accompanying notes are an integral part of the financial statements.

35. COMPANY OPERATIONS

The AES Cayman Guaíba, Ltd. Group and Subsidiaries are composed of two holding companies, AES Cayman Guaíba, Ltd and AES Guaíba II Empreendiments Ltda., and an operating company AES Sul Distribuidora Gaúcha de Energia S.A.

AES Cayman Guaiba, Ltd., (hereinafter referred to as "Guaiba"), a company organized and existing under the laws of the Cayman Islands, commenced operations on September 15, 1997. Guaiba, a holding company and wholly owned subsidiary of AES Corporation ("AES"), was organized for the purpose of developing, funding, purchasing and operating certain electricity distribution projects in Brazil. Guaiba held 99% of AES Guaíba II Empreendimentos Ltda. ("Guaíba II") capital stock, a holding company with its principal place of business in Brazil, holding 96.6% of the shares in AES Sul Distribuidora Gaúcha de Energia S.A. (hereinafter referred to as "Sul").

Sul, a public corporation operating as a public concessionaire for electric power services, organized on July 28, 1997, under the designation Companhia Centro-Oeste de Distribuição de Energia Elétrica, was taken over on October 21, 1997, through the privatization process arising from the Companhia Estadual de Energia Elétrica CEEE split-up (see note number 23). On December 18 1997, its corporate name was changed to AES Sul Distribuidora Gaúcha de Energia S.A.

Sul's corporate objective is to conduct studies, projects, construct and operate electric power generating plants, transmission lines, and electric power distribution, and to develop activities related to electric power service distribution.

Sul, pursuant to the Contract for Distribution Concession number 12/97, has a concession for electric power distribution for a 30 year period, covering more than three million inhabitants (*) of the Center-West Region of the State of Rio Grande do Sul, in Brazil, comprising 128 municipalities (*).

(*) (unaudited)

36. PRESENTATION OF THE FINANCIAL STATEMENTS

Guaiba, the controlling company, is located in the Cayman Islands and maintains its accounting records in United States dollars, and in accordance with generally accepted accounting principles in the United States of America. Guaiba's financial statements were translated into Brazilian *reais* and consolidated with its subsidiaries based on the accounting principles established by the Brazilian Corporate Law with the purpose of presenting financial information which includes the source of the resources and the energy operation distribution. In translating the original operations amounts in US$ to the currency in which the financial statements are presented - Brazilian *Reais*, the following criteria was used: assets and liabilities were translated into Brazilian *Reais* at the current exchange rate in force on the date of the balance sheet; the capital stock was translated at the exchange rate in force on each pay-up date; and revenues and expenses arising from operations, at the average exchange rate in force in the month of the accounting entry.

The financial statements of Guaíba II and Sul included in the consolidation, pursuant to the practices mentioned in note 3.a, were prepared in Brazilian *Reais*, in accordance with the accounting principles established by the Brazilian Corporate Law (Law number 6.404/76 and Law number 9.457/97), under the special standards of Comissão de Valores Mobiliários - CVM [a Brazilian equivalent body to the Security and Exchange Commission - SEC] and the rules applicable to public concessionaires for electric power service provision, issued by the Granting Power, represented by Agência Nacional de Energia Elétrica - ANEEL, pursuant to the main accounting practices detailed in note 3b and c.

37. SUMMARY OF ACCOUNTING PRACTICES

d) Consolidation

The main accounting practices adopted in the consolidation were as follows:

- elimination of investments in subsidiaries by the controlling company, as well as the intercompany investment;
- elimination of accounting balances between the controlling and controlled companies included in the consolidation;
- calculation of minority shareholders interest in the balance sheets and statements of income.

The following companies are included in the consolidation:

- AES Cayman Guaiba, Ltd. (Guaiba), holding a 99% interest in AES Guaiba II Empreendimentos Ltda.;
- AES Guaiba II Empreendimentos Ltda. (Guaiba II), holding a 96.6% interest in AES Sul Distribuidora Gaúcha de Energia S.A.
- AES Sul Distribuidora Gaucha de Energia S.A.

e) Special accounting practices for the electric power sector

Interest on work in progress – the acquisition of fixed assets under construction via the use of Company funds were compensated under the laws in force at the Long-Term Interest Rate ("TJLP") up to December 31, 1998. From January 1, 1999, such practice was no longer applied.

Overhead costs for work in progress – a portion of the Central Management cost is appropriated to the acquisitions of fixed assets under construction. Such an appropriation is carried out on a monthly basis, and it is limited to 10% of the direct expenditures with third parties' labor and personnel related to the work in progress.

Special liabilities – refer to the customer contributions, and represent funds received to pay for connections for electric power service provision. Because of their nature, such customers' contributions do not represent actual financial liabilities and, accordingly, they should not be treated as liabilities for purposes of determining economical-financial indicators. Should the Company wind-up, such liabilities would represent amounts to be returned to the Federal Government.

f) General Accounting Practices

Statement of income - revenues and expenses are recorded on an accrual basis. The indexed assets and liabilities are updated on a "*pro rata* tempore" basis.

Marketable securities - the financial applications are recorded at cost, including the respective yields earned up to the balance sheet date.

Customers and retailers - customers and retailers include the invoiced electric power provision and the provided electric power not billed up to the balance sheet date, ascertained on an accrual basis.

Allowance for doubtful accounts – the allowance consists of an amount considered sufficient to cover possible losses related to the collection of receivables.

Warehouse inventory - consists of materials destined for operations maintenance and reflects the average purchase cost, which does not exceed market value.

Pre-paid expenses - ANEEL, because of changes in the foreign exchange rate policy, permitted an extraordinary tariff increase for the maximum period of twelve months, from June 1999, corresponding to the electric power purchased for resale which was affected by the foreign exchange rate variance. The balance on December 31, 1999 is R$ 5,621, and will be amortized to the extent the corresponding revenues are invoiced for payment by the customers.

Deferred financial costs – The pre-paid financial costs on loans were deferred and are being amortized by the straight-line method, in accordance with the agreements effective term.

Property, plant and equipment**,** net **–** such assets are registered at purchase or construction cost, monetarily restated up to 12/31/95, plus the amount paid by the controlling company corresponding to the goodwill paid in 1998, less depreciation calculated by the straight-line method as mentioned in note 7.

Deferred, net – is primarily represented by the goodwill paid, in the acquisition of Sul, based on a future profitability expectation. The goodwill amortization is calculated by the straight-line method, based on the concession term of 30 years.

Income tax and social contribution – Since Guaiba is organized in the Cayman Islands its operations are tax exempt. The amounts presented at the balance sheet and income statement refers to the operating company Sul, calculated in conformity with the tax laws in force. Sul records deferred income tax and social contribution tax on the social contribution negative basis, tax losses, and temporarily non-deductible provisions.

Loans and financing - the loans and financing are updated based on the indexes set forth in agreements up to the balance sheet date, and interest is accrued considering the days elapsed up to the balance sheet date and included in the debt charges classification.

Provision for further contribution to pension funds – the future liability estimated based on the actuarial valuation, annually prepared by independent actuaries, for covering expenditures with contributions to employees' pension fund recorded on an accrual basis.

Leasing agreements - the assets purchased through leasing operations are registered as fixed assets on the date of operation, as well as loans and financing, and are depreciated by the straight-line method, upon the application of the rates set forth in note 7.

CUSTOMERS AND RETAILERS

	Falling Due Balances		Overdue balances				Total	
			Up to 90 days		More than 90 days			
	1999	1998	1999	1998	1999	1998	1999	1998
CURRENT ASSETS:	R$	R$	R$	R$	R$	R$	R$	R$
Residential	8,209	13,454	10,756	5,706	3,668	611	22,633	19,771
Industrial	1,434	1,783	3,779	3,008	3,214	1,293	8,427	6,084
Trade and services	2,294	3,650	3,439	2,200	2,466	894	8,199	6,744
Rural	2,709	1,405	1,296	1,030	1,240	177	5,245	2,612
Public Power	572	977	1,547	2,120	1,979	2,167	4,098	5,264
Federal	210	212	336	323	538	372	1,084	907
State	238	253	989	872	1,025	603	2,252	1,728
Municipalities	124	512	222	925	416	1,192	762	2,629
Public lighting	630	1,716	860	3,723	4,025	6,380	5,515	11,819
Public service	1,570	743	1,196	514	141	57	2,907	1,314
Supply	264	349	2		5		271	349
Non-billed revenues	45,983	38,180					45,983	38,180
Total current assets	63,665	62,257	22,875	18,301	16,738	11,579	103,278	92,137
LONG-TERM ASSETS:								
Public power								
Municipalities	2,733						2,733	
Public lighting	19,763						19,763	
Total long-term assets	22,496						22,496	
Total customers and retailers	86,161	62,257	22,875	18,301	16,738	11,579	125,774	92,137

Sul management continues implementing procedures and controls together with sundry customers' classes and, particularly, with the public power, within the different spheres of action, for diminishing delays in paying balances and continuing to negotiate the receipt of due balances.

The long-term values refer to customers from the governmental sector and to public lighting, which are negotiating with the objective of dividing their debts into installments.

39. PLEDGES AND DEPOSITS IN GUARANTEE

	1999	1998
	R$	R$
Cofins and PIS on billing – Deposits in courts	29,887	13,252
Others	3,000	483
Total	32,887	13,735

The deposits in courts concerning Employees' Profit Participation Program ("PIS") and the Social Contribution on Billings ("Cofins") were made to the Federal Revenue within the period comprehended from March 1998 to July 1999 (see number 14).

40. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

Refer to deferred income tax and social contribution on temporarily non-deductible provisions, tax loss (income tax), and negative basis (social contribution) recorded by Sul, as follows:

Description	**1999**	**1998**
	R$	R$
On provisions for tax and labor contingencies	18,332	22,497
On provisions for further contribution to pension funds	9,865	15,514
On provision for retirement incentive	14,326	14,861
On provision for contractual losses	2,550	9,517
On tax loss (Income Tax) and negative basis (Social Contribution)	189,741	
On other provisions	7,433	6,128
Total	242,247	68,517

41. PROPERTY, PLANT AND EQUIPMENT, NET

a) Composition of balances:

Description	1999	1998
	R$	R$
Fixed assets in service:		
Distribution -		
Adjusted historical cost	1,199,990	913,296
Management:		
Adjusted historical cost	24,310	23,633
Premium - Surplus value of properties		159,302
	1,224,300	1,096,231
(-) Accumulated depreciation:		
Distribution -		
Adjusted historical cost	(419,854)	352,314)
Management		
Adjusted historical cost	(4,651)	(9,776)
Premium – Surplus value of properties		(3,600)
	(424,505)	(365,690)
Fixed assets under construction:		
Distribution	18,120	25,656
Management	2,677	17,869
	20,797	43,525
Total	820,592	774,066

b) Depreciation

From January 1999, in accordance with the Resolution number 2, of December 24, 1997, by ANEEL, Sul started to use new annual depreciation rates, which resulted in a R$ 16,496 increase in the depreciation expense.

	1999	1998
Buildings and improvements	4%	3%
Intangible	20%	3%
Furniture and fixtures	10%	3%
Plant and equipment	10%	3% and 4%
Vehicles	20%	3%

c) Properties used by the concession

Pursuant to the Articles 63 and 64 of the Decree number 41.019, of 2/26/57, properties and installations used in production, transmission, distribution and trade are an internal part of such services, and can not be removed, disposed of, assigned or given as mortgage without the Regulatory Body prior and express consent. The ANEEL Resolution number 20/99, regulates the liberation of the properties of Electric Power Public Service concessions, granting a prior consent to the liberation of properties unsuitable to the concession, when destined for disposal. It also determines that the proceeds from the disposal are deposited in a blocked bank account, to be applied to the concession.

42. DEFERRED

	Average amortization rate			
	1999	1998	1999	1998
			R$	R$
Premium – expectation of Future profitability			802,164	847,397
Accumulated amortization	3.50%	2.84%	(45,254)	(19,150)
Premium – net			756,910	828,247
Others			2,837	3,196
Total			759,747	831,443

43. SUPPLIERS

Description	1999 R$	1998 R$
Centrais Elétricas do Sul do Brasil S.A. – Eletrosul	474	4,201
Eletrosul - Transfer from Itaipu	22,257	13,127
Companhia Estadual de Energia Elétrica – CEEE	3,845	4,304
Companhia de Geração Térmica de Energia Elétrica – CGTEE	3,922	3,655
Centrais Geradoras do Sul do Brasil S.A. – Gerasul	14,163	13,615
Companhia Paranaense de Energia – Copel	3,254	266
Others		508
Total power suppliers	47,915	39,676
Use of transmission and connection	3,699	
Other suppliers	8,230	6,284
Total	59,844	45,960

The main electric power suppliers to Sul are Itaipu and Gerasul, having a 33.51% and 30.51% share, respectively, in the total supply and transmission. From June 10, 1999, the electric power sector structure was altered as to the transfer related to the electric power supply and transportation of the electric power generated by Itaipu, which was performed by Eletrosul, and began to be performed exclusively by Furnas. As a result of the new sector regulation, the basic network use and the connection to the network began to be charged, further to the rate payable to the National System Operator – "ONS" [Operadora Nacional do Sistema - "ONS"], whose intent is to manage and optimize relationships among the participants in the market.

44. TAXES AND SOCIAL CONTRIBUTIONS

Description	1999 R$	1998 R$
ICMS [State Valued-added Tax]	14,213	13,260
PIS[1] / PASEP[2]	468	
COFINS [Social Contribution on Billings]	2,166	
INSS [National Institute of Social Security]	1,099	564
FGTS [Government Severance Indemnity Fund for Employees]	160	222
Withholding income tax	300	446
Social contribution on profits		66
Others	743	342
Total	19,149	14,900

[1]PIS - Employees' Profit and Participation Program

[2]PASEP - Public Service Employee Savings Program

45. LOANS AND FINANCING

Description	Index	Interest rate %	1999 Short term R$	1999 Long term R$	1999 Total R$	1998 Short term R$	1998 Long term R$	1998 Total R$
Local currency –reais								
Fundação Eletroceee	INPC[3]	9% p.a	1,868	21,641	23,509	1,729	21,751	23,480
Leasing		From 27.92% to 34.32% p.a.	1,327	942	2,269	887	2,382	3,269
Customers				6,373	6,373		5,927	5,927
Eletrobrás		7% p.a.		897	897		399	399
Loans - Working Capital	CDI[4]	From 2.4% to 8.4 % p.a.	16,767		16,767			
Total National currency			19,962	29,853	49,815	2,616	30,459	33,075
Foreign currency								
Funding of "Sul Project"	Dollar	14.22% p.a.		733,490	733,490		881,426	881,426
Leasing	Dollar	From 16.98% to 19.20% p.a.	4,904	157	5,061	2,232	2,674	4,906
Total foreign currency			4,904	733,647	738,551	2,232	884,100	886,332
TOTAL			24,866	763,500	788,366	4,848	914,559	919,407

[3]INPC - National Consumer Price Index
[4]CDI - Interbank Deposit Certifcate

The long-term installments regarding loans obtained from Fundação Eletroceee and "Sul Project" Financing, will be due as follows:

Maturity years	1999	1998
	R$	R$
2001	1,868	1,728
2002	735,358	1,728
2003	1,868	1,728
2004	1,868	1,728
2005	1,868	1,728
Thereafter	12,301	894,537
	755,131	903,177

Sul Project Financing

The funding of "Sul Project" refers to a loan obtained by Guaiba in an amount corresponding to US$ 410 million, having as loan coordinator the BankBoston, N.A., in a consortium loan operation (Credit Agreement). Pursuant to the terms in the Credit Agreement, interest is due on a quarterly basis, at a rate equivalent to the three month LIBOR – London Interbank Offered Rate plus 8% per year. The weighted average interest rate as of December 31, 1999 was 14.22%.

The Credit Agreement's maturity date is April 26, 2002. Prior liquidations are allowed, upon written notice to the banks, without any penalty or premium.

In connection to the funding of "Sul Project" Guaiba provided shares in Sul representing approximately 97% of Sul's capital stock. The Credit Agreement requires the performance of certain restrictive conditions, including the restriction to the payment of dividends to the controlling party before the payment of charges on the Credit Agreement, and the obtaining of new loans.

As a portion to the Credit Agreement, Guaiba has entered into a collar hedging agreement, for obtaining protection from the interest rate variance, in an amount corresponding to at least 50% of principal.

Up to 1999, Sul had obligations arising out of FRN's – Floating Rate Notes issue, in the amount of US$ 730 million, with the BankBoston acting as agent to a group of investors, which were refinanced through the Credit Agreement, in the amount of US$ 410 million and, also, through the capital increase in the amount of approximately US$ 320 million.

Fundação Eletroceee

The amount of the loan from Fundação Eletroceee, refers to a debt assumption agreement, assumed due to the agreement entered into by Companhia Estadual de Energia Elétrica – CEEE before the privatization process. The amortization are on a monthly basis and, as a guarantee, the electric bow[illegible]ale receivables held by a number of banks, was offered.

Leasing

The leasing agreements include computer equipment, vehicles, and furniture and fixtures. The Company has registered the leases as a fixed asset due to its intention to purchase the asset at the end of the leasing period. The agreement terms vary from 24 to 36 months.

Customers

The loan designated Customers refers to advances paid by customers interested in electric power supply for their installations, generally including a distribution network expansion. Such amounts shall be returned within a four-year term from the date the installation is completed, without the incurrence of interest or monetary restatements. The advances received from the year of 1998 started to be returned within a one-year term, restated by the IGP-M [General Price Index - Market] variance.

46. HEDGING AGREEMENTS (INTEREST RATE SWAP AND COLLAR AGREEMENTS)

During 1999, Sul entered into five swap agreements amounting to approximately R$ 54 millions with the purpose of replacing the floating rate in the Credit Agreement for a fixed interest rates varying from 8.60% to 20.86% per year. The agreements expire up to April 2000. The net loss not realized in swap agreements, calculated on the market value of balance as of December 31, 1999 was approximately R$ 2.7 million, included in the account sundry provisions.

Sul assesses the credit risk from the other parties to its swap agreements from time to time, which consists of multinational companies and Brazilian financial institutions, and does not estimate losses arising out of defaults.

During 1999, Guaíba entered into a non-cost collar-type hedging agreement amounting to 50% of the Credit Agreement principal amount. Such hedging agreement provides an assurance to the variable floating interest rates provided for in the Credit Agreement at a rate corresponding to no less than 4.7% and not to exceed 8%. There are no losses to be realized taking as a basis the market value of agreements as of December 31, 1999.

47. ESTIMATED LIABILITIES

	1999	1998
	R$	R$
Accrual for vacation and bonus pay	1,406	1,344
Accrual for social charges on vacation and bonus pay	574	1,323
Employees' profit sharing	3,418	
Others	161	699
Total	5,559	3,366

48. SUNDRY PROVISIONS

Description	Short-Term		Long-term	
	1999	1998	1999	1998
	R$	R$	R$	R$
Provision for labor contingencies	8,386	16,802	20,440	30,489
Provision for tax contingencies	4,006	5,268	29,887	15,615
Provision for temporary supplementation of earnings and for the incentivized retirement plan – "PAI"	8,179	6,311	35,234	38,724
Provision for bad contracts	2,670	9,970	5,057	18,869
Other provisions	12,473	1,067	1,018	2,957
Total	35,714	39,418	91,636	106,654

Provision for labor contingencies

Companhia Estadual de Energia Elétrica - CEEE is the defendant in a number of labor legal claims. As a successor to such company, the Company is responsible for the indemnities paid to employees transferred.

Sul, relying in the opinion of legal counsels, registered a provision for labor contingencies with the purpose of covering likely future expenditures with labor indemnities.

Provision for tax contingencies

Short-term

Fundação Eletroceee [Eletroceee Foundation] is the defendant in two legal claims of a tax nature, in which the incurrence of withholding income tax calculated on the revenues earned by the Foundation on its fixed-income financial applications (CDB [Bank Deposit Certificates], CDI, etc.), and on those providing a variable income (stock market). Such processes total a R$ 95,153. Sul, relying in the opinion of its legal counsels, set aside the amount of R$ 4,006 (R$ 5,268 in 1998), based on its percentage of interest in such Foundation.

Long-term

Sul filed two writs applying for the tax immunity of the operation relevant to the electric power supply in relation to PIS / Pasep and Cofins, based on the provisions contained in the paragraph 3, Article 155, of the Federal Constitution, and it also filed, during the first quarter of 1999, a writ questioning the new basis for the calculation of PIS and Cofins, and the increment of Cofins rate. Up to June 1999, the share of such levies regarding electric power operations, amounting to R$ 6,793 for PIS / Pasep, and R$ 23,094 for Cofins, was deposited with the courts. From July, upon instructions by its legal advisory, such amounts started to be directly paid to the Federal Revenue as a result of an unfavorable determination issued by the Supreme Court in a lawsuit of another company on the same matter as that questioned by Sul. In relation to the process filed against the increase of PIS calculation basis, Sul is making monthly deposits with the courts. As to the increase of Cofins calculation basis, Sul is not making deposits with the courts because it is under a judicial order protection.

Sul, through its legal advisors, requested in court the transfer to the Government of judicial deposits made for PIS/PASEP and Cofins calculated on billings. Such request remains under analyses and to date is has not been granted.

Provision for temporary supplementation of salaries and for the retirement plan – PAI - incentive

As a result of the labor bargaining agreement, the Company is responsible for the payment of the benefit of supplementing the pension (arising from service years) granted by the Regular Social Security Body to the participant registered in Fundação Eletroceee, who, on December 31st, 1997, had not complied with all of the requisites receiving the benefits from the Foundation. The benefit shall be paid by Sul up to the compliance with all of the requisites required to its receipt, when it shall be definitely retired by the Foundation.

Sul is providing for future commitments considering the term of payment for such benefit, discounted to the current amount using the 12% rate per year relevant to the additional salary of those whom, as of that date, have exercised their rights to the regular pension. The salary supplementation shall be paid until the acknowledgement of the benefit by the Foundation,.

Provision for bad contracts

This refers to the provision for likely losses in electric power selling agreements to large-sized industrial customers, cooperatives and power Companies.

49. PAYABLE TO PARENT COMPANY

Sul presents the following balances for transactions with AES Corporation:

Description	Accounts payable	
	1999	1998
Accounts payable to AES Corporation	998	
Borrowings from AES Corporation	3,242	20,591
Loan interest	30	5,085
	4,270	25,676

Monthly fixed-interest rates based on the United States Federal Rate Variance are due on the loan balance. The term for such loans is 10 years, and there are no penalties or premiums for partial or whole payments.

50. OTHER LIABILITIES

	1999		1998
	Current	Long Term	Current
Withholding tax on intercompany transactions		8,263	
Global Reversal Reserve Installment – RGR	3,727	7,690	853
Other liabilities – Eletrobrás Interests	6,308		6,508
Others	12,519		4,874
	22,554	15,953	12,235

The amount related to the withholding tax on intercompany transactions refers to the income tax to be withheld by Sul on the technical operation fees to be paid to Cayman, as set forth in the Technical Operator agreement. Such agreement was a pre-requisite for qualification in the privatization process, and its price was fixed at 3% of Sul's net income, with a 10-year term length from November 1997. By such agreement, it is assured to Sul the required technology and know-how contribution made by Cayman.

The balance of the Overall Reversal Reserve Installment – RGR refers to the amount to be paid, calculated by a 2.5% on the movements in fixed assets in the years of 1997 and 1999, based on ANEEL's determinations. The long-term installment maturity is provided for 2001 and 2002.

51. CAPITAL STOCK

Authorized common stock of Guaiba's represented by 50.000 shares with US$ 1.00 per share. Additional paid in capital amounted to US$ 1,019,669.

52. INSURANCE

Properties and equipment and other assets, pursuant to its nature and risk level, is covered by insurance policies.

53. PROVISION FOR FURTHER CONTRIBUTION TO PENSION FUNDS

Sul is a co-sponsor (4.21%) of Fundação CEEE de Seguridade Social – Eletroceee (Eletroceee Foundation), whose main purpose is the supplementation of social security benefits to the participants. The benefit plan was formed in accordance with "determined benefit" features, under a financial capitalization system, using as actuarial method the projected unit credit.

The sponsors are responsible for the coverage of any deficit ascertained in the Foundation benefit plan.

On December 31, based on the actuarial evaluation result conducted under the responsibility of independent actuaries, Sul registered an additional provision for future supplementation for contribution to the pension fund, as follows:

Description	1999	1998
	R$	R$
Granted benefits – benefits to retired employees	61,334	45,512
Benefits to be granted – Active employees	26,766	46,689
Total	88,100	92,201
Plan net assets – Proportional	(55,770)	(39,465)
Total provision	32,330	52,736
Actuarial earnings	(2,436)	(5,724)
Provision for additional contribution to the Pension fund – Net value	29,894	47,012

The main assumptions used by the independent actuary are:

- Discount rate: General Price Index - IGP + 6% per year
- Salary increases: IGP + 2% per year
- Plan return rate: IGP + 6% per year

54. ELECTRIC POWER SUPPLY

The composition of the gross revenue per customer class is as follows:

	Number of Customers (*)		MWh (*)		Revenue	
Description	1999	1998	1999	1998	1999	1998
					R$	R$
Residential	727,155	695,391	1,578,864	1,508,581	311,713	316,100
Industrial	18,336	17,775	3,253,719	3,055,033	288,577	204,781
Trade and Services	69,874	66,917	690,616	635,193	124,003	106,121
Rural	77,512	74,011	767,354	639,220	56,051	41,658
Public Power	6,264	6,118	118,200	112,278	19,773	16,755
Public Lightening	108	111	215,226	195,599	21,106	17,094
Public Service	603	564	173,299	167,331	19,731	17,903
Subtotal	899,852	860,887	6,797,278	6,313,235	840,954	720,412
Non-invoiced supply					7,803	7,259
Subtotal	899,852	860,887	6,797,278	6,313,235	848,757	727,671
Supply	3	3	44,735	39,309	1,972	1,724
Others					15,093	16,557
TOTAL	89,855	860,890	6,842,013	6,352,544	865,822	745,952

(*) Unaudited

21. DEDUCTIONS IN THE OPERATING INCOME

	1999 R$	1998 R$
Global reversal reserve allotment	16,363	10,230
ICMS on electric power	180,303	154,126
Cofins and PIS	30,732	19,698
	227,398	184,054

22. CHANGES IN THE BRAZILIAN TAX LAWS

In 1999, the Brazilian Federal Government made changes in the tax laws, from which the most significant are:

- The Cofins rate remains at 3%, but from January 2000, no longer offset 33.33% of this contribution with the social contribution on the net profit;
- Reduction of the social contribution rate on the net profit from 12% to 9%, as from February 2000, and from 9% to 8%, as from January 2003;
- From October 1999, the social contribution incurrence on the net profit on revenues earned abroad;
- Possibility of using the IPI [Excise Tax] assumed credit for PIS and Cofins;

23. PRIVATIZATION PROCESS

On October 21st, 1997, through a Special Auction conducted by the Extreme South Stock Exchange - BVES, the privatization of Companhia Centro-Oeste de Distribuição de Energia Elétrica, currently AES Sul Distribuidora Gaúcha de Energia S. A., in which Companhia Estadual de Energia Elétrica - CEEE held 100% of its capital stock took place. The sale price was R$ 1,510,000, with a 93.55% premium. As set forth in the Invitation to Bid related to the privatization, the following obligations were assumed by the auction winner (AES Guaíba Empreendimentos Ltda.):

- To ensure that at least one member of the Company's Board of Directors is freely appointed by the employees. Should the shares held thereby, including those purchased upon the offer to the employees, are not enough to ensure an the election, the election process related to the election of the representative of employees shall be coordinated by the union representing the majority of respective employees;

- To keep the Company as a "Public Company", during the term of concession.

- To assume, in connection with the Company's employees, for no more than a 3 year term, the social security benefit plan in force, as co-sponsor, without the joint participation by Fundação CEEE de Seguridade Social - Eletroceee;

- To be responsible for the funding of Fundação Eletroceeee, as to the participants vested thereto, for the time period required for the complete amortization of the unfunded deficit, at rates calculated by the responsible actuary as to the plan costing, and to the extent of the sum of Actual Contribution Salaries - SRCs;

- To keep, in relation to employees, up to August 31, 2004, the conditions in force for assistance and health activities provided through a covenant entered into with the Labor Union - Senergisul;

- To assume, upon subrogation, the rights and obligations set forth in the power supply agreements, including as to the guarantees provided by CEEE to the supplier in such agreements.

24. FEATURES OF THE SHARES HELD IN THE INDIRECT SUBSIDIARY SUL

Sul's capital stock is divided into 537,163,482 (536,344,395 in 1998) shares with no par value, comprised of 276,941,307 (278,577,279 in 1998) common shares and 260,222,175 (257,767,116 in 1998) preferred shares.

Each common share shall be vested of the right to one vote in resolutions made at the General Shareholders' Meetings. Preferred shares shall not have voting rights, but shall be granted the following advantages: a) priority in equity return, without right to premium in the case that the Company is wound-up; b) right to receive, in connection to the fiscal year ending on December 31, 1998, and in the following fiscal year, cumulative dividends corresponding to no less than 38.925% from the portion of paid-up capital stock related to such shares; if profits are not sufficient to pay such dividends then reserves should be used; and c) the right to receive, in connection with the years ending from December 31, 2000, non-cumulative dividends corresponding to no less than 6% of the portion of paid-up capital related to such kind of shares.

Calculation of mandatory dividends, as of December 31, 1999, for preferred shares

Description	
Paid-up capital stock corresponding to preferred shares	223,718
Minimum mandatory dividend	38,925 %
Total mandatory dividends distributable	87,082
Amount in R$ of dividend per share	0,334645682

Sul, upon Guaíba II's resolution, proposed the distribution of the minimum mandatory dividends calculated on the capital corresponding to preferred shares only to minority Shareholders. The portion corresponding to the shares held by the controlling Sthareholders, amounting R$ 86,296, shall remain as a reserve held in Sul to be distributed in the future.

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APPENDIX E – AES SUL PROJECTED FINANCIAL DATA

The following Summary of Projected Financial Data, which covers a period of seven years, from the year 2000 to 2006, is derived from management's Financial Projections included herein. In the opinion of the Company's management the following unaudited credit statistics present the best of management's knowledge and belief, the expected results of operations for the periods presented below. There will be differences between the projections and actual results achieved because events and circumstances frequently do not occur as expected.

Management's financial projections

AES Sul's Projection Assumptions

	2000	2001	2002	2003	2004	2005	2006
MACROECONOMIC							
IGP-M	9,80%	9,50%	7,00%	3,50%	3,50%	3,50%	3,50%
US Inflation - CPI	2,75%	2,75%	2,30%	1,50%	1,00%	1,00%	1,00%
Brz Interest Rate - CDI	17,40%	15,98%	14,00%	13,50%	13,00%	12,00%	10,00%
Brz Interest Rate - TJLP	10,70%	8,50%	8,25%	7,00%	6,00%	5,50%	5,50%
GDP growth	4,00%	4,20%	5,00%	3,50%	4,50%	4,00%	4,00%
TARIFF READJUSTMENT	8,37%	1,85%	4,22%	0,50%	0,52%	0,98%	2,09%
MARKET GROWTH RATE							
Residential	8,20%	2,63%	5,90%	5,80%	5,70%	5,60%	5,50%
Commercial	6,50%	9,70%	8,30%	8,00%	7,70%	7,40%	7,10%
Industrial	2,30%	13,24%	4,53%	4,74%	4,83%	4,93%	5,00%
Rural	0,61%	12,52%	5,90%	5,67%	5,45%	5,31%	4,80%
Others	10,72%	2,59%	3,98%	3,75%	3,67%	3,62%	3,55%
Total (w/o losses)	4,47%	9,46%	5,32%	5,36%	5,33%	5,31%	5,24%
Exchange Rate							
MoY	1,807	1,931	2,013	2,074	2,094	2,114	2,136
EoY	1,900	1,963	2,063	2,084	2,104	2,125	2,147

Income Statement Assumptions

AES Sul's projected income statement

Brazilian Reais in millions (R$)

	2000F	2001F	2002F	2003F	2004F	2005F	2006F
Revenues (Net of ICMS)	**824,5**	**938,1**	**1.021,1**	**1.087,0**	**1.135,9**	**1.207,5**	**1.292,3**
Other revenues	8,2	30,8	10,2	10,9	11,4	12,1	12,9
(-) RGR, CCC, PIS/COFINS	(95,8)	(115,9)	(121,2)	(95,3)	(76,9)	(64,2)	(62,7)
Net Revenues [1]	**737,0**	**852,9**	**910,1**	**1.002,5**	**1.070,4**	**1.155,4**	**1.242,6**
Energy Purchase + Transport	(473,0)	(532,8)	(565,6)	(617,9)	(669,3)	(736,2)	(782,0)
(-) Operating Expenses	**(95,3)**	**(94,5)**	**(99,8)**	**(102,4)**	**(105,4)**	**(108,8)**	**(112,5)**
Personnel	(30,4)	(30,5)	(34,4)	(35,6)	(36,8)	(37,9)	(39,0)
Third Party	(46,0)	(43,6)	(44,8)	(46,3)	(48,2)	(50,4)	(52,8)
Others	(18,9)	(20,4)	(20,6)	(20,5)	(20,4)	(20,6)	(20,7)
EBITDA	**168,6**	**225,6**	**244,7**	**282,2**	**295,7**	**310,3**	**348,0**
Depreciation/ Amortization	(45,3)	(47,4)	(49,6)	(51,4)	(53,2)	(54,9)	(56,9)
Financial Result	**(313,6)**	**(328,1)**	**(346,4)**	**(191,0)**	**(197,8)**	**(206,9)**	**(192,4)**
Interest Income	16,7	10,2	18,1	24,9	16,6	16,2	17,6
Interest Expenses over Sr. Debt	(117,4)	(115,0)	(97,9)	(83,5)	(50,3)	(38,7)	(12,3)
Interest Expenses over sub. Debt	(108,4)	(167,3)	(173,4)	(99,2)	(139,2)	(163,5)	(178,7)
Exchange/Monetary Variation	(104,6)	(56,0)	(93,2)	(33,3)	(24,9)	(20,9)	(19,0)
Other Expenses	(0,6)	(0,4)	(0,7)	(1,1)	(1,4)	(0,5)	(0,5)
Income Tax & Social Contribution	(1,4)	(4,1)	(5,4)	(8,6)	(17,0)	(14,0)	(22,8)
Net Income	**(192,3)**	**(151,5)**	**(167,1)**	**6,3**	**41,1**	**35,9**	**67,2**

Net Revenues

The Company's net revenues are projected to increase by a CAGR of 9,1% from 2000 through 2006, when operating revenues are expected to reach R$ 1.242,6 million. Management has based this increase on consumption growth and on the tariff readjustment, which is based on the IGPM inflation index and energy purchase cost increases.

Energy Purchases & Transport

Energy purchase and transport costs increase in 65,3% during the projected period due to a combination of (i) the tariff readjustments under existing energy purchase contracts and, (ii) the substitution of existing initial contracts with new energy purchase contracts.

Operating Expenses

Operating expenses are projected to decrease as a percentage of net revenues from 12,9% in 2000 to 9,1% in 2006. Management has assumed that the Company will achieve this through a decrease in personnel and third party service expenses that are possible through the implementation of more efficient information systems.

Net Financial Income (Expense)

Net financial expense is expected to decrease in 36% from R$ 313,6 million in 2000 to R$ 200,7 million in 2006. After 2002 the Company expects a decrease in financial expenses due to the repayment of its Senior Debt and the reduction of interest over the FRN included in its balance sheet.

Adjusted Net Income (Loss)

After consecutive losses from 2000 to 2002, the Company forecasts profits that are possible due to the reduction of interest expenses and also the streamlining of operations, with the reduction of operating expenses.

Cash Flow Assumptions

AES Sul's projected cash flow
Brazilian Reais in millions (R$)

	2001F	2002F	2003F	2004F	2005F	2006F
EBITDA	**225,6**	**244,7**	**282,2**	**295,7**	**310,3**	**348,0**
Consumers Contribution	6,0	4,0	3,9	3,6	4,1	4,2
Taxes Paid	1,3	(2,5)	(9,4)	(17,1)	(13,8)	(20,0)
Working Capital Variation	11,3	(1,0)	(13,3)	4,1	(17,1)	(2,4)
Capex	(61,3)	(40,3)	(39,3)	(36,6)	(41,2)	(43,0)
Personnel Capitalization	(13,1)	(11,2)	(11,6)	(11,9)	(12,3)	(12,7)
Free Cash Flow	**169,9**	**193,8**	**212,5**	**237,8**	**230,1**	**274,2**
New Debts	447,3	278,6	164,4	306,1	146,4	77,9
Financial Result	(245,0)	(68,9)	(251,3)	(341,6)	(170,7)	(87,7)
Principal Repayment	(328,1)	(346,4)	(191,0)	(197,8)	(206,9)	(192,4)
Cash Available for Disc. Activities	**44,1**	**57,0**	**(68,9)**	**7,8**	**(0,7)**	**70,5**
Other Expenses	(0,4)	(0,7)	(1,1)	(1,4)	(0,5)	(0,5)
Total Cash Flow	**43,8**	**98,3**	**82,9**	**(213,9)**	**(10,3)**	**194,1**
Initial Cash	(0,6)	43,1	141,5	224,3	10,5	0,2
Cash Generated	43,8	98,3	82,9	(213,9)	(10,3)	194,1
Final Cash	**43,1**	**141,5**	**224,3**	**10,5**	**0,2**	**194,3**

The Company's EBITDA is expected to aggregate R$ 225,6 million during 2000 and increase to R$ 348 million in 2006. Cash flows are expected to be sufficient to cover capital expenditures, service its debt and amortize the majority of its debt over the next years. AES Sul does not expect to distribute any dividends in the projected period.

Capital expenditures

The Company's capital expenditure program calls for total investment of over R$74 million in 2000 (including personnel capitalization) and approximately R$ 52 million annually for each of 2001 through 2006. The Company's program includes automation of the Company's distribution system and its substations, extension and upgrading of its transmission system and improvements in its information systems.

Balance Sheet Assumptions

AES Sul's projected balance sheet
Brazilian Reais in millions (R$)

	2000F	2001F	2002F	2003F	2004F	2005F	2006F
Total Assets	**2.073,3**	**2.123,8**	**2.222,2**	**2.300,7**	**2.076,3**	**2.061,4**	**2.252,7**
Cash	(0,6)	43,1	141,5	224,3	10,5	0,2	194,3
Other Current Assets	133,8	125,6	135,9	144,1	150,2	159,0	169,5
Other Long Term Assets	339,7	339,7	339,7	339,7	339,7	339,7	339,7
Fixed Assets	**1.600,4**	**1.615,3**	**1.605,1**	**1.592,6**	**1.575,9**	**1.562,5**	**1.549,3**
Property, plant and equipment	858,7	885,6	887,4	886,9	882,2	880,8	879,6
Deferred Assets	741,7	729,7	717,7	705,7	693,7	681,7	669,7
Total Liabilities	**2.028,6**	**2.233,4**	**2.447,2**	**2.346,6**	**2.312,3**	**2.272,4**	**2.265,8**
Current Liabilities	504,2	336,7	531,1	635,8	604,6	463,9	259,9
Long Term Debt	1.358,5	1.724,9	1.740,2	1.531,1	1.524,5	1.621,2	1.814,4
Other Long Term Liabilities	165,8	171,8	175,8	179,6	183,2	187,3	191,5
Net Worth	**44,7**	**(109,6)**	**(267,0)**	**(240,6)**	**(209,6)**	**(175,6)**	**(101,9)**
Capital Stock	463,3	463,3	463,3	463,3	463,3	463,3	463,3
Capital Reserves	177,2	177,2	177,2	177,2	177,2	177,2	177,2
Accumulated Earnings	(595,8)	(750,1)	(907,4)	(882,3)	(852,9)	(820,6)	(750,6)

Indebtedness

AES Sul's projected Indebtedness and debt service
Brazilian Reais in millions (R$)

	2000F	2001F	2002F	2003F	2004F	2005F	2006F
Total Debt	**1.635,3**	**1.825,6**	**2.023,3**	**1.924,4**	**1.877,0**	**1.840,7**	**1.818,8**
Total Senior Debt	832,8	867,8	837,8	622,0	428,5	218,4	4,0
Total Subordinated Debt	802,5	957,8	1.185,5	1.302,4	1.448,5	1.622,2	1.814,8
Financial Result	**(313,6)**	**(325,3)**	**(356,2)**	**(214,8)**	**(182,9)**	**(204,9)**	**(200,7)**
Interest over Senior Debt	(117,4)	(115,0)	(115,7)	(108,3)	(54,2)	(33,2)	(17,1)
Interest over Subordinated Debt	(108,4)	(167,3)	(173,4)	(99,2)	(138,0)	(163,5)	(178,7)
Monetary / Currency Variation	(104,6)	(53,2)	(85,2)	(37,6)	(29,4)	(21,8)	(19,0)
Interest Income	16,7	10,2	18,1	30,2	38,6	13,6	14,1

The Company will have total debt outstanding at December 31, 2000, of R$ 1.635,3 million, which include R$ 832,8 million of senior and R$ 802,5 million of subordinated debt. We define Senior debt as all debt due to banks, which includes the US$ 410MM syndicated loan in Cayman and other bank debts in AES Sul's balance sheet. Subordinated debt includes the US$ 320MM out of the US$ 730MM FRN's held by AES Cayman Guaíba which in the end were funded by equity injected in Cayman and any accrued interest payments due to AES Cayman. After the refinancing, Senior debt will increase in US$ 120MM in AES Sul's balance-sheet because of the issuance of Brazilian Debentures and at the same time, it will decrease in Cayman, where the funds raised with the Brazilian Debentures will be used to repay US$ 110MM of the Syndicated Loan.
With the refinancing of the Company's current debt, Management's goal is to obtain lower interest expenses, decrease foreign currency exposure and also adequate the maturity schedule to the company's cash generation capacity.

APPENDIX F – PRI PROVIDERS

The political risk insurance policy will be provided by a panel of first class PRI Insurers led by the following names:

Zurich American Insurance Company

Through: Steadfast Insurance Company

For complete information access: www.zurich.com

The Political Risk Insurance Policy will be issued through the Steadfast Insurance Company, a wholly-owned subsidiary of the Zurich American Insurance Company. Steadfast Insurance Company, Zurich American Insurance Company, and other affiliated companies are linked through the Zurich U.S. Insurance Pool, an inter-company arrangement which aggregates the assets and liabilities of each member. The Steadfast Insurance Company and each of the member of the Zurich U.S. Insurance Pool has been given a financial strength rating of AA+ by Standard & Poor's and A+ (Superior) by AM Best.

The Zurich American Insurance Company is a member and integral part of Zurich Financial Services Group, one of the top five insurers in the world. Zurich Financial Services concentrates its activities in four core businesses: non-life and life insurance, reinsurance, and asset management. Headquartered in Zurich, Switzerland, the Group's worldwide presence builds on strong positions in its three home markets - the United States, the United Kingdom and Switzerland. Zurich Financial Services has offices in more than 60 countries reaching over 30 million customers and employing some 68,000 people. In 1999, Zurich Financial Services achieved gross premiums and policy fees of $48 billion. The Group has $442 billion in overall assets under management of which $242 billion represents funds managed for third-party institutions and retail customers.

Sovereign Risk Insurance, Ltd.

Through: XL Insurance Ltd. (50%) and

ACE Bermuda Insurance Ltd. (50%)

For complete information access: www.acelimited.com or www.xl.bm .

Sovereign Risk Insurance, Ltd. is a specialized political risk insurance and reinsurance underwriter that provides institutional lenders, export credit agencies, equity investors and multilateral agencies with long term political risk insurance for transactions in emerging markets.

Sovereign is a 50-50 joint venture between XL Insurance Ltd. and ACE Bermuda Insurance, two of the world's leading insurance and financial services companies.

XL Insurance Ltd. is a wholly owned subsidiary XL Capital (NYSE XL). XL capital is rated AA by S&P, has total consolidated assets of USD 16billion and shareholder's equity of approx. USD 5.6 billion. Additional information is available at www.xlcapital.com .

ACE Bermuda is a wholly owned subsidiary of ACE Ltd. (NYSE ACE). ACE Ltd, is rated A+ by S&P, has total assets of over USD 32 billion and total shareholder's equity of approx. USD 4.5 billion. Additional information is available at www.acelimited.com .

Unistrat Corporation of America

Through: The General Security Property & Casualty Company or The General Security Insurance Company

For complete information access: www.scor.com or www.coface.fr

As of January 1st, 2000, the shareholders of Unistrat Corporation of America's parent company, Unistrat Assurances, are SCOR (50%) and COFACE (50%).

SCOR is the Nb 1 French Reinsurer, rated AM BEST A+, S&P AA-, and Fitch IBCA AA.

COFACE is the World leading Export Credit Agency, rated AA Fitch IBCA. Its IPO on Feb. 2nd, 2000 was an overwhelming success.

In the USA, Unistrat Corporation of America is operating on behalf of The General Security Property & Casualty Company and The General Security Insurance Company, which are wholly owned subsidiaries

of SCOR U.S., and thus benefit from the same rating of the parent company.

Gulf Insurance Co.

Through: Gulf Insurance Company UK Ltd.

For complete information access: www.gulfinsurance.com

Gulf Insurance Co., and its affiliates, established in 1940, are subsidiaries of Travelers Property Casualty Corp. Gulf is a specialty writer. Management has carefully selected niches where it can benefit from underwriting expertise and add value. Gulf uses reinsurance to manage operating volatility in new lines of business.

Standard & Poor's believes that this strategy is an effective way to underwrite new risks without hurting the balance sheet. Gulf has maintained an excellent ratio for five years through centralized underwriting authority and the prudent use of reinsurance. S&P financial strength rating of AA, very Strong Financial Security, is assigned to Gulf Insurance Co. and its affiliates.

Group Members:

Atlantic Insurance Co.

Gulf Group Lloyds

Gulf Underwriters Insurance Company

Select Insurance Company

Gulf Insurance Co. U.K. Ltd.

Obs. Depending on the best transaction interest other first class insurers may be added or introduced.

Summarized Rating Chart:

Company Name	**S&P**	**AM Best**	**Fitch IBCA**
Zurich US	AA+	A+	n.a.
Sovereign – XL/ACE	AA/A+	A+	n.a.
Gulf Insurance	AA	A+	n.a.
Unistrat – Scor/Coface	AA-/n.a.	A+/n.a.	AA/AA

Other Terms & Conditions:

Preliminary Indicative Pricing:	3 years tranche: 1,5% p.a. 5 years tranche: 1,8% p.a.
Note:	premium solution to be agreed for the early pre-payment option
Waiting Period:	180 days

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Moody's Investors Service
Global Credit Research

Fundamental Credit Research Rating Action Published
18 Dec 2000

MOODY'S RATES AES SUL SENIOR SECURED DEBENTURES A1.BR

R$250 Million of Debt Securities Affected.

Moody's Investors Service assigned A1.br (Brazil National Scale) and Ba2 (Global Local Currency Scale) ratings to R$250 million of three year senior secured debentures being issued by AES Sul Distribuidora Gaúcha de Energia S.A. Moody's rating outlook is stable.

An A1.br rating on Moody's Brazil National Scale indicates an issuer or issue with above-average creditworthiness relative to other Brazilian issuers. The Ba2 rating on Moody's Global Local Currency Scale, which compares the issuer to all other issuers in the world and which incorporates all Brazil-related risks (including the potential volatility of the Brazilian economy), indicates an issuer of somewhat questionable financial security, with an ability to meet obligations that may be moderate and not well safeguarded in the future. By way of comparison, Moody's Global Local Currency Scale rating for domestic debt issued by the Brazilian government is B1.

AES Sul is an electric distribution company whose service territory covers about 35% of Rio Grande do Sul, Brazil's southernmost state. The company is 96.7% owned by a subsidiary of AES Corporation (senior unsecured Ba1) which purchased its interests in the company when the company was privatized in 1997. AES has cumulatively invested over US$1.0 billion in AES Sul. Moody's believes AES's ownership provides AES Sul many operating benefits.

Currently, AES Sul-through an affiliate--is largely financed with a $410 million international bank facility maturing in 2002. The company is refinancing that loan with a new US$300 million five year bank facility--to the affiliate--and the R$250 million debentures at AES Sul. The refinancing will not only stretch AES Sul's debt maturities, but better buffer its R$/US$ exchange rate risk.

The floating rate debentures amortize equally at 18, 24, 30 and 36 months and cross default to the new bank facility. Also, upon a payment default, the debentures have sole access-ahead of the company--to 30% of the company's revenues. The principal amount of the debentures approximates 30% of the company's yearly revenues.

Moody's expected case financial analysis shows projected EBITDA/interest coverages averaging over 2x during the life of the debentures. Stress cases addressing inflation, interest rate and exchange rate risks show over 1.0x coverages. Moody's notes, however, that the last debenture principal payment coincides with the first payment under the new bank facilities. AES Sul will likely need to refinance those combined payments.

Rio Grande do Sul is a relatively wealthy Brazilian state whose economy is currently growing at over 7% per year. The state borders Uruguay on the south and Argentina on the west. Its largest city is Porto Alegre.

AES Sul serves a population of 3.3 million in an area covering 99,512 square kilometers. The company's current revenue mix is 37% industrial, 14% commercial, 34% residential and 15% combined rural, public lighting, losses and other. Its service territory contains many industrial customers in the east near Porto Alegre and becomes more agrarian the further west one goes toward both the Argentine and Uruguay borders. Major industries include petrochemicals, steel, tobacco, shoes and agriculture. Petrochemical companies make up about 8% of the company's revenues with the largest company making up only 2% of revenues. Many of the company's industrial companies export a portion of their output.

As measured by losses, outages, employees/customer and late receivables, the company appears operationally to be well run and improving. A respected industry trade group named AES Sul as Brazil's best electric distribution company for 1999.

The company purchases much of its energy under long term contracts from Itaipu and CEEE and under a medium term contract from Gerasul. In addition, the company will purchase energy under long term contracts from an AES-owned gas fired plant, AES Uruguaiana, when it fully comes on line by year end. Because consumption in the company's service territory has grown so quickly, the company has also purchased some energy on the spot market. AES Uruguaiana's coming on line should turn AES Sul into a net spot seller for at least the next year and a half. The company may face operating margin pressure if it moves back to being a net spot buyer in later 2002. Moody's also notes that AES Sul, like all other Brazilian distribution companies, must replace many of its existing contracts with negotiated bilateral contracts in 2003 through 2006 as part of Brazil's ongoing electric sector restructuring.

AES Sul distributes electricity pursuant to a monopoly concession agreement which expires in 2027. Pursuant to the concession agreement, the company's rates are adjusted annually in April to cover inflation and purchased power costs. The company may also, at any time, request special tariff adjustments. In addition, the company's rates may also be adjusted in 2003 and every five years thereafter to share productivity gains with customers.

Moody's continues to view the evolution of the Brazilian electric regulatory environment cautiously, but favorably. ANEEL, Brazil's electric regulatory agency, has adjusted tariffs in a manner consistent with the concession agreements. Issues which will likely need to be addressed include the sharing of productivity gains; balancing customer rates and the need to attract more generation to Brazil; and regulatory lag. Moody's believes Brazilian distribution company regulation may evolve in a manner limiting financial upside, but also better limiting operating margin downside.

On a countrywide basis, Brazil is simultaneously addressing distribution, transmission and generation. The country has set up a countrywide ISO and will phase in a countrywide

wholesale market through 2006.

AES Sul Distribuidora Gaúcha de Energia S.A. is based in Porto Alegre, Rio Grande do Sul. AES Corporation is based in Arlington, Virginia.

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Return to Regular Format

Research:

AES Sul Distribuidora Gaucha de Energia S.A. Assigned 'brA' National Scale Issuer Credit Rtg

Publication Date: 19-Dec-2000

Analyst: Cheryl E Richer, New York (1) 212-438-2084; Reginaldo Takara, Sao Paulo (55) 11-5505-3376

NEW YORK (Standard & Poor's CreditWire) Dec. 19, 2000--Standard & Poor's today assigned its 'brA' national scale issuer credit rating to AES Sul Distribuidora Gaucha de Energia S.A. The outlook is stable.

AES Sul is an electric distribution company serving 3.3 million customers in the state of Rio Grande do Sul, which is one of the most prosperous and fastest growing regions in Brazil. AES Sul's rating reflects the challenges of operating in Brazil, including an evolving regulatory scheme and the potential for economic and financial volatility. These risks are offset by a 30-year monopoly to distribute electricity within its concession area, a robust and diversified industrial base, and strong operating performance. In addition, AES Sul is (ultimately) 96.7% owned by AES Corp. (double-'B', CreditWatch Pos), which demonstrated support during the financial crisis in Brazil in 1999 by injecting about US$320 million of equity.

Brazil's regulatory system is unique in the global privatization arena because several Brazilian utilities have been privatized prior to final definition of the overarching industry structure and regulatory rules under which they operate. Rate increases and the pass through of purchased power have approximated the tenets of the concession contracts. Two developments, however, pose a generic risk for distributors in Brazil. One is the development of a transparent and systematic approach to the reset of distribution tariffs, which will be addressed for AES Sul in 2003. The second is the ability to pass on purchased power costs after "initial contracts" are ramped down (by 25% per year) during 2003-2006. Newly signed contracts must approximate an established reference price (VN) to be passed through to customers. Since incremental power will be gas fired, however, in contrast to the current predominate hydro system, it is unclear if changes in commodity price and currency price would be passed on to the customers in their entirety. An additional issue is the accurate calculation for a wheeling fee for free customers; as of July 2000, all customers greater than 3 MW and 69 kilovolts can choose their own supplier. This is not an imminent concern since Brazil is suffering from a shortage in capacity, and customer defection throughout Brazil has been negligible. Another issue specific to AES Sul is the mismatch of cost increases by its primary supplier (Gerasul; 49% of contracted supply) in October, and AES Sul's own annual tariff adjustment in April. AES Sul is working with the regulator to address this lag, which cost AES Sul about BrR8.2 million over the past cycle.

AES Sul's electricity demand grew 8.6% for the 12 months ended Sept. 30, 2000, compared to national growth of 4%. The service territory contains the industrial areas and related service businesses in the industrial belt of Porto Alegre. While the industrial segment is large, representing 49% of energy sales and 37% of revenues, there is no particular industry concentration. Additionally, this sector benefited significantly from the devaluation of the real in 1999, which created a boon for exports. Contractual agreements entered into by these large customers, largely for goods for export, should ensure that electricity demand for this segment remains strong for the next several years. The industrial boom activity has spurred growth in the commercial segment as well.

OUTLOOK: STABLE

Financial results (on a consolidated basis with interim holding company AES Guaiba II/Empreendimentos Ltd.) are expected to improve over 1999, a year in which the lag of Gerasul's cost recovery and unexpected and expensive purchases on the spot market due to strong demand, impaired earnings. Still, cost management and power procurement strategy will be key for AES Sul to meet covenants in financial loan agreements at Guaiba. AES Sul will be power long over the next several years due to its contractual commitments with the recently completed Uruguaiana plant. Cash flow interest coverage (net) and cash flow to net debt are expected to exceed 3.5 times and 30%, respectively, by 2003, Standard & Poor's said. -- CreditWire