AES CORP
Form 10-Q
August 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12291
THE AES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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The number of shares outstanding of Registrant's Common Stock, par value $0.01 per share, on July 31, 2018 was 661,683,466.

THE AES CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
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GLOSSARY OF TERMS

The following terms and acronyms appear in the text of this report and have the definitions indicated below:

Adjusted EPS	Adjusted Earnings Per Share, a non-GAAP measure
Adjusted PTC	Adjusted Pretax Contribution, a non-GAAP measure of operating performance
AFS	Available For Sale
AOCI	Accumulated Other Comprehensive Income
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CAA	United States Clean Air Act
CAMMESA	Wholesale Electric Market Administrator in Argentina
CHP	Combined Heat and Power
COFINS	Contribution for the Financing of Social Security
DG Comp	Directorate-General for Competition
DP&L	The Dayton Power & Light Company
DPL	DPL Inc.
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement and Construction
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
GILTI	Global Intangible Low Taxed Income
GW	Gigawatts
HLBV	Hypothetical Liquidation Book Value
HPP	Hydropower Plant
IPALCO	IPALCO Enterprises, Inc.
IPL	Indianapolis Power & Light Company
ISO	Independent System Operator
LIBOR	London Interbank Offered Rate
MW	Megawatts
MWh	Megawatt Hours
NCI	Noncontrolling Interest
NEK	Natsionalna Elektricheska Kompania (state-owned electricity public supplier in Bulgaria)
NM	Not Meaningful
NOV	Notice of Violation
NO_X	Nitrogen Oxides
OPGC	Odisha Power Generation Corporation
PIS	Program of Social Integration
PPA	Power Purchase Agreement
PREPA	Puerto Rico Electric Power Authority
RSU	Restricted Stock Unit
RTO	Regional Transmission Organization
SBU	Strategic Business Unit
SEC	United States Securities and Exchange Commission
SO_2	Sulfur Dioxide

U.S.	United States
USD	United States Dollar
VAT	Value-Added Tax
VIE	Variable Interest Entity

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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2018	December 31, 2017
	(in millions, except share and per share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$1,140	$ 949
Restricted cash	379	274
Short-term investments	856	424
Accounts receivable, net of allowance for doubtful accounts of $17 and $10, respectively	1,423	1,463
Inventory	583	562
Prepaid expenses	116	62
Other current assets	682	630
Current held-for-sale assets	108	2,034
Total current assets	5,287	6,398
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	480	502
Electric generation, distribution assets and other	24,269	24,119
Accumulated depreciation	(7,905)	(7,942)
Construction in progress	3,875	3,617
Property, plant and equipment, net	20,719	20,296
Other Assets:		
Investments in and advances to affiliates	1,327	1,197
Debt service reserves and other deposits	623	565
Goodwill	1,059	1,059
Other intangible assets, net of accumulated amortization of $476 and $441, respectively	341	366
Deferred income taxes	83	130
Service concession assets, net of accumulated amortization of $0 and $206, respectively	—	1,360
Loan receivable	1,458	—
Other noncurrent assets	1,700	1,741
Total other assets	6,591	6,418
TOTAL ASSETS	$32,597	$ 33,112
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$1,506	$ 1,371
Accrued interest	200	228
Accrued and other liabilities	1,036	1,232
Non-recourse debt, includes $369 and $1,012, respectively, related to variable interest entities	1,235	2,164
Current held-for-sale liabilities	17	1,033
Total current liabilities	3,994	6,028

NONCURRENT LIABILITIES		
Recourse debt	4,126	4,625
Non-recourse debt, includes $2,520 and $1,358, respectively, related to variable interest entities	14,230	13,176
Deferred income taxes	1,165	1,006
Other noncurrent liabilities	2,562	2,595
Total noncurrent liabilities	22,083	21,402
Commitments and Contingencies (see Note 8)		
Redeemable stock of subsidiaries	863	837
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 816,449,182 issued and 661,528,835 outstanding at June 30, 2018 and 816,312,913 issued and 660,388,128 outstanding at December 31, 2017)	8	8
Additional paid-in capital	8,402	8,501
Accumulated deficit	(1,234)	(2,276)
Accumulated other comprehensive loss	(1,988)	(1,876)
Treasury stock, at cost (154,920,347 and 155,924,785 shares at June 30, 2018 and December 31, 2017, respectively)	(1,879)	(1,892)
Total AES Corporation stockholders' equity	3,309	2,465
NONCONTROLLING INTERESTS	2,348	2,380
Total equity	5,657	4,845
TOTAL LIABILITIES AND EQUITY	$32,597	$ 33,112

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions, except per share amounts)			
Revenue:				
Regulated	$716	$783	$1,438	$1,596
Non-Regulated	1,821	1,830	3,839	3,598
Total revenue	2,537	2,613	5,277	5,194
Cost of Sales:				
Regulated	(617)	(681)	(1,218)	(1,384)
Non-Regulated	(1,320)	(1,309)	(2,803)	(2,630)
Total cost of sales	(1,937)	(1,990)	(4,021)	(4,014)
Operating margin	600	623	1,256	1,180
General and administrative expenses	(35)	(49)	(91)	(103)
Interest expense	(263)	(276)	(544)	(563)
Interest income	76	59	152	122
Gain (loss) on extinguishment of debt	(6)	(12)	(176)	5
Other expense	(4)	(7)	(13)	(31)
Other income	7	14	20	87
Gain (loss) on disposal and sale of businesses	89	(48)	877	(48)
Asset impairment expense	(92)	(90)	(92)	(258)
Foreign currency transaction gains (losses)	(30)	12	(49)	(8)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	342	226	1,340	383
Income tax expense	(132)	(86)	(363)	(153)
Net equity in earnings of affiliates	14	2	25	9
INCOME FROM CONTINUING OPERATIONS	224	142	1,002	239
Income (loss) from operations of discontinued businesses, net of income tax expense of $2, $5, $2 and $7, respectively	(4)	8	(5)	9
Gain from disposal of discontinued businesses, net of income tax expense of $42, $0, $42 and $0, respectively	196	—	196	—
NET INCOME	416	150	1,193	248
Noncontrolling interests:				
Less: Income from continuing operations attributable to noncontrolling interests and redeemable stocks of subsidiaries	(128)	(89)	(221)	(210)
Less: Loss (income) from discontinued operations attributable to noncontrolling interests	2	(8)	2	(9)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	$290	$53	$974	$29
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income from continuing operations, net of tax	$96	$53	$781	$29
Income from discontinued operations, net of tax	194	—	193	—

NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	$290	$53	$974	$29
BASIC EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$0.15	$0.08	$1.18	$0.04
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.29	—	0.29	—
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$0.44	$0.08	$1.47	$0.04
DILUTED EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$0.15	$0.08	$1.18	$0.04
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.29	—	0.29	—
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$0.44	$0.08	$1.47	$0.04
DILUTED SHARES OUTSTANDING	664	662	664	662
DIVIDENDS DECLARED PER COMMON SHARE	$—	$—	$0.13	$0.12

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
NET INCOME	$416	$150	$1,193	$248
Foreign currency translation activity:				
Foreign currency translation adjustments, net of income tax benefit (expense) of $1, $0, $1 and $(1), respectively	(142)	(119)	(117)	(51)
Reclassification to earnings, net of $0 income tax	18	95	2	98
Total foreign currency translation adjustments	(124)	(24)	(115)	47
Derivative activity:				
Change in derivative fair value, net of income tax benefit of $15, $13, $0 and $21, respectively	(40)	(42)	17	(47)
Reclassification to earnings, net of income tax expense of $9, $10, $8 and $11, respectively	36	29	46	49
Total change in fair value of derivatives	(4)	(13)	63	2
Pension activity:				
Reclassification to earnings, net of income tax expense of $2, $3, $2 and $6, respectively	2	7	4	13
Total pension adjustments	2	7	4	13
OTHER COMPREHENSIVE INCOME (LOSS)	(126)	(30)	(48)	62
COMPREHENSIVE INCOME	290	120	1,145	310
Less: Comprehensive income attributable to noncontrolling interests	(180)	(91)	(302)	(233)
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE AES CORPORATION	$110	$29	$843	$77

See Notes to Condensed Consolidated Financial Statements.

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THE AES CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2018	2017
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$1,193	$248
Adjustments to net income:		
Depreciation and amortization	512	581
Loss (gain) on disposal and sale of businesses	(877)	48
Asset impairment expense	93	258
Deferred income taxes	183	(18)
Provisions for contingencies	—	23
Loss (gain) on extinguishment of debt	176	(5)
Net loss on sales of assets	2	19
Gain on sale of discontinued operations	(238)	—
Other	126	102
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	6	(120)
(Increase) decrease in inventory	(33)	(43)
(Increase) decrease in prepaid expenses and other current assets	(75)	153
(Increase) decrease in other assets	15	(155)
Increase (decrease) in accounts payable and other current liabilities	(90)	(131)
Increase (decrease) in income taxes payable, net and other taxes payable	(62)	(61)
Increase (decrease) in other liabilities	(17)	63
Net cash provided by operating activities	914	962
INVESTING ACTIVITIES:		
Capital expenditures	(994)	(1,123)
Acquisitions of businesses, net of cash acquired, and equity method investments	(42)	(2)
Proceeds from the sale of businesses, net of cash and restricted cash sold	1,808	33
Proceeds from the sale of assets	15	—
Sale of short-term investments	418	1,930
Purchase of short-term investments	(938)	(1,876)
Contributions to equity affiliates	(90)	(43)
Other investing	(57)	(15)
Net cash provided by (used in) investing activities	120	(1,096)
FINANCING ACTIVITIES:		
Borrowings under the revolving credit facilities	1,133	538
Repayments under the revolving credit facilities	(1,042)	(524)
Issuance of recourse debt	1,000	525
Repayments of recourse debt	(1,781)	(860)
Issuance of non-recourse debt	1,192	1,832
Repayments of non-recourse debt	(841)	(982)
Payments for financing fees	(25)	(80)
Distributions to noncontrolling interests	(128)	(184)

Contributions from noncontrolling interests and redeemable security holders	28	44
Dividends paid on AES common stock	(172)	(158)
Payments for financed capital expenditures	(120)	(61)
Other financing	27	(26)
Net cash provided by (used in) financing activities	(729)	64
Effect of exchange rate changes on cash	(20)	6
(Increase) decrease in cash and restricted cash of discontinued operations and held-for-sale businesses	69	(15)
Total increase (decrease) in cash, cash equivalents and restricted cash	354	(79)
Cash, cash equivalents and restricted cash, beginning	1,788	1,960
Cash, cash equivalents and restricted cash, ending	$2,142	$1,881
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$522	$612
Cash payments for income taxes, net of refunds	$209	$218
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Non-cash acquisition of intangible assets	$5	$—
Non-cash contributions of assets and liabilities for Fluence acquisition	$20	$—
Conversion of Alto Maipo loans and accounts payable into equity (see Note 10—Equity)	$—	$279

See Notes to Condensed Consolidated Financial Statements.

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THE AES CORPORATION
Notes to Condensed Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2018 and 2017
(Unaudited)
1. FINANCIAL STATEMENT PRESENTATION
The prior period condensed consolidated financial statements in this Quarterly Report on Form 10-Q ("Form 10-Q") have been reclassified to reflect the businesses classified as discontinued operations as discussed in Note 16—Discontinued Operations. Certain prior period amounts have been reclassified to comply with newly adopted accounting standards. See further detail in the new accounting pronouncements discussion.
Consolidation — In this Quarterly Report the terms "AES," "the Company," "us" or "we" refer to the consolidated entity, including its subsidiaries and affiliates. The terms "The AES Corporation" or "the Parent Company" refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, VIEs in which the Company has a variable interest have been consolidated where the Company is the primary beneficiary. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.
Interim Financial Presentation — The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with GAAP, as contained in the FASB ASC, for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income, and cash flows. The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of expected results for the year ending December 31, 2018. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2017 audited consolidated financial statements and notes thereto, which are included in the 2017 Form 10-K filed with the SEC on February 26, 2018 (the "2017 Form 10-K").
Cash, Cash Equivalents, and Restricted Cash — The following table provides a summary of cash, cash equivalents, and restricted cash amounts reported on the Condensed Consolidated Balance Sheet that reconcile to the total of such amounts as shown on the Condensed Consolidated Statements of Cash Flows (in millions):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$1,140	$ 949
Restricted cash	379	274
Debt service reserves and other deposits	623	565
Cash, Cash Equivalents, and Restricted Cash	$2,142	$ 1,788

New Accounting Pronouncements Adopted in 2018 — The following table provides a brief description of recent accounting pronouncements that had an impact on the Company's consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on the Company's consolidated financial statements.
New Accounting Standards Adopted

ASU Number and Name	Description	Date of Adoption	Effect on the financial statements upon adoption
2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic	This standard changes the presentation of non-service costs associated with defined benefit plans and updates the guidance so that only the service cost component will be eligible for capitalization.	January 1, 2018	No material impact upon adoption of the standard.

Pension Cost and Net Periodic Postretirement Benefit Cost	Transition method: retrospective for presentation of non-service cost and prospective for the change in capitalization.		
2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	This standard clarifies the scope and application of ASC 610-20 on the sale, transfer, and derecognition of nonfinancial assets and in substance nonfinancial assets to non-customers, including partial sales. It also provides guidance on how gains and losses on transfers of nonfinancial assets and in substance nonfinancial assets to non-customers are recognized. The standard also clarifies that the derecognition of businesses is under the scope of ASC 810. The standard must be adopted concurrently with ASC 606, however an entity will not have to apply the same transition method as ASC 606. Transition method: modified retrospective.	January 1, 2018	As more transactions will not meet the definition of a business due to the adoption of ASU 2017-01, more dispositions or partial sales will be out of the scope of ASC 810 and will be under this standard.

2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	The standard requires an entity to first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, and if that threshold is met, the set is not a business. As a second step, to be considered a business at least one substantive process should exist. The revised definition of a business will reduce the number of transactions that are accounted for as business combinations. Transition method: prospective.	January 1, 2018	Some acquisitions and dispositions will now fall under a different accounting model.
2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Transition method: retrospective.	January 1, 2018	For the six months ended June 30, 2017, cash provided by operating activities increased by $8 million, cash used in investing activities decreased by $12 million, and cash used in financing activities was unchanged.
2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard significantly revises an entity's accounting related to (1) classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosures of financial instruments. Transition method: modified retrospective. Prospective for equity investments without readily determinable fair value.	January 1, 2018	No material impact upon adoption of the standard.
2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-10, 2017-13, Revenue from Contracts with Customers (Topic 606)	See discussion of the ASU below.	January 1, 2018	See impact upon adoption of the standard below.

On January 1, 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers," and its subsequent corresponding updates ("ASC 606"). Under this standard, an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company applied the modified retrospective method of adoption to the contracts that were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous revenue recognition standard. For contracts that were modified before January 1, 2018, the Company reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price.

The cumulative effect to our January 1, 2018 Condensed Consolidated Balance Sheet resulting from the adoption of ASC 606 was as follows (in millions):

Condensed Consolidated Balance Sheet	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
Assets			
Other current assets	$ 630	$ 61	$ 691
Deferred income taxes	130	(24)	106
Service concession assets, net	1,360	(1,360)	—
Loan receivable	—	1,490	1,490
Equity			
Accumulated deficit	(2,276)	67	(2,209)
Accumulated other comprehensive loss	(1,876)	19	(1,857)
Noncontrolling interest	2,380	81	2,461

The Mong Duong II power plant in Vietnam is the primary driver of changes in revenue recognition under the new standard. This plant is operated under a build, operate, and transfer contract and will be transferred to the Vietnamese government after the completion of a 25-year PPA. Under the previous revenue recognition standard, construction costs were deferred to a service concession asset, which was expensed in proportion to revenue recognized for the construction element over the term of the PPA. Under ASC 606, construction revenue and associated costs are recognized as construction activity occurs. As construction of the plant was substantially completed in 2015, revenues and costs associated with the construction were recognized through retained earnings, and the service concession asset was derecognized. A loan receivable was recognized for the future expected payments for the construction performance obligation. As the payments for the construction performance obligation occur over a 25-year term, a significant financing element was determined to exist which is accounted for under the effective interest rate method. The other performance obligation to operate and maintain the facility is measured based on the capacity made available.

The impact to our Condensed Consolidated Balance Sheet as of June 30, 2018 resulting from the adoption of ASC 606 as compared to the previous revenue recognition standard was as follows (in millions):

	June 30, 2018		
Condensed Consolidated Balance Sheet	As Reported	Balances Without Adoption of ASC 606	Adoption Impact
Assets			
Other current assets	$682	$ 618	$ 64
Deferred income taxes	83	107	(24)
Service concession assets, net	—	1,313	(1,313)
Loan receivable	1,458	—	1,458
TOTAL ASSETS	32,597	32,412	185
Liabilities			
Accrued and other liabilities	1,036	1,034	2
Equity			
Accumulated deficit	(1,234)	(1,320)	86
Accumulated other comprehensive loss	(1,988)	(2,006)	18
Noncontrolling interest	2,348	2,269	79
TOTAL LIABILITIES AND EQUITY	32,597	32,412	185

The impact to our Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2018 resulting from the adoption of ASC 606 as compared to the previous revenue recognition standard was as follows (in millions):

	Three Months Ended June 30, 2018		
Condensed Consolidated Statement of Operations	As Reported	Balances Without Adoption of ASC 606	Adoption Impact
Total revenue	$2,537	$ 2,562	$ (25)
Total cost of sales	(1,937)	(1,957)	20
Operating margin	600	605	(5)
Interest income	76	61	15
Income from continuing operations before taxes and equity in earnings of affiliates	342	332	10
Income tax expense	(132)	(132)	—
INCOME FROM CONTINUING OPERATIONS	224	214	10
NET INCOME	416	406	10
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	290	280	10

	Six Months Ended June 30, 2018		
Condensed Consolidated Statement of Operations	As Reported	Balances Without Adoption of ASC	Adoption Impact

		606	
Total revenue	$5,277	$ 5,313	$ (36)
Total cost of sales	(4,021)	(4,047)	26
Operating margin	1,256	1,266	(10)
Interest income	152	122	30
Income from continuing operations before taxes and equity in earnings of affiliates	1,340	1,320	20
Income tax expense	(363)	(362)	(1)
INCOME FROM CONTINUING OPERATIONS	1,002	983	19
NET INCOME	1,193	1,174	19
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	974	955	19

New Accounting Pronouncements Issued But Not Yet Effective — The following table provides a brief description of recent accounting pronouncements that could have a material impact on the Company’s consolidated financial statements once adopted. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on the Company’s consolidated financial statements.

New Accounting Standards Issued But Not Yet Effective

ASU Number and Name	Description	Date of Adoption	Effect on the financial statements upon adoption
2018-02, Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from AOCI	This amendment allows a reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act from AOCI to retained earnings. Because this amendment only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-12, Derivatives and Hedging (Topic 815): Targeted improvements to Accounting for Hedging Activities	The standard updates the hedge accounting model to expand the ability to hedge nonfinancial and financial risk components, reduce complexity, and ease certain documentation and assessment requirements. When facts and circumstances are the same as at the previous quantitative test, a subsequent quantitative effectiveness test is not required. The standard also eliminates the requirement to separately measure and report hedge ineffectiveness. For cash flow hedges, this means that the entire change in the fair value of a hedging instrument will be recorded in other comprehensive income and amounts deferred will be reclassified to earnings in the same income statement line as the hedged item. Transition method: modified retrospective with the cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date. Prospective for presentation and disclosures.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): Accounting for Certain Financial Instruments and Certain Mandatorily Redeemable Noncontrolling Interests	Part 1 of this standard changes the classification of certain equity-linked financial instruments when assessing whether the instrument is indexed to an entity's own stock. Transition method: retrospective.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	This standard shortens the period of amortization for the premium on certain callable debt securities to the earliest call date. Transition method: modified retrospective.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated

			financial statements.
2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This standard simplifies the accounting for goodwill impairment by removing the requirement to calculate the implied fair value. Instead, it requires that an entity records an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. Transition method: prospective.	January 1, 2020. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard updates the impairment model for financial assets measured at amortized cost. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses as it is done today, except that the losses will be recognized as an allowance rather than a reduction in the amortized cost of the securities. Transition method: various.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2016-02, 2018-01, 2018-10, 2018-11, Leases (Topic 842)	See discussion of the ASU below.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.

ASU 2016-02 and its subsequent corresponding updates will require lessees to recognize assets and liabilities for most leases, and recognize expenses in a manner similar to the current accounting method. For Lessors, the guidance modifies the lease classification criteria and the accounting for sales-type and direct financing leases. The guidance also eliminates the current real estate-specific provisions.

The standard must be adopted using a modified retrospective approach at the beginning of the earliest comparative period presented in the financial statements (January 1, 2017). The FASB amended the standard to add an optional transition method. The additional transition method allows entities to continue to apply the guidance in ASC 840 Leases in the comparative periods presented in the year they adopt the new lease standard. Under this transition method, the entity would apply the transition provisions on January 1, 2019 (i.e., the effective date). At transition, lessees and lessors are permitted to make an election to apply a package of practical expedients that allow them not to reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) whether initial direct costs for any expired or existing leases

qualify for capitalization under ASC 842. These three practical expedients must be elected as a package and must be consistently applied to all leases. Furthermore, entities are also permitted to make an election to use hindsight when determining lease term and lessees can elect to use hindsight when assessing the impairment of right-of-use assets.
The Company has established a task force focused on the identification of contracts that would be under the scope of the new standard and on the assessment and measurement of the right-of-use asset and related liability. Additionally, the implementation team has been working on the configuration of a lease accounting system that will support the implementation and the subsequent accounting. The implementation team is in the process of evaluating changes to our business processes, systems and controls to support recognition and disclosure under the new standard.
As the Company has preliminarily concluded that at transition it would be using the package of practical expedients, the main impact expected as of the effective date is the recognition of the right-of-use asset and the related liability in the financial statements for all those contracts that contain a lease and for which the Company is the lessee. However, income statement presentation and the expense recognition pattern is not expected to change.
Under ASC 842, it is expected that fewer contracts will contain a lease. However, due to the elimination of today's real estate-specific guidance and changes to certain lessor classification criteria, more leases will qualify as sales-type leases and direct financing leases. Under these two models, a lessor will derecognize the asset and will recognize a lease receivable. According to ASC 842, the lease receivable does not include variable payments that depend on the use of the asset (e.g. Mwh produced by a facility). Therefore, the lease receivable could be lower than the carrying amount of the underlying asset at lease commencement. In such circumstances, the difference between the initially recognized lease receivable and the carrying amount of the underlying asset is recognized as a loss at lease commencement. The Company is assessing how this guidance will apply to new renewable contracts executed or modified after the effective date where all the payments are contingent on the level of production and is also evaluating the related impact to the allocation of earnings under HLBV accounting.

2. INVENTORY

The following table summarizes the Company’s inventory balances as of the periods indicated (in millions):

	June 30, 2018	December 31, 2017
Fuel and other raw materials	$293	$ 284
Spare parts and supplies	290	278
Total	$583	$ 562

3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximate their reported carrying amounts. The estimated fair values of the Company’s assets and liabilities have been determined using available market information. By virtue of these amounts being estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. For further information on our valuation techniques and policies, see Note 4—Fair Value in Item 8.—Financial Statements and Supplementary Data of our 2017 Form 10-K.
Recurring Measurements — The following table presents, by level within the fair value hierarchy, the Company’s financial assets and liabilities that were measured at fair value on a recurring basis as of the dates indicated (in millions). For the Company’s investments in marketable debt securities, the security classes presented are determined based on the nature and risk of the security and are consistent with how the Company manages, monitors and measures its marketable securities:

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
DEBT SECURITIES:								
Available-for-sale:								
Unsecured debentures [1]	$—	$ 297	$ —	$297	$—	$ 207	$ —	$207
Certificates of deposit	—	490	—	490	—	153	—	153
Total debt securities	—	787	—	787	—	360	—	360
EQUITY SECURITIES:								
Mutual funds	20	46	—	66	20	52	—	72
Other equity securities	—	3	—	3	—	—	—	—
Total equity securities	20	49	—	69	20	52	—	72
DERIVATIVES:								
Interest rate derivatives	—	53	1	54	—	15	—	15
Cross-currency derivatives	—	23	—	23	—	29	—	29
Foreign currency derivatives	—	29	219	248	—	29	240	269
Commodity derivatives	—	14	10	24	—	30	5	35
Total derivatives — assets	—	119	230	349	—	103	245	348
TOTAL ASSETS	$20	$ 955	$ 230	$1,205	$20	$ 515	$ 245	$780
Liabilities								
DERIVATIVES:								
Interest rate derivatives	$—	$ 70	$ 112	$182	$—	$ 111	$ 151	$262
Cross-currency derivatives	—	3	—	3	—	3	—	3
Foreign currency derivatives	—	51	—	51	—	30	—	30
Commodity derivatives	—	5	—	5	—	19	1	20
Total derivatives — liabilities	—	129	112	241	—	163	152	315
TOTAL LIABILITIES	$—	$ 129	$ 112	$241	$—	$ 163	$ 152	$315

[1] Includes non-convertible debentures at Guaimbê Solar Complex. See Note 18—Acquisitions for further information.

As of June 30, 2018, all AFS debt securities had stated maturities within one year. For the three and six months ended June 30, 2018 and 2017, no other-than-temporary impairments of marketable securities were recognized in earnings or Other Comprehensive Income (Loss). Gains and losses on the sale of investments are determined using the specific-identification method. The following table presents gross proceeds from the sale of AFS securities during the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross proceeds from sale of AFS securities	$267	$363	$414	$793

The following tables present a reconciliation of net derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2018 and 2017 (presented net by type of derivative in millions). Transfers between Level 3 and Level 2 are determined as of the end of the reporting period and principally result from changes in the significance of unobservable inputs used to calculate the credit valuation adjustment.

Three Months Ended June 30, 2018	Interest Rate	Foreign Currency	Commodity	Total
Balance at April 1	$(129)	$ 225	$ 3	$99

Total realized and unrealized gains (losses):				
Included in earnings	13	3	—	16
Included in other comprehensive income — derivative activity	1	—	—	1
Included in regulatory (assets) liabilities	—	—	9	9
Settlements	4	(9)	(2)	(7)
Balance at June 30	$(111)	$ 219	$ 10	$118
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	$15	$ (5)	$ —	$10

Three Months Ended June 30, 2017	Interest Rate	Foreign Currency	Commodity	Total
Balance at April 1	$(183)	$ 231	$ 2	$50
Total realized and unrealized losses:				
Included in earnings	—	16	(1)	15
Included in other comprehensive income — derivative activity	(17)	—	—	(17)
Included in regulatory (assets) liabilities	—	—	10	10
Settlements	9	(8)	(2)	(1)
Transfers of assets/(liabilities), net into Level 3	(4)	—	—	(4)
Balance at June 30	$(195)	$ 239	$ 9	$53
Total gains for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	$—	$ 8	$ —	$8

Six Months Ended June 30, 2018	Interest Rate	Foreign Currency	Commodity	Total
Balance at January 1	$(151)	$ 240	$ 4	$93
Total realized and unrealized gains (losses):				
Included in earnings	27	(3)	1	25
Included in other comprehensive income — derivative activity	32	—	—	32
Included in regulatory liabilities	—	—	9	9
Settlements	10	(18)	(4)	(12)
Transfers of assets/(liabilities), net into Level 3	(3)	—	—	(3)
Transfers of (assets)/liabilities, net out of Level 3	(26)	—	—	(26)
Balance at June 30	$(111)	$ 219	$ 10	$118
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	$31	$ (21)	$ 1	$11

Six Months Ended June 30, 2017	Interest Rate	Foreign Currency	Commodity	Total
Balance at January 1	$(179)	$ 255	$ 5	$81
Total realized and unrealized gains (losses):				
Included in earnings	—	—	(1)	(1)
Included in other comprehensive income — derivative activity	(28)	—	—	(28)
Included in regulatory liabilities	—	—	10	10
Settlements	19	(16)	(5)	(2)
Transfers of assets/(liabilities), net into Level 3	(7)	—	—	(7)
Balance at June 30	$(195)	$ 239	$ 9	$53
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	$2	$ (16)	$ —	$(14)

The following table summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of June 30, 2018 (in millions, except range amounts):

Type of Derivative	Fair Value	Unobservable Input	Amount or Range (Weighted Average)
Interest rate	$ (111)	Subsidiaries' credit spreads	2.38% to 4.38% (3.61%)
Foreign currency:			
Argentine Peso	219	Argentine peso to USD currency exchange rate after one year	36.86 to 87.44 (61.98)
Commodity:			
Other	10		
Total	$ 118		

For interest rate derivatives and foreign currency derivatives, increases (decreases) in the estimates of the Company's own credit spreads would decrease (increase) the value of the derivatives in a liability position. For foreign currency derivatives, increases (decreases) in the estimate of the above exchange rate would increase (decrease) the value of the derivative.

Nonrecurring Measurements

The Company measures fair value using the applicable fair value measurement guidance. Impairment expense is measured by comparing the fair value at the evaluation date to the then-latest available carrying amount. The following table summarizes our major categories of assets measured at fair value on a nonrecurring basis and their level within the fair value hierarchy (in millions):

Six months ended June 30, 2018	Measurement Date	Carrying Amount (1)	Fair Value Level 1	Level 2	Level 3	Pretax Loss
Long-lived assets held and used: (2)						
U.S. Generation Facility	06/30/2018	$ 210	$ —	$ —	$ 127	$ 83

Six Months Ended June 30, 2017	Measurement Date	Carrying Amount (1)	Fair Value Level 1	Level 2	Level 3	Pretax Loss
Long-lived assets held and used: (2)						
DPL	02/28/2017	$ 77	$ —	$ —	$ 11	$ 66
Other	02/28/2017	15	—	—	7	8
Held-for-sale businesses: (3)						
Kazakhstan Hydroelectric	06/30/2017	190	—	92	—	90
Kazakhstan	03/31/2017	171	—	29	—	94

(1) Represents the carrying values at the dates of measurement, before fair value adjustment.

(2) See Note 14—Asset Impairment Expense for further information.

(3) Per the Company's policy, pretax loss is limited to the impairment of long-lived assets. Any additional loss will be recognized on completion of the sale. See Note 17—Held-for-Sale and Dispositions for further information.

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The following table summarizes the significant unobservable inputs used in the Level 3 measurement on a nonrecurring basis during the six months ended June 30, 2018 (in millions, except range amounts):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Long-lived assets held and used:				
U.S. Generation Facility	$ 127	Market/Income approach (1)	Annual revenue growth	-1% to -3% (-2%)
			Annual pretax operating margin	25% to 36% (30%)
			Weighted average cost of capital	9 %

(1) A combination of the market approach, using prices and unobservable inputs from transactions involving comparable assets, and the income approach was used in determining the fair value.

Asset Retirement Obligation — The Company increased the asset retirement obligation associated with an ash pond at IPL by $32 million. This increase was due to increased costs and revised closure dates associated with an EPA rule regulating CCR. The Company uses the cost approach to determine the fair value of ARO liabilities, which is estimated by discounting expected cash outflows to their present value using market based rates at the initial recording of the liabilities. Cash outflows are based on the approximate future disposal costs as determined by market information, historical information or other management estimates. These inputs to the fair value of the ARO liabilities would be considered Level 3 inputs under the fair value hierarchy.

Financial Instruments not Measured at Fair Value in the Condensed Consolidated Balance Sheets

The following table presents (in millions) the carrying amount, fair value and fair value hierarchy of the Company's financial assets and liabilities that are not measured at fair value in the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, but for which fair value is disclosed:

		June 30, 2018				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent (1)	$ 134	$ 245	$ —	$ —	$ 245
Liabilities:	Non-recourse debt	15,465	15,943	—	14,259	1,684
	Recourse debt	4,130	4,169	—	4,169	—

		December 31, 2017				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent (1)	$ 163	$ 217	$ —	$ 6	$ 211
Liabilities:	Non-recourse debt	15,340	15,890	—	13,350	2,540
	Recourse debt	4,630	4,920	—	4,920	—

(1) These amounts primarily relate to amounts due from CAMMESA, the administrator of the wholesale electricity market in Argentina, and are included in Other noncurrent assets in the accompanying Condensed Consolidated Balance Sheets. The fair value and carrying amount of these receivables exclude VAT of $21 million and $31 million as of June 30, 2018 and December 31, 2017, respectively.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

For further information on the derivative and hedging accounting policies see Note 1—General and Summary of Significant Accounting Policies—Derivatives and Hedging Activities of Item 8.—Financial Statements and Supplementary

Data in the 2017 Form 10-K.

Volume of Activity — The following table presents the Company's maximum notional (in millions) over the remaining contractual period by type of derivative as of June 30, 2018, regardless of whether they are in qualifying cash flow hedging relationships, and the dates through which the maturities for each type of derivative range:

Derivatives	Maximum Notional Translated to USD	Latest Maturity
Interest Rate (LIBOR and EURIBOR)	$ 4,492	2042
Cross-Currency Swaps (Chilean Unidad de Fomento and Chilean peso)	373	2029
Foreign Currency:		
Argentine peso	120	2026
Chilean peso	381	2021
Colombian peso	212	2020
Brazilian real	218	2018
Others, primarily with weighted average remaining maturities of a year or less	260	2020

Accounting and Reporting — Assets and Liabilities — The following tables present the fair value of assets and liabilities related to the Company's derivative instruments as of June 30, 2018 and December 31, 2017 (in millions):

Fair Value	June 30, 2018			December 31, 2017		
Assets	Designated	Not Designated	Total	Designated	Not Designated	Total
Interest rate derivatives	$53	$ 1	$54	$15	$ —	$15
Cross-currency derivatives	23	—	23	29	—	29
Foreign currency derivatives	—	248	248	8	261	269
Commodity derivatives	—	24	24	5	30	35
Total assets	$76	$ 273	$349	$57	$ 291	$348
Liabilities						
Interest rate derivatives	$179	$ 3	$182	$125	$ 137	$262
Cross-currency derivatives	3	—	3	3	—	3
Foreign currency derivatives	26	25	51	1	29	30
Commodity derivatives	—	5	5	9	11	20
Total liabilities	$208	$ 33	$241	$138	$ 177	$315

	June 30, 2018		December 31, 2017	
Fair Value	Assets	Liabilities	Assets	Liabilities
Current	$82	$ 72	$84	$ 211
Noncurrent	267	169	264	104
Total	$349	$ 241	$348	$ 315

As of June 30, 2018, all derivative instruments subject to credit risk-related contingent features were in an asset position.

Credit Risk-Related Contingent Features [1]	December 31, 2017
Present value of liabilities subject to collateralization	$ 15
Cash collateral held by third parties or in escrow	9

[1] Based on the credit rating of certain subsidiaries

Earnings and Other Comprehensive Income (Loss) — The next table presents (in millions) the pretax gains (losses) recognized in AOCL and earnings related to all derivative instruments for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Effective portion of cash flow hedges				
Gains (losses) recognized in AOCL				
Interest rate derivatives	$8	$(51)	$55	$(73)
Cross-currency derivatives	(24)	(10)	(5)	2
Foreign currency derivatives	(39)	4	(33)	(11)
Commodity derivatives	—	2	—	14
Total	$(55)	$(55)	$17	$(68)
Gains (losses) reclassified from AOCL into earnings				
Interest rate derivatives	$(14)	$(20)	$(30)	$(44)
Cross-currency derivatives	(28)	—	(18)	4

Foreign currency derivatives	(2)	(21)	(1)	(23)
Commodity derivatives	(1)	2	(5)	3
Total	$(45)	$(39)	$(54)	$(60)
Loss reclassified from AOCL to earnings due to discontinuance of hedge accounting [1]	$—	$(19)	$—	$(16)
Gains (losses) recognized in earnings related to				
Ineffective portion of cash flow hedges	$(3)	$—	$(3)	$—
Not designated as hedging instruments:				
Foreign currency derivatives	$46	$14	$154	$(18)
Commodity derivatives and other	22	8	31	6
Total	$68	$22	$185	$(12)

[1] Cash flow hedge was discontinued because it was probable the forecasted transaction will not occur.

AOCL is expected to decrease pretax income from continuing operations for the twelve months ended June 30, 2019, by $66 million, primarily due to interest rate derivatives.

5. FINANCING RECEIVABLES

Receivables with contractual maturities of greater than one year are considered financing receivables. The Company's financing receivables are primarily related to amended agreements or government resolutions that are due from CAMMESA, the administrator of the wholesale electricity market in Argentina. The following table presents financing receivables by country as of the dates indicated (in millions):

	June 30, 2018	December 31, 2017
Argentina	$ 119	$ 177
Panama	27	—
Other	9	17
Total	$ 155	$ 194

Argentina — Collection of the principal and interest on these receivables is subject to various business risks and uncertainties, including, but not limited to, the operation of power plants which generate cash for payments of these receivables, regulatory changes that could impact the timing and amount of collections, and economic conditions in Argentina. The Company monitors these risks, including the credit ratings of the Argentine government, on a quarterly basis to assess the collectability of these receivables. The Company accrues interest on these receivables once the recognition criteria have been met. The Company's collection estimates are based on assumptions that it believes to be reasonable, but are inherently uncertain. Actual future cash flows could differ from these estimates.

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

Summarized Financial Information — The following table summarizes financial information of the Company's 50%-or-less-owned affiliates that are accounted for using the equity method (in millions):

	Six Months Ended June 30,	
50%-or-less-Owned Affiliates	2018	2017
Revenue	$485	$341
Operating margin	78	65
Net income	31	23

Simple Energy — In April 2018, the Company invested $35 million in Simple Energy, a provider of utility-branded marketplaces and omni-channel instant rebates. As the Company does not control Simple Energy, the investment is accounted for as an equity method investment and is reported as part of Corporate and Other.

sPower — In February 2017, the Company and Alberta Investment Management Corporation ("AIMCo") entered into an agreement to acquire FTP Power LLC ("sPower"). In July 2017, AES closed on the acquisition of its 48% ownership interest in sPower for $461 million. In November 2017, AES acquired an additional 2% ownership interest in sPower for $19 million. As the Company does not control sPower, the investment is accounted for as an equity method investment. The sPower portfolio includes solar and wind projects in operation, under construction, and in development located in the United States. The sPower equity method investment is reported in the US and Utilities SBU reportable segment.

Fluence — On January 1, 2018, Siemens and AES closed on the creation of the Fluence joint venture with each party holding a 50% ownership interest. The Company contributed $7 million in cash and $20 million in non-cash assets from the AES Advancion energy storage development business as consideration for the transaction, and received an equity interest in Fluence with a fair value of $50 million. See Note 17—Held-for-Sale and Dispositions for further discussion. Fluence is a global energy storage technology and services company. As the Company does not control Fluence, the investment is accounted for as an equity method investment. The Fluence equity method investment is reported as part of Corporate and Other.

7. DEBT

Recourse Debt

In March 2018, the Company repurchased via tender offers $671 million aggregate principal of its existing 5.50% senior unsecured notes due in 2024 and $29 million of its existing 5.50% senior unsecured notes due in 2025. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $44 million for the six months ended June 30, 2018.

In March 2018, the Company issued $500 million aggregate principal of 4.00% senior notes due in 2021 and $500 million of 4.50% senior notes due in 2023. The Company used the proceeds from these issuances to repurchase via tender offer in full the $228 million balance of its 8.00% senior notes due in 2020 and the $690

million balance of its 7.375% senior notes due in 2021. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $125 million for the six months ended June 30, 2018.
In May 2017, the Company closed on $525 million aggregate principal LIBOR + 2.00% secured term loan due in 2022. In June 2017, the Company used these proceeds to redeem at par all $517 million aggregate principal of its existing Term Convertible Securities. As a result of the latter transaction, the Company recognized a net loss on extinguishment of debt of $6 million for the three and six months ended June 30, 2017.
In March 2017, the Company repurchased via tender offers $276 million aggregate principal of its existing 7.375% senior unsecured notes due in 2021 and $24 million of its existing 8.00% senior unsecured notes due in 2020. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $47 million for the six months ended June 30, 2017.
Non-Recourse Debt
During the six months ended June 30, 2018, the Company's subsidiaries had the following significant debt transactions:

Subsidiary	Transaction Period	Issuances	Repayments	Loss on Extinguishment of Debt
Southland	Q1, Q2	$ 402	$ —	$ —
Tietê	Q1	385	(231)	—
Alto Maipo	Q2	104	—	—
DPL	Q2	—	(106)	(6)
Total		$ 891	$ (337)	$ (6)

AES Argentina — In February 2017, AES Argentina issued $300 million aggregate principal of unsecured and unsubordinated notes due in 2024. The net proceeds from this issuance were used for the prepayment of $75 million of non-recourse debt related to the construction of the San Nicolas Plant resulting in a gain on extinguishment of debt of approximately $65 million.
Non-Recourse Debt in Default — The current portion of non-recourse debt includes the following subsidiary debt in default as of June 30, 2018 (in millions).

Subsidiary	Primary Nature of Default	Debt in Default	Net Assets
AES Puerto Rico	Covenant	$ 328	$ 129
AES Ilumina	Covenant	35	17
		$ 363	

The above defaults are not payment defaults. All of the subsidiary non-recourse debt defaults were triggered by failure to comply with covenants and/or other conditions such as (but not limited to) failure to meet information covenants, complete construction or other milestones in an allocated time, meet certain minimum or maximum financial ratios, or other requirements contained in the non-recourse debt documents of the applicable subsidiary.
The AES Corporation's recourse debt agreements include cross-default clauses that will trigger if a subsidiary or group of subsidiaries for which the non-recourse debt is in default provides more than 20% or more of the Parent Company's total cash distributions from businesses for the four most recently completed fiscal quarters. As of June 30, 2018, the Company had no defaults which resulted in or were at risk of triggering a cross-default under the recourse debt of the Parent Company. In the event the Parent Company is not in compliance with the financial covenants of its senior secured revolving credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment defaults and bankruptcy defaults would preclude the making of any restricted payments.
8. COMMITMENTS AND CONTINGENCIES
Guarantees, Letters of Credit and Commitments — In connection with certain project financings, acquisitions and dispositions, power purchases and other agreements, the Parent Company has expressly undertaken limited obligations and commitments, most of which will only be effective or will be terminated upon the occurrence of future events. In the normal course of business, the Parent Company has entered into various agreements, mainly guarantees and letters

of credit, to provide financial or performance assurance to third parties on behalf of AES businesses. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to more than 16 years.

The following table summarizes the Parent Company's contingent contractual obligations as of June 30, 2018. Amounts presented in the following table represent the Parent Company's current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure. The maximum exposure is not reduced by the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees.

Contingent Contractual Obligations	Amount (in millions)	Number of Agreements	Maximum Exposure Range for Individual Agreements (in millions)
Guarantees and commitments	$ 716	21	<$1 — 272
Letters of credit under the unsecured credit facility	273	4	$2 — 247
Letters of credit under the senior secured credit facility	86	21	<$1 — 64
Asset sale related indemnities [(1)]	27	1	$27
Total	$ 1,102	47	

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(1) Excludes normal and customary representations and warranties in agreements for the sale of assets (including ownership in associated legal entities) where the associated risk is considered to be nominal.

During the six months ended June 30, 2018, the Company paid letter of credit fees ranging from 1.07% to 3% per annum on the outstanding amounts of letters of credit.

Contingencies

Environmental — The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. For each period ended June 30, 2018 and December 31, 2017, the Company had recognized liabilities of $5 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Moreover, where no liability has been recognized, it is reasonably possible that the Company may be required to incur remediation costs or make expenditures in amounts that could be material but could not be estimated as of June 30, 2018. In aggregate, the Company estimates the range of potential losses related to environmental matters, where estimable, to be up to $16 million. The amounts considered reasonably possible do not include amounts accrued as discussed above.

Litigation — The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has recognized aggregate liabilities for all claims of approximately $46 million and $50 million as of June 30, 2018 and December 31, 2017, respectively. These amounts are reported on the Condensed Consolidated Balance Sheets within Accrued and other liabilities and Other noncurrent liabilities. A significant portion of these accrued liabilities relate to regulatory matters and commercial disputes in international jurisdictions. There can be no assurance that these accrued liabilities will be adequate to cover all existing and future claims or that we will have the liquidity to pay such claims as they arise.

Where no accrued liability has been recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of June 30, 2018. The material contingencies where a loss is reasonably possible primarily include disputes with offtakers, suppliers and EPC contractors; alleged violation of laws and regulations; income tax and non-income tax matters with tax authorities; and regulatory matters. In aggregate, the Company estimates the range of potential losses, where estimable, related to these reasonably possible material contingencies to be between $115 million and $145 million. The amounts considered reasonably possible do not include the amounts accrued, as discussed above. These material contingencies do not include income tax-related contingencies which are considered part of our uncertain tax positions.

9. REDEEMABLE STOCK OF SUBSIDIARIES

The following table summarizes the Company's redeemable stock of subsidiaries balances as of the periods indicated (in millions):

	June 30, 2018	December 31, 2017
IPALCO common stock	$ 618	$ 618
Colon quotas [1]	185	159
IPL preferred stock	60	60
Total redeemable stock of subsidiaries	$ 863	$ 837

(1) Characteristics of quotas are similar to common stock.

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Colon — Our partner in Colon made capital contributions of $24 million and $16 million during the six months ended June 30, 2018 and 2017, respectively. Any subsequent adjustments to allocate earnings and dividends to our partner, or measure the investment at fair value, will be classified as temporary equity each reporting period as it is probable that the shares will become redeemable.

10. EQUITY

Changes in Equity — The following table is a reconciliation of the beginning and ending equity attributable to stockholders of The AES Corporation, NCI and total equity as of the periods indicated (in millions):

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	The Parent Company Stockholders' Equity	NCI	Total Equity	The Parent Company Stockholders' Equity	NCI	Total Equity
Balance at the beginning of the period	$2,465	$2,380	$4,845	$2,794	$2,906	$5,700
Net income [1]	974	219	1,193	29	219	248
Total foreign currency translation adjustment, net of income tax	(173)	58	(115)	48	(1)	47
Total change in derivative fair value, net of income tax	38	25	63	—	2	2
Total pension adjustments, net of income tax	4	—	4	—	13	13
Cumulative effect of a change in accounting principle [2]	87	81	168	31	—	31
Fair value adjustment [3]	(5)	—	(5)	(7)	—	(7)
Disposition of businesses [4]	—	(249)	(249)	—	—	—
Distributions to noncontrolling interests	—	(185)	(185)	—	(198)	(198)
Contributions from noncontrolling interests	—	5	5	—	17	17
Dividends declared on common stock	(86)	—	(86)	(79)	—	(79)
Issuance and exercise of stock-based compensation	6	—	6	9	—	9
Sale of subsidiary shares to noncontrolling interests	(1)	7	6	(4)	22	18
Acquisition of subsidiary shares from noncontrolling interests	—	—	—	200	67	267
Less: Net loss attributable to redeemable stock of subsidiaries	—	7	7	—	6	6
Balance at the end of the period	$3,309	$2,348	$5,657	$3,021	$3,053	$6,074

(1) Net income attributable to noncontrolling interest of $226 million and net loss attributable to redeemable stocks of subsidiaries of $7 million for the six months ended June 30, 2018. Net income attributable to noncontrolling interest of $225 million and net loss attributable to redeemable stock of subsidiaries of $6 million for the six months ended June 30, 2017.

(2) See Note 1—Financial Statement Presentation, New Accounting Standards Adopted for further information.

(3) Adjustment to record the redeemable stock of Colon at fair value.

(4) See Note 17—Held-for-Sale and Dispositions for further information.

Equity Transactions with Noncontrolling Interests

Alto Maipo — On March 17, 2017, AES Gener completed the legal and financial restructuring of Alto Maipo. As part of this restructuring, AES indirectly acquired the 40% ownership interest of the noncontrolling shareholder, for a de minimis payment, and sold a 6.7% interest in the project to the construction contractor. This transaction resulted in a $196 million increase to the Parent Company's Stockholders' Equity due to an increase in additional-paid-in capital of $229 million, offset by the reclassification of accumulated other comprehensive losses from NCI to the Parent Company Stockholders' Equity of $33 million. No gain or loss was recognized in net income as the sale was not considered to be a sale of in-substance real estate. After completion of the sale, the Company has an effective 62% economic interest in Alto Maipo. As the Company maintained control of the partnership after the sale, Alto Maipo continues to be consolidated by the Company within the South America SBU reportable segment.

Accumulated Other Comprehensive Loss — The following table summarizes the changes in AOCL by component, net of tax and NCI, for the six months ended June 30, 2018 (in millions):

	Foreign currency translation adjustment, net	Unrealized derivative gains (losses), net	Unfunded pension obligations, net	Total
Balance at the beginning of the period	$ (1,486)	$ (333)	$ (57)	$(1,876)
Other comprehensive income (loss) before reclassifications	(175)	3	—	(172)
Amount reclassified to earnings	2	35	4	41
Other comprehensive income (loss)	(173)	38	4	(131)
Cumulative effect of a change in accounting principle	—	19	—	19
Balance at the end of the period	$ (1,659)	$ (276)	$ (53)	$(1,988)

Reclassifications out of AOCL are presented in the following table. Amounts for the periods indicated are in millions and those in parenthesis indicate debits to the Condensed Consolidated Statements of Operations:

AOCL Components	Affected Line Item in the Condensed Consolidated Statements of Operations	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Foreign currency translation adjustment, net					
	Gain (loss) on disposal and sale of businesses	$—	$(95)	$16	$(98)
	Net gain from disposal of discontinued businesses	(18)	—	(18)	$—
	Net income attributable to The AES Corporation	$(18)	$(95)	$(2)	$(98)
Unrealized derivative gains (losses), net					
	Non-regulated revenue	$(1)	$—	$(5)	$10
	Non-regulated cost of sales	(1)	1	(2)	(9)
	Interest expense	(12)	(20)	(27)	(43)
	Foreign currency transaction gains (losses)	(31)	(20)	(20)	(18)
	Income from continuing operations before taxes and equity in earnings of affiliates	(45)	(39)	(54)	(60)
	Income tax expense	9	10	8	11
	Income from continuing operations	(36)	(29)	(46)	(49)
	Less: Net income from continuing operations attributable to noncontrolling interests and redeemable stock of subsidiaries	8	9	11	9
	Net income attributable to The AES Corporation	$(28)	$(20)	$(35)	$(40)
Amortization of defined benefit pension actuarial loss, net					
	General and administrative expenses	$—	$—	$(1)	$1
	Other expense	(1)	—	(1)	—
	Income from continuing operations before taxes and equity in earnings of affiliates	(1)	—	(2)	1
	Income from continuing operations	(1)	—	(2)	1
	Net income (loss) from operations of discontinued businesses	1	(7)	—	(14)
	Net gain from disposal of discontinued operations	(2)	—	(2)	—
	Net income	(2)	(7)	(4)	(13)
	Less: Net loss (income) from discontinued operations attributable to noncontrolling interest	—	5	—	10
	Net income attributable to The AES Corporation	$(2)	$(2)	$(4)	$(3)
Total reclassifications for the period, net of income tax and noncontrolling interests		$(48)	$(117)	$(41)	$(141)

Common Stock Dividends — The Parent Company paid dividends of $0.13 per outstanding share to its common stockholders during the first and second quarters of 2018 for dividends declared in December 2017 and February 2018, respectively.

On July 13, 2018, the Board of Directors declared a quarterly common stock dividend of $0.13 per share payable on August 17, 2018, to shareholders of record at the close of business on August 3, 2018.

11. SEGMENTS

The segment reporting structure uses the Company's management reporting structure as its foundation to reflect how the Company manages the businesses internally and is mainly organized by geographic regions which provides a socio-political-economic understanding of our business. During the first quarter of 2018, the Andes and Brazil SBUs were merged in order to leverage scale and are now reported together as part of the South America SBU. Further, Puerto Rico and El Salvador businesses, formerly part of the MCAC SBU, were combined with the US SBU, which is now reported as the US and Utilities SBU. The management reporting structure is organized by four SBUs led by our President and Chief Executive Officer: US and Utilities, South America, MCAC, and Eurasia SBUs. Using the accounting guidance on segment reporting, the Company determined that its four operating segments are aligned with its four reportable segments corresponding to its SBUs. All prior period results have been retrospectively revised to reflect the new segment reporting structure.

Corporate and Other — The results of the Fluence and Simple Energy equity affiliates are included in “Corporate and Other.” Also included are corporate overhead costs which are not directly associated with the operations of our four reportable segments, and certain intercompany charges such as self-insurance premiums which are fully eliminated in consolidation.

The Company uses Adjusted PTC as its primary segment performance measure. Adjusted PTC, a non-GAAP measure, is defined by the Company as pre-tax income from continuing operations attributable to The AES Corporation excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses related to derivative transactions and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; and (f) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation. Adjusted PTC also includes net equity in earnings of affiliates on an after-tax basis adjusted for the same gains or losses excluded from consolidated entities. The Company has concluded that Adjusted PTC better reflects the underlying business performance of the Company and is the most relevant measure considered in the Company's internal evaluation of the financial performance of its segments. Additionally, given its large number of businesses and complexity, the Company concluded that Adjusted PTC is a more transparent measure that better assists investors in determining which businesses have the greatest impact on the Company's results.

Revenue and Adjusted PTC are presented before inter-segment eliminations, which includes the effect of intercompany transactions with other segments except for interest, charges for certain management fees, and the write-off of intercompany balances, as applicable. All intra-segment activity has been eliminated within the segment. Inter-segment activity has been eliminated within the total consolidated results.

The following tables present financial information by segment for the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Revenue	2018	2017	2018	2017
US and Utilities SBU	$995	$1,046	$2,022	$2,093
South America SBU	846	796	1,741	1,543
MCAC SBU	406	375	814	723
Eurasia SBU	292	395	711	824
Corporate and Other	5	6	14	20
Eliminations	(7)	(5)	(25)	(9)
Total Revenue	$2,537	$2,613	$5,277	$5,194

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Adjusted PTC	2018	2017	2018	2017
Income from continuing operations before taxes and equity in earnings of affiliates	$342	$226	$1,340	$383
Add: Net equity in earnings of affiliates	14	2	25	9
Less: Income from continuing operations before taxes, attributable to noncontrolling interests	(167)	(125)	(293)	(293)
Pre-tax contribution	189	103	1,072	99
Unrealized derivative and equity securities losses (gains)	(24)	2	(12)	1
Unrealized foreign currency losses (gains)	52	(24)	49	(33)
Disposition/acquisition losses (gains)	(61)	56	(839)	108
Impairment expense	92	94	92	262
Losses (gains) on extinguishment of debt	7	11	178	(5)
Restructuring costs	—	—	3	—
Total Adjusted PTC	$255	$242	$543	$432

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Adjusted PTC	2018	2017	2018	2017
US and Utilities SBU	$76	$89	$196	$150
South America SBU	117	95	253	222
MCAC SBU	81	72	134	118
Eurasia SBU	55	80	138	157
Corporate and Other	(74)	(94)	(178)	(215)

Total Adjusted PTC	$255	$242	$543	$432

Total Assets	June 30, 2018	December 31, 2017
US and Utilities SBU	$11,817	$ 11,297
South America SBU	11,255	10,874
MCAC SBU	4,335	4,087
Eurasia SBU	4,659	4,557
Assets held-for-sale	108	2,034
Corporate and Other	423	263
Total Assets	$32,597	$ 33,112

12. REVENUE

Revenue is earned from the sale of electricity from our utilities and the production and sale of electricity and capacity from our generation facilities. Revenue is recognized upon the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Revenue is recorded net of any taxes assessed on and collected from customers, which are remitted to the governmental authorities.

Utilities — Our utilities sell electricity directly to end-users, such as homes and businesses, and bill customers directly. The majority of our utility contracts have a single performance obligation, as the promises to transfer

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energy, capacity, and other distribution and/or transmission services are not distinct. Additionally, as the performance obligation is satisfied over time as energy is delivered, and the same method is used to measure progress, the performance obligation meets the criteria to be considered a series. Utility revenue is classified as regulated on the Condensed Consolidated Statements of Operations.

In exchange for the right to sell or distribute electricity in a service territory, our utility businesses are subject to government regulation. This regulation sets the framework for the prices (“tariffs”) that our utilities are allowed to charge customers for electricity. Since tariffs are determined by the regulator, the price that our utilities have the right to bill corresponds directly with the value to the customer of the utility's performance completed in each period. The Company also has some month-to-month contracts. Revenue under these contracts is recognized using an output method measured by the MWh delivered each month, which best depicts the transfer of goods or services to the customer, at the approved tariff.

The Company has businesses where it sells and purchases power to and from ISOs and RTOs. Our utility businesses generally purchase power to satisfy the demand of customers that is not contracted through separate PPAs. In these instances, the Company accounts for these transactions on a net hourly basis because the transactions are settled on a net hourly basis. In limited situations, a utility customer may choose to receive generation services from a third-party provider, in which case the Company may serve as a billing agent for the provider and recognize revenue on a net basis.

Generation — Most of our generation fleet sells electricity under contracts to customers such as utilities, industrial users, and other intermediaries. Our generation contracts, based on specific facts and circumstances, can have one or more performance obligations as the promise to transfer energy, capacity, and other services may or may not be distinct depending on the nature of the market and terms of the contract. Similar to our utilities businesses, as the performance obligations are generally satisfied over time and use the same method to measure progress, the performance obligations meet the criteria to be considered a series. In measuring progress toward satisfaction of a performance obligation, the Company applies the "right to invoice" practical expedient when available, and recognizes revenue in the amount to which the Company has a right to consideration from a customer that corresponds directly with the value of the performance completed to date. Revenue from generation businesses is classified as non-regulated on the Condensed Consolidated Statements of Operations.

For contracts determined to have multiple performance obligations, we allocate revenue to each performance obligation based on its relative standalone selling price using a market or expected cost plus margin approach. Additionally, the Company allocates variable consideration to one or more, but not all, distinct goods or services that form part of a single performance obligation when (1) the variable consideration relates specifically to the efforts to transfer the distinct good or service and (2) the variable consideration depicts the amount to which the Company expects to be entitled in exchange for transferring the promised good or service to the customer.

Revenue from generation contracts is recognized using an output method, as energy and capacity delivered best depicts the transfer of goods or services to the customer. Performance obligations including energy or ancillary services (such as operations and maintenance and dispatch services) are generally measured by the MWh delivered. Capacity, which is a stand-ready obligation to deliver energy when required by the customer, is measured using MWs. In certain contracts, if plant availability exceeds a contractual target, the Company may receive a performance bonus payment, or if the plant availability falls below a guaranteed minimum target, we may incur a non-availability penalty. Such bonuses or penalties represent a form of variable consideration and are estimated and recognized when it is probable that there will not be a significant reversal.

In assessing whether variable quantities are considered variable consideration or an option to acquire additional goods and services, the Company evaluates the nature of the promise and the legally enforceable rights in the contract. In some contracts, such as requirement contracts, the legally enforceable rights merely give the customer a right to purchase additional goods and services which are distinct. In these contracts, the customer's action results in a new obligation, and the variable quantities are considered an option.

When energy or capacity is sold or purchased in the spot market or to ISOs, the Company assesses the facts and circumstances to determine gross versus net presentation of spot revenues and purchases. Generally, the nature of the

performance obligation is to sell surplus energy or capacity above contractual commitments, or to purchase energy or capacity to satisfy deficits. Generally, on an hourly basis, a generator is either a net seller or a net buyer in terms of the amount of energy or capacity transacted with the ISO. In these situations, the Company recognizes revenue for the hours where the generator is a net seller and cost of sales for the hours where the generator is a net buyer.
Certain generation contracts contain operating leases where capacity payments are generally considered the lease elements. In such cases, the allocation between the lease and non-lease elements is made at the inception of

the lease following the guidance in ASC 840. Minimum lease payments from such contracts are recognized as revenue on a straight-line basis over the lease term whereas contingent rentals are recognized when earned. Lease revenue is presented separately from revenue from contracts with customers below.

The following table presents our revenue from contracts with customers and other revenue for the periods indicated (in millions):

	Three Months Ended June 30, 2018					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate and Other/ Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$706	$ —	$ —	$ —	$ —	$706
Other regulated revenue	10	—	—	—	—	10
Total regulated revenue	$716	$ —	$ —	$ —	$ —	$716
Non-Regulated Revenue						
Revenue from contracts with customers	$180	$ 845	$ 384	$ 218	$ —	$1,627
Other non-regulated revenue [1]	99	1	22	74	(2)	194
Total non-regulated revenue	$279	$ 846	$ 406	$ 292	$ (2)	$1,821
Total revenue	$995	$ 846	$ 406	$ 292	$ (2)	$2,537

	Six Months Ended June 30, 2018					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate and Other/ Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$1,417	$ —	$ —	$ —	$ —	$1,417
Other regulated revenue	21	—	—	—	—	21
Total regulated revenue	$1,438	$ —	$ —	$ —	$ —	$1,438
Non-Regulated Revenue						
Revenue from contracts with customers	$388	$ 1,739	$ 771	$ 549	$ (9)	$3,438
Other non-regulated revenue [1]	196	2	43	162	(2)	401
Total non-regulated revenue	$584	$ 1,741	$ 814	$ 711	$ (11)	$3,839
Total revenue	$2,022	$ 1,741	$ 814	$ 711	$ (11)	$5,277

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[1] Other non-regulated revenue primarily includes lease and derivative revenue not accounted for under ASC 606.

Contract Balances — The timing of revenue recognition, billings, and cash collections results in accounts receivable and contract liabilities. Accounts receivable represent unconditional rights to consideration and consist of both billed amounts and unbilled amounts typically resulting from sales under long-term contracts when revenue recognized exceeds the amount billed to the customer. We bill both generation and utilities customers on a contractually agreed-upon schedule, typically at periodic intervals (e.g., monthly). The calculation of revenue earned but not yet billed is based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month.

Our contract liabilities consist of deferred revenue which is classified as current or noncurrent based on the timing of when we expect to recognize revenue. The current portion of our contract liabilities is reported in Accrued and other liabilities and the noncurrent portion is reported in Other noncurrent liabilities on the Condensed Consolidated Balance Sheets. The contract liabilities from contracts with customers were $121 million and $131 million as of June 30, 2018 and January 1, 2018, respectively.

Of the $131 million of contract liabilities reported at January 1, 2018, $29 million was recognized as revenue during the six months ended June 30, 2018.

A significant financing arrangement exists for our Mong Duong plant in Vietnam. The plant was constructed under a build, operate, and transfer contract and will be transferred to the Vietnamese government after the completion of a 25 year PPA. The performance obligation to construct the facility was substantially completed in 2015. Approximately $1.5 billion of contract consideration related to the construction, but not yet collected through the 25 year PPA, was reflected as a loan receivable as of June 30, 2018.

Remaining Performance Obligations — The transaction price allocated to remaining performance obligations represents future consideration for unsatisfied (or partially unsatisfied) performance obligations at the end of the reporting period. As of June 30, 2018, the aggregate amount of transaction price allocated to remaining performance obligations was $24 million, primarily consisting of fixed consideration for the sale of renewable energy credits (RECs) in long-term contracts in the U.S. We expect to recognize revenue on approximately one-fifth of the remaining performance obligations in 2018, with the remainder recognized thereafter. The Company has elected to apply the optional disclosure exemptions under ASC 606. Therefore, the amount above excludes contracts with an original length of one year or less, contracts for which we recognize revenue based on the amount we have the right to invoice for services performed, and variable consideration allocated entirely to a wholly unsatisfied performance obligation when the consideration relates specifically to our efforts to satisfy the performance obligation and depicts the amount to which we expect to be entitled. As such, consideration for energy is excluded from the amounts above as the variable consideration relates to the amount of energy delivered and reflects the value the Company expects to receive for the energy transferred. Estimates of revenue expected to be recognized in future periods also exclude unexercised customer options to purchase additional goods or services that do not represent material rights to the customer.

13. OTHER INCOME AND EXPENSE

Other income generally includes gains on asset sales and liability extinguishments, favorable judgments on contingencies, gains on contract terminations, allowance for funds used during construction and other income from miscellaneous transactions. Other expense generally includes losses on asset sales and dispositions, losses on legal contingencies, defined benefit plan non-service costs, and losses from other miscellaneous transactions. The components are summarized as follows (in millions):

		Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Other Income	Legal settlements [1]	$—	$—	$—	$ 60
	Allowance for funds used during construction (US Utilities)	2	6	7	13
	Other	5	8	13	14
	Total other income	$ 7	$ 14	$ 20	$ 87
Other Expense	Loss on sale and disposal of assets	$ 3	$ —	$ 5	$ 21
	Water rights write-off	—	3	—	3
	Other [2]	1	4	8	7
	Total other expense	$ 4	$ 7	$ 13	$ 31

(1) In December 2016, the Company and YPF entered into a settlement agreement in which all parties agreed to give up any and all legal action related to gas supply contracts that were terminated in 2008 and have been in dispute since 2009. In January 2017, the YPF board approved the agreement and paid the Company $60 million, thereby resolving all uncertainties around the dispute.

(2) As of January 1, 2018, the Company retrospectively adopted ASU 2017-07, Compensation —Retirement Benefits. As such, $2 million of gains primarily related to the expected return on plan assets for the three months ended June 30, 2017 and $1 million of non-service costs associated with defined benefit plans for the six months ended June 30, 2017 were reclassified from Cost of Sales to Other Expense.

14. ASSET IMPAIRMENT EXPENSE

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
U.S. generation facility	$ 83	$ —	$ 83	$—
Kazakhstan hydroelectric	—	90	—	90

Kazakhstan CHPs	—	—	—	94
DPL	—	—	—	66
Other	9	—	9	8
Total	$92	$ 90	$92	$258

U.S. generation facility — In June 2018, the Company tested the recoverability of its long-lived assets at a generation facility in the U.S. due to an unfavorable economic outlook resulting in uncertainty around future cash flows. The Company determined that the carrying amount of the asset group was not recoverable. The asset group was determined to have a fair value of $127 million using a combination of the income and market approaches. As a result, the Company recognized an asset impairment expense of $83 million. The generation facility is reported in the US and Utilities SBU reportable segment.

DPL — In March 2017, the Board of Directors of DPL approved the retirement of the DPL operated and co-owned Stuart coal-fired and diesel-fired generating units, and the Killen coal-fired generating unit and combustion turbine on or before June 1, 2018. The Company performed an impairment analysis and determined that the carrying amounts of the facilities were not recoverable. The Stuart and Killen asset groups were determined to have fair values of $3 million and $8 million, respectively, using the income approach. As a result, the Company recognized total asset impairment expense of $66 million. The Stuart and Killen units were retired in May 2018. Prior to their retirement, Stuart and Killen were reported in the US and Utilities SBU reportable segment. See Note 17—Held-for-Sale and Dispositions for further information.

Kazakhstan hydroelectric — In April 2017, the Government of Kazakhstan stated the concession agreements would not be extended for Shulbinsk HPP and Ust-Kamenogorsk HPP, two hydroelectric plants in Kazakhstan, and initiated the process to transfer these plants back to the government. Upon meeting the held-for-sale criteria, the Company performed an impairment analysis and determined the fair value of the asset group was below carrying value. As a result, the Company recognized asset impairment expense of $90 million during the three and six months ended June 30, 2017. The Company completed the transfer of the plants in October 2017. Prior to their transfer, the Kazakhstan hydroelectric plants were reported in the Eurasia SBU reportable segment.

Kazakhstan CHPs — In January 2017, the Company entered into an agreement for the sale of Ust-Kamenogorsk CHP and Sogrinsk CHP, its combined heating and power coal plants in Kazakhstan. Upon meeting the held-for-sale criteria in the first quarter of 2017, the Company performed an impairment analysis and determined that the carrying value of the asset group of $171 million, which included cumulative translation losses of $92 million, was greater than its fair value less costs to sell of $29 million. As a result, the Company recognized asset impairment expense of $94 million limited to the carrying value of the long-lived assets. The Company completed the sale of its interest in the Kazakhstan CHP plants in April 2017. Prior to their sale, the plants were reported in the Eurasia SBU reportable segment. See Note 17—Held-for-Sale and Dispositions for further information.

15. INCOME TAXES

The Company's provision for income taxes is based on the estimated annual effective tax rate, plus discrete items. The effective tax rates for the three and six month periods ended June 30, 2018 were 39% and 27%, respectively. The effective tax rates for the three and six month periods ended June 30, 2017 were 38% and 40%, respectively. The difference between the Company's effective tax rates for the 2018 and 2017 periods and the U.S. statutory tax rates of 21% and 35%, respectively, related primarily to U.S. taxes on foreign earnings, foreign tax rate differentials, and nondeductible expenses.

The Tax Cuts and Jobs Act ("The 2017 Act") was enacted on December 22, 2017. The 2017 Act reduced the U.S. federal corporate income tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. We are applying the guidance in Staff Accounting Bulletin No. 118 ("SAB 118") when accounting for the enactment date effect of the 2017 Act. We recognized a reasonable estimate of the tax effects of the 2017 Act as of December 31, 2017. However, as of June 30, 2018, our accounting is not complete. We will continue to refine our calculations as additional analysis is completed. Our estimates may also be affected as we gain a more thorough understanding of the tax law, including proposed regulations released by the U.S. Treasury Department on August 1 related to the one-time transition tax and other international matters. The proposed regulations have not yet been published officially in the Federal Register and the Company is continuing its review and analysis. We anticipate that guidance on the determination of fair value, for federal tax purposes, of the shares we hold in our publicly traded subsidiaries, which are considered part of our foreign subsidiaries' "cash position" and taxed at the 15.5% one-time rate, could materially impact our provisional estimate. For further discussion on the 2017 Act, see Note 20—Income Taxes in Item 8.—Financial Statements and Supplementary Data of our 2017 Form 10-K.

In the first quarter of 2018, the Company completed the sale of its entire 51% equity interest in Masinloc, resulting in pre-tax gain of approximately $777 million. The sale resulted in approximately $155 million of discrete tax expense in the U.S. under the new GILTI provision, which subjects the earnings of foreign subsidiaries to current U.S. taxation to the extent those earnings exceed an allowable return. See Note 17—Held-for-Sale and Dispositions for details of the sale.

In the second quarter of 2018, the Company completed the sale of Electrica Santiago for total proceeds of $307 million, subject to customary post-closing adjustments, resulting in a pre-tax gain on sale of $89 million. The sale resulted in approximately $31 million of discrete tax expense. See Note 17—Held-for-Sale and Dispositions for details of the sale.

16. DISCONTINUED OPERATIONS

Due to a portfolio evaluation in the first half of 2016, management decided to pursue a strategic shift of its distribution companies in Brazil, Sul and Eletropaulo, to reduce the Company's exposure to the Brazilian distribution market. The disposals of Sul and Eletropaulo were completed in October 2016 and June 2018, respectively.

In November 2017, Eletropaulo converted its preferred shares into ordinary shares and transitioned the listing of those shares to the Novo Mercado, which is a listing segment of the Brazilian stock exchange with the highest standards of corporate governance. Upon conversion of the preferred shares into ordinary shares, AES no longer controlled Eletropaulo, but maintained significant influence over the business. As a result, the Company deconsolidated Eletropaulo. After deconsolidation, the Company's 17% ownership interest was reflected as an equity method investment. The Company recorded an after-tax loss on deconsolidation of $611 million, which primarily consisted of $455 million related to cumulative translation losses and $243 million related to pension losses reclassified from AOCL.

In December 2017, all the remaining criteria were met for Eletropaulo to qualify as a discontinued operation. Therefore, its results of operations and financial position were reported as such in the consolidated financial statements for all periods presented.

In June 2018, the Company completed the sale of its entire 17% ownership interest in Eletropaulo through a bidding process hosted by the Brazilian securities regulator, CVM. Gross proceeds of $340 million were received at our subsidiary in Brazil, subject to the payment of taxes. Upon disposal of Eletropaulo, the Company recorded a pre-tax gain on sale of $238 million (after-tax $196 million). Prior to its classification as discontinued operations, Eletropaulo was reported in the South America SBU reportable segment.

The following table summarizes the carrying amounts of the major classes of assets and liabilities of discontinued operations at December 31, 2017:

(in millions)	December 31, 2017
Assets of discontinued operations and held-for-sale businesses:	
Investments in and advances to affiliates [1]	$ 86
Total assets of discontinued operations	$ 86
Other assets of businesses classified as held-for-sale [2]	1,948
Total assets of discontinued operations and held-for-sale businesses	$ 2,034
Liabilities of discontinued operations and held-for-sale businesses:	
Other liabilities of businesses classified as held-for-sale [2]	1,033
Total liabilities of discontinued operations and held-for-sale businesses	$ 1,033

(1) Represents the Company's 17% ownership interest in Eletropaulo.

(2) Electrica Santiago, the DPL Peaker Assets and Masinloc were classified as held-for-sale as of December 31, 2017. See Note 17—Held-for-Sale and Dispositions for further information.

Excluding the gain on sale, income from discontinued operations and cash flows from operating and investing activities of discontinued operations were immaterial for the three and six months ended June 30, 2018.

The following table summarizes the majo