

AES CORP  
Form 10-Q  
May 09, 2016

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

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FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2016

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:

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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  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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

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The number of shares outstanding of Registrant's Common Stock, par value \$0.01 per share, on May 2, 2016 was 659,001,121

THE AES CORPORATION  
FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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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                |
| AES             | The Parent Company and its subsidiaries and affiliates                                   |
| AFS             | Available For Sale   |
| AFUDC           | Allowance for Funds Used During Construction   |
| ANEEL           | Brazilian National Electric Energy Agency  |
| AOCL            | Accumulated Other Comprehensive Loss   |
| ASC             | Accounting Standards Codification  |
| ASU             | Accounting Standards Update  |
| BNDES           | Brazilian Development Bank   |
| BoD             | Board of Directors   |
| CAA             | United States Clean Air Act  |
| CAMMESA         | Wholesale Electric Market Administrator in Argentina                                     |
| CCR             | Coal Combustion Residuals  |
| CDPQ            | La Caisse de depot et placement du Quebec  |
| CESCO           | Central Electricity Supply Company of Orissa Ltd.  |
| CFE             | Federal Commission of Electricity  |
| CO <sub>2</sub> | Carbon Dioxide   |
| CTA             | Cumulative Translation Adjustment  |
| DP&L            | The Dayton Power & Light Company   |
| DPL             | DPL Inc.   |
| DPLER           | DPL Energy Resources, Inc.   |
| EPA             | United States Environmental Protection Agency  |
| EPC             | Engineering, Procurement and Construction  |
| EURIBOR         | Euro Interbank Offered Rate  |
| FASB            | Financial Accounting Standards Board   |
| FCA             | Federal Court of Appeals   |
| FERC            | Federal Energy Regulatory Commission   |
| FX              | Foreign Exchange   |
| GAAP            | Generally Accepted Accounting Principles in the United States                            |
| GHG             | Greenhouse Gas   |
| GSA             | Gas Supply Agreement   |
| GWh             | Gigawatt Hours   |
| ICC             | International Chamber of Commerce  |
| IPALCO          | IPALCO Enterprises, Inc.   |
| IPL             | Indianapolis Power & Light Company   |
| IURC            | Indiana Utility Regulatory Commission  |
| KPI             | Key Performance Indicator  |
| kWh             | Kilowatt Hours   |
| LIBOR           | London Interbank Offered Rate  |
| MATS            | Mercury and Air Toxics Standards   |
| MRE             | Energy Reallocation Mechanism  |
| MW              | Megawatts  |
| MWh             | Megawatt Hours   |
| NEK             | Natsionalna Elektricheska Kompania (state-owned electricity public supplier in Bulgaria) |
| NOV             | Notice of Violation  |

|                 |  |
|-----------------|--|
| NO <sub>x</sub> | Nitrogen Oxides                                  |
| NCI             | Noncontrolling Interest                          |
| OCI             | Other Comprehensive Income                       |
| O&M             | Operations and Maintenance                       |
| OPGC            | Odisha Power Generation Corporation              |
| Parent Company  | The AES Corporation                              |
| PIS             | Partially Integrated System                      |
| PPA             | Power Purchase Agreement                         |
| PREPA           | Puerto Rico Electric Power Authority             |
| RSU             | Restricted Stock Unit                            |
| RTO             | Regional Transmission Organization               |
| SIC             | Central Interconnected Electricity System        |
| SING            | Northern Interconnected Electricity System       |
| SBU             | Strategic Business Unit                          |
| SEC             | United States Securities and Exchange Commission |
| SO <sub>2</sub> | Sulfur Dioxide                                   |
| TA              | Transportation Agreement                         |
| U.S.            | United States                                    |
| USD             | United States Dollar                             |
| VAT             | Value-Added Tax                                  |
| VIE             | Variable Interest Entity                         |

PART I: FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
THE AES CORPORATION  
Condensed Consolidated Balance Sheets  
(Unaudited)

|  | March 31, December 31,<br>2016 2015                  |                  |
|--|--|------------------|
|  | (in millions, except<br>share and per share<br>data) |                  |
| <b>ASSETS</b>  |  |                  |
| <b>CURRENT ASSETS</b>  |  |                  |
| Cash and cash equivalents  | \$1,185  | \$ 1,262         |
| Restricted cash  | 294  | 295              |
| Short-term investments   | 628  | 484              |
| Accounts receivable, net of allowance for doubtful accounts of \$103 and \$95, respectively                    | 2,581  | 2,473            |
| Inventory (see Note 2)   | 682  | 675              |
| Prepaid expenses   | 116  | 108              |
| Other current assets   | 1,461  | 1,449            |
| Assets of held-for-sale businesses   | —  | 96               |
| Total current assets   | 6,947  | 6,842            |
| <b>NONCURRENT ASSETS</b>   |  |                  |
| Property, Plant and Equipment:   |  |                  |
| Land   | 751  | 711              |
| Electric generation, distribution assets and other   | 28,997   | 28,491           |
| Accumulated depreciation   | (9,768 )   | (9,449 )         |
| Construction in progress   | 3,436  | 3,063            |
| Property, plant and equipment, net   | 23,416   | 22,816           |
| Other Assets:  |  |                  |
| Investments in and advances to affiliates (see Note 6)   | 611  | 610              |
| Debt service reserves and other deposits   | 415  | 565              |
| Goodwill   | 1,157  | 1,157            |
| Other intangible assets, net of accumulated amortization of \$100 and \$97, respectively                       | 209  | 214              |
| Deferred income taxes  | 599  | 543              |
| Service concession assets, net of accumulated amortization of \$52 and \$34, respectively                      | 1,505  | 1,543            |
| Other noncurrent assets  | 2,041  | 2,180            |
| Total other assets   | 6,537  | 6,812            |
| <b>TOTAL ASSETS</b>  | <b>\$36,900</b>                                      | <b>\$ 36,470</b> |
| <b>LIABILITIES AND EQUITY</b>  |  |                  |
| <b>CURRENT LIABILITIES</b>   |  |                  |
| Accounts payable   | \$1,739  | \$ 1,721         |
| Accrued interest   | 333  | 251              |
| Accrued and other liabilities  | 2,280  | 2,436            |
| Non-recourse debt, including \$247 and \$261, respectively, related to variable interest entities (see Note 7) | 2,220  | 2,505            |
| Liabilities of held-for-sale businesses  | —  | 13               |
| Total current liabilities  | 6,572  | 6,926            |
| <b>NONCURRENT LIABILITIES</b>  |  |                  |

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|  |          |           |
|--|----------|-----------|
| Recourse debt (see Note 7)   | 4,924    | 4,966     |
| Non-recourse debt, including \$1,503 and \$1,539, respectively, related to variable interest entities (see Note 7)   | 13,413   | 12,956    |
| Deferred income taxes  | 1,118    | 1,090     |
| Pension and other post-retirement liabilities (see Note 9)   | 985      | 927       |
| Other noncurrent liabilities   | 3,032    | 2,896     |
| Total noncurrent liabilities   | 23,472   | 22,835    |
| Commitments and Contingencies (see Note 8)   |          |           |
| Redeemable stock of subsidiaries   | 672      | 538       |
| EQUITY (see Note 10)   |          |           |
| THE AES CORPORATION STOCKHOLDERS' EQUITY   |          |           |
| Common stock (\$0.01 par value, 1,200,000,000 shares authorized; 815,894,592 issued and 658,997,660 outstanding at March 31, 2016 and 815,846,621 issued and 666,808,790 outstanding at December 31, 2015) | 8        | 8         |
| Additional paid-in capital   | 8,706    | 8,718     |
| Retained earnings  | 198      | 143       |
| Accumulated other comprehensive loss   | (3,807 ) | (3,883 )  |
| Treasury stock, at cost (156,896,932 shares at March 31, 2016 and 149,037,831 at December 31, 2015)  | (1,904 ) | (1,837 )  |
| Total AES Corporation stockholders' equity   | 3,201    | 3,149     |
| NONCONTROLLING INTERESTS   | 2,983    | 3,022     |
| Total equity   | 6,184    | 6,171     |
| TOTAL LIABILITIES AND EQUITY   | \$36,900 | \$ 36,470 |

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION  
Condensed Consolidated Statements of Operations  
(Unaudited)

|   | Three Months<br>Ended March 31,               |               |
|---|---|---------------|
|   | 2016  | 2015          |
|   | (in millions,<br>except per share<br>amounts) |               |
| Revenue:  |   |               |
| Regulated   | \$1,776                                       | \$2,080       |
| Non-Regulated   | 1,695   | 1,904         |
| Total revenue   | 3,471   | 3,984         |
| Cost of Sales:  |   |               |
| Regulated   | (1,672 )                                      | (1,807 )      |
| Non-Regulated   | (1,295 )                                      | (1,456 )      |
| Total cost of sales   | (2,967 )                                      | (3,263 )      |
| Operating margin  | 504   | 721           |
| General and administrative expenses   | (48 )   | (55 )         |
| Interest expense  | (364 )  | (363 )        |
| Interest income   | 130   | 90            |
| Gain (loss) on extinguishment of debt   | 4   | (23 )         |
| Other expense   | (8 )  | (20 )         |
| Other income  | 13  | 15            |
| Gain on sale of businesses  | 47  | 1             |
| Asset impairment expense  | (159 )  | (8 )          |
| Foreign currency transaction gains (losses)                                     | 43  | (23 )         |
| Other non-operating expense   | (2 )  | —             |
| <b>INCOME FROM OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES</b> | <b>160</b>                                    | <b>335</b>    |
| Income tax expense  | (92 )   | (96 )         |
| Net equity in earnings of affiliates  | 6   | 15            |
| <b>NET INCOME</b>   | <b>74</b>                                     | <b>254</b>    |
| Less: Net loss (income) attributable to noncontrolling interests                | 52  | (112 )        |
| <b>NET INCOME ATTRIBUTABLE TO THE AES CORPORATION</b>                           | <b>\$126</b>                                  | <b>\$142</b>  |
| <b>BASIC EARNINGS PER SHARE:</b>  |   |               |
| <b>NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS</b>       | <b>\$0.19</b>                                 | <b>\$0.20</b> |
| <b>DILUTED EARNINGS PER SHARE:</b>  |   |               |
| <b>NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS</b>       | <b>\$0.19</b>                                 | <b>\$0.20</b> |
| <b>DILUTED SHARES OUTSTANDING</b>   | <b>663</b>                                    | <b>706</b>    |
| <b>DIVIDENDS DECLARED PER COMMON SHARE</b>                                      | <b>\$0.11</b>                                 | <b>\$—</b>    |

See Notes to Condensed Consolidated Financial Statements.



## THE AES CORPORATION

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

|  | Three Months<br>Ended<br>March 31,<br>2016 2015<br>(in millions) |         |
|--|--|---------|
| NET INCOME   | \$74   | \$254   |
| Foreign currency translation activity:   |  |         |
| Foreign currency translation adjustments, net of \$0 income tax for all periods  | 128  | (421 )  |
| Total foreign currency translation adjustments   | 128  | (421 )  |
| Derivative activity:   |  |         |
| Change in derivative fair value, net of income tax benefit of \$21 and \$17, respectively  | (64 )  | (72 )   |
| Reclassification to earnings, net of income tax benefit (expense) of \$3 and \$(2), respectively                                     | (1 )   | 12      |
| Total change in fair value of derivatives  | (65 )  | (60 )   |
| Pension activity:  |  |         |
| Change in pension adjustments due to prior service cost, net of \$0 income tax for all periods                                       | 1  | —       |
| Change in pension adjustments due to net actuarial gain (loss) for the period, net of \$0 income tax for all periods                 | (1 )   | —       |
| Reclassification to earnings due to amortization of net actuarial loss, net of income tax (expense) of \$(1) and \$(3), respectively | 3  | 5       |
| Total pension adjustments  | 3  | 5       |
| OTHER COMPREHENSIVE INCOME (LOSS)  | 66   | (476 )  |
| COMPREHENSIVE INCOME (LOSS)  | 140  | (222 )  |
| Less: Comprehensive loss attributable to noncontrolling interests  | 62   | 88      |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION  | \$202  | \$(134) |

See Notes to Condensed Consolidated Financial Statements.

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

|  | Three Months<br>Ended March 31,<br>2016    2015<br>(in millions) |          |
|--|--|----------|
| <b>OPERATING ACTIVITIES:</b>   |  |          |
| Net income   | \$74   | \$254    |
| Adjustments to net income:   |  |          |
| Depreciation and amortization  | 290  | 298      |
| Gain on sale of businesses   | (47 )  | (1 )     |
| Impairment expenses  | 161  | 8        |
| Deferred income taxes  | 31   | (12 )    |
| (Reversals of) provisions for contingencies                                    | (1 )   | 14       |
| (Gain) loss on extinguishment of debt  | (4 )   | 23       |
| Other  | (3 )   | 65       |
| Changes in operating assets and liabilities                                    |  |          |
| (Increase) decrease in accounts receivable                                     | 37   | (337 )   |
| (Increase) decrease in inventory   | (24 )  | (35 )    |
| (Increase) decrease in prepaid expenses and other current assets               | 274  | 68       |
| (Increase) decrease in other assets  | (21 )  | (290 )   |
| Increase (decrease) in accounts payable and other current liabilities          | (72 )  | 273      |
| Increase (decrease) in income tax payables, net and other tax payables         | (148 )   | (15 )    |
| Increase (decrease) in other liabilities                                       | 93   | 124      |
| Net cash provided by operating activities                                      | 640  | 437      |
| <b>INVESTING ACTIVITIES:</b>   |  |          |
| Capital expenditures   | (640 )   | (619 )   |
| Acquisitions, net of cash acquired   | (6 )   | (17 )    |
| Proceeds from the sale of businesses, net of cash sold                         | 115  | —        |
| Sale of short-term investments   | 1,603  | 1,076    |
| Purchase of short-term investments   | (1,708 )   | (1,054 ) |
| Decrease (increase) in restricted cash, debt service reserves and other assets | 96   | (75 )    |
| Other investing  | (8 )   | (31 )    |
| Net cash used in investing activities  | (548 )   | (720 )   |
| <b>FINANCING ACTIVITIES:</b>   |  |          |
| Borrowings under the revolving credit facilities                               | 248  | 101      |
| Repayments under the revolving credit facilities                               | (116 )   | (62 )    |
| Repayments of recourse debt  | (116 )   | (336 )   |
| Issuance of non-recourse debt  | 161  | 574      |
| Repayments of non-recourse debt  | (248 )   | (269 )   |
| Payments for financing fees  | (11 )  | (9 )     |
| Distributions to noncontrolling interests                                      | (78 )  | (19 )    |
| Contributions from noncontrolling interests                                    | 28   | 67       |
| Proceeds from the sale of redeemable stock of subsidiaries                     | 134  | 247      |
| Dividends paid on AES common stock   | (73 )  | (70 )    |
| Payments for financed capital expenditures                                     | (10 )  | (42 )    |
| Purchase of treasury stock   | (79 )  | (35 )    |

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|  |         |         |
|--|---------|---------|
| Other financing  | (20 )   | (34 )   |
| Net cash (used in) provided by financing activities            | (180 )  | 113     |
| Effect of exchange rate changes on cash                        | 7       | (27 )   |
| Increase (decrease) in cash of held-for-sale businesses        | 4       | (5 )    |
| Total decrease in cash and cash equivalents                    | (77 )   | (202 )  |
| Cash and cash equivalents, beginning                           | 1,262   | 1,539   |
| Cash and cash equivalents, ending                              | \$1,185 | \$1,337 |
| <b>SUPPLEMENTAL DISCLOSURES:</b>                               |         |         |
| Cash payments for interest, net of amounts capitalized         | \$228   | \$242   |
| Cash payments for income taxes, net of refunds                 | \$182   | \$103   |
| <b>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b> |         |         |
| Assets acquired through capital lease and other liabilities    | \$3     | \$5     |
| Dividends declared but not yet paid                            | \$75    | \$—     |
| See Notes to Condensed Consolidated Financial Statements.      |         |         |

## THE AES CORPORATION

## Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2016 and 2015

## 1. FINANCIAL STATEMENT PRESENTATION

## 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,” “the Parent” or “the Parent Company” refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, variable interest entities (“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 months ended March 31, 2016 are not necessarily indicative of results that may be expected for the year ending December 31, 2016. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2015 audited consolidated financial statements and notes thereto, which are included in the 2015 Form 10-K filed with the SEC on February 23, 2016 (the “2015 Form 10-K”).

## New Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that had and/or could 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  |
|--|--|------------------|---|
| 2015-03, Interest — Imputation of Interest (Subtopic 835-30)   | The standard simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the standard. Transition method: retrospective. | January 1, 2016  | Deferred financing costs of \$24 million previously classified within other current assets and \$357 million previously classified within other noncurrent assets were reclassified to reduce the related debt liabilities as of December 31, 2015. |
| 2015-15, Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements | Given the absence of authoritative guidance within ASU 2015-03, this standard clarifies that the SEC Staff would not object to an entity presenting debt issuance costs related to line-of-credit arrangements as an asset that is subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit                        | January 1, 2016  | Deferred financing costs related to lines-of-credit of \$1 million recorded within other current assets and \$23 million recorded within other noncurrent assets were not reclassified as of December 31, 2015.                                     |

arrangement. Transition method:  
retrospective.

The standard makes targeted amendments to the current consolidation guidance and ends the deferral granted to investment companies from applying the VIE guidance.

2015-02, Consolidation —  
Amendments to the  
Consolidation Analysis (Topic  
810)

The standard amends the evaluation of whether (1) fees paid to a decision-maker or January 1, 2016 service providers represent a variable interest, (2) a limited partnership or similar entity has the characteristics of a VIE and (3) a reporting entity is the primary beneficiary of a VIE. Transition method: retrospective.

None, other than that some entities previously consolidated under the voting model are now consolidated under the VIE model.

New Accounting Standards Issued But Not Yet Effective

| ASU Number and Name   | Description  | Date of Adoption                              | Effect on the financial statements upon adoption  |
|---|--|---|---|
| 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting | The standard simplifies the following aspects of accounting for share-based payments awards: accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. Transition method: Various. | January 1, 2017. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |

|   |  |   |   |
|---|--|---|---|
| <p>2016-06, Derivatives and Hedging (Topic 815) — Contingent Put and Call Options in Debt Instruments</p>                                 | <p>This standard clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. When a call (put) option is contingently exercisable, an entity will no longer assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. Transition method: a modified retrospective basis to existing debt instruments as of the effective date.</p> | <p>January 1, 2017. Early adoption is permitted.</p>      | <p>The Company is currently evaluating the impact of adopting the standard, but does not anticipate a material impact on its consolidated financial statements.</p> |
| <p>2016-05, Derivatives and Hedging (Topic 815) — Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships</p>  | <p>The standard clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not require de-designation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18) continue to be met. Transition method: prospective or a modified retrospective basis.</p>  | <p>January 1, 2017. Early adoption is permitted.</p>      | <p>The Company is currently evaluating the impact of adopting the standard, but does not anticipate a material impact on its consolidated financial statements.</p> |
| <p>2016-02, Leases (Topic 842)</p>  | <p>The standard creates Topic 842, Leases which supersedes Topic 840, Leases, and introduces a lessee model that brings substantially all leases onto the balance sheet while retaining most of the principles of the existing lessor model in U.S. GAAP and aligning many of those principles with ASC 606, Revenue from Contracts with Customers. Transition method: modified retrospective approach with certain practical expedients.</p>  | <p>January 1, 2019. Early adoption is permitted.</p>      | <p>The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.</p>  |
| <p>2016-01, Financial Instruments — Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</p> | <p>The standard significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. Also, it amends certain disclosure requirements associated with the fair value of financial instruments. Transition: cumulative effect in Retained Earnings as of adoption or prospectively for equity investments without readily determinable fair value.</p>                        | <p>January 1, 2018. Limited early adoption permitted.</p> | <p>The Company is currently evaluating the impact of adopting the standard, but does not anticipate a material impact on its consolidated financial statements.</p> |
| <p>2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory</p>   | <p>The standard replaces the current lower of cost or market test with a lower of cost or net realizable value test. Transition method: prospectively.</p>   | <p>January 1, 2017. Early adoption is permitted.</p>      | <p>The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.</p>  |

|   |   |  |   |
|---|---|--|---|
| 2014-09, Revenue from Contracts with Customers (Topic 606)  | The standard provides a single and comprehensive revenue recognition model for all contracts with customers to improve comparability. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The standard requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Transition method: a full retrospective or modified retrospective approach. | January 1, 2018 (as deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2016-08, Revenue from Contracts with Customers (Topic 606) — Principal versus Agent Considerations (Reporting Revenue Gross versus Net) | The standard clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and apply the control principle to certain types of arrangements. The amendments also re-frame the indicators to focus on evidence that an entity is acting as a principal rather than as an agent, revise existing examples and add new ones. Transition method: a full retrospective or modified retrospective approach.  | January 1, 2018 (as deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing                           | This standard clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This standard reduces the cost and complexity of applying Topic 606 to the identification of promised goods or services, and it also includes implementation guidance on licensing. Transition method: a full retrospective or modified retrospective approach.  | January 1, 2018 (as deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |

## 2. INVENTORY

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

|                              | March<br>31,<br>2016 | December 31,<br>2015 |
|------------------------------|----------------------|----------------------|
| Fuel and other raw materials | \$ 354               | \$ 343               |
| Spare parts and supplies     | 328                  | 332                  |
| Total                        | \$ 682               | \$ 675               |

## 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 value of the Company's assets and liabilities has 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. The Company made no

changes during the period to the fair valuation techniques described in Note 4.—Fair Value in Item 8.—Financial Statements and Supplementary Data of its 2015 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 periods indicated (in millions). For the Company's investments in marketable debt and equity securities, the security classes presented are determined based on the nature and risk of a security and are consistent with how the Company manages, monitors and measures its marketable securities:

|                                    | March 31, 2016 |         |         |         | December 31, 2015 |         |         |       |
|------------------------------------|----------------|---------|---------|---------|-------------------|---------|---------|-------|
|                                    | Level 1        | Level 2 | Level 3 | Total   | Level 1           | Level 2 | Level 3 | Total |
| Assets                             |                |         |         |         |                   |         |         |       |
| AVAILABLE FOR SALE: <sup>(1)</sup> |                |         |         |         |                   |         |         |       |
| Debt securities:                   |                |         |         |         |                   |         |         |       |
| Unsecured debentures               | \$—            | \$ 568  | \$ —    | \$568   | \$—               | \$ 327  | \$ —    | \$327 |
| Certificates of deposit            | —              | 37      | —       | 37      | —                 | 135     | —       | 135   |
| Government debt securities         | —              | 11      | —       | 11      | —                 | 28      | —       | 28    |
| Subtotal                           | —              | 616     | —       | 616     | —                 | 490     | —       | 490   |
| Equity securities:                 |                |         |         |         |                   |         |         |       |
| Mutual funds                       | —              | 15      | —       | 15      | —                 | 15      | —       | 15    |
| Subtotal                           | —              | 15      | —       | 15      | —                 | 15      | —       | 15    |
| Total available for sale           | —              | 631     | —       | 631     | —                 | 505     | —       | 505   |
| TRADING:                           |                |         |         |         |                   |         |         |       |
| Equity securities:                 |                |         |         |         |                   |         |         |       |
| Mutual funds                       | 14             | —       | —       | 14      | 15                | —       | —       | 15    |
| Total trading                      | 14             | —       | —       | 14      | 15                | —       | —       | 15    |
| DERIVATIVES:                       |                |         |         |         |                   |         |         |       |
| Foreign currency derivatives       | —              | 37      | 304     | 341     | —                 | 35      | 292     | 327   |
| Commodity derivatives              | —              | 67      | 4       | 71      | —                 | 41      | 7       | 48    |
| Total derivatives                  | —              | 104     | 308     | 412     | —                 | 76      | 299     | 375   |
| TOTAL ASSETS                       | \$14           | \$ 735  | \$ 308  | \$1,057 | \$15              | \$ 581  | \$ 299  | \$895 |
| Liabilities                        |                |         |         |         |                   |         |         |       |
| DERIVATIVES:                       |                |         |         |         |                   |         |         |       |
| Interest rate derivatives          | \$—            | \$ 48   | \$ 416  | \$464   | \$—               | \$ 54   | \$ 304  | \$358 |
| Cross-currency derivatives         | —              | 33      | —       | 33      | —                 | 43      | —       | 43    |
| Foreign currency derivatives       | —              | 46      | 14      | 60      | —                 | 41      | 15      | 56    |
| Commodity derivatives              | —              | 46      | 4       | 50      | —                 | 29      | 4       | 33    |
| Total derivatives                  | —              | 173     | 434     | 607     | —                 | 167     | 323     | 490   |
| TOTAL LIABILITIES                  | \$—            | \$ 173  | \$ 434  | \$607   | \$—               | \$ 167  | \$ 323  | \$490 |

(1) Amortized cost approximated fair value at March 31, 2016 and December 31, 2015.

As of March 31, 2016, \$605 million of AFS debt securities had stated maturities within one year and \$11 million had stated maturities between 1 and 1.5 years. Gains and losses on the sale of investments are determined using the specific-identification method. For the three months ended March 31, 2016 and 2015, pretax realized gains and losses related to AFS and trading securities were less than \$1 million, there was approximately \$1 million in unrealized losses on AFS securities, and no other-than-temporary impairments of marketable securities were recognized in earnings or OCI. The table below presents the gross proceeds from sale of AFS securities for the periods indicated (in millions):



Three Months  
Ended March  
31,  
2016 2015

Gross proceeds from sale of AFS securities \$1,619 \$1,086

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 months ended March 31, 2016 and 2015 (presented in millions and net by type of derivative). 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.

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| Three Months Ended March 31, 2016   | Interest Rate | Foreign Currency | Commodity | Total   |
|---|---------------|------------------|-----------|---------|
| Balance at the beginning of the period  | \$(304)       | \$ 277           | \$ 3      | \$(24 ) |
| Total gains (losses) (realized and unrealized):   |               |                  |           |         |
| Included in earnings  | 3             | 47               | —         | 50      |
| Included in other comprehensive income — derivative activity  | (99 )         | 3                | —         | (96 )   |
| Included in other comprehensive income — foreign currency translation activity  | (3 )          | (33 )            | —         | (36 )   |
| Settlements   | 18            | (1 )             | (3 )      | 14      |
| Transfers of assets (liabilities) into Level 3  | (31 )         | —                | —         | (31 )   |
| Transfers of (assets) liabilities out of Level 3  | —             | (3 )             | —         | (3 )    |
| Balance at the end of the period  | \$(416)       | \$ 290           | \$ —      | \$(126) |
| 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 \$4 period |               | \$ 45            | \$ —      | \$49    |

| Three Months Ended March 31, 2015   | Interest Rate | Foreign Currency | Commodity | Cross Currency | Total   |
|---|---------------|------------------|-----------|----------------|---------|
| Balance at the beginning of the period  | \$(210)       | \$ 209           | \$ 6      | \$ —           | \$5     |
| Total gains (losses) (realized and unrealized):   |               |                  |           |                |         |
| Included in earnings  | —             | 22               | 3         | —              | 25      |
| Included in other comprehensive income — derivative activity  | (35 )         | —                | —         | —              | (35 )   |
| Included in other comprehensive income — foreign currency translation activity  | 11            | (6 )             | —         | —              | 5       |
| Settlements   | 6             | (2 )             | (5 )      | —              | (1 )    |
| Transfers of assets (liabilities) into Level 3  | (74 )         | —                | —         | (33 )          | (107 )  |
| Balance at the end of the period  | \$(302)       | \$ 223           | \$ 4      | \$ (33 )       | \$(108) |
| 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 | \$—           | \$ 21            | \$ 3      | \$ —           | \$24    |

The table below summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of March 31, 2016 (\$ in millions):

| Type of Derivative | Fair Value | Unobservable Input  | Amount or Range (Weighted Avg) |
|--------------------|------------|---|--------------------------------|
| Interest rate      | \$ (416 )  | Subsidiaries' credit spreads                                | 2.88% — 9.7% (5.65%)           |
| Foreign currency:  |            |   |                                |
| Argentine Peso     | 304        | Argentine Peso to USD currency exchange rate after one year | 18.91 — 37.07 (27.78)          |
| Other              | (14 )      |   |                                |
| Total              | \$ (126 )  |   |                                |

Nonrecurring Measurements

When evaluating impairment of long-lived assets and equity method investments, 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 its then-latest available carrying amount. The following table summarizes major categories of assets and liabilities measured at fair value on a nonrecurring basis and their level within the fair value hierarchy (in millions):

| Three Months Ended March 31, 2016 | Carrying Amount      | Fair Value      | Pretax Loss |
|-----------------------------------|----------------------|-----------------|-------------|
| Assets                            | Measurement Date (1) | Level 2 Level 3 |             |

Long-lived assets held and used: (2)

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| Assets                            | Measurement Date | Carrying Amount<br>(1) | Fair Value<br>Level 1 | Fair Value<br>Level 2 | Fair Value<br>Level 3 | Pretax<br>Loss |
|-----------------------------------|------------------|------------------------|-----------------------|-----------------------|-----------------------|----------------|
| Buffalo Gap II                    | 03/31/2016       | \$ 251                 | \$—                   | —                     | \$ 92                 | \$ 159         |
| Three Months Ended March 31, 2015 |                  |                        |                       |                       |                       |                |
| Other                             | Various          | \$ 29                  | \$—                   | \$ 21                 | \$                    | —\$ 8          |
| Equity method investments:        |                  |                        |                       |                       |                       |                |
| Solar Spain                       | 02/09/2015       | 29                     | —                     | 29                    | —                     | —              |

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

(2) See Note 13—Asset Impairment Expense for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement on a nonrecurring basis during the three months ended March 31, 2016 (\$ in millions):

| Long-lived assets held and used: | Fair Value | Valuation Technique  | Unobservable Input               | Range (Weighted Average) |
|----------------------------------|------------|----------------------|----------------------------------|--------------------------|
| Buffalo Gap II                   | \$ 92      | Discounted cash flow | Annual revenue growth            | -17% to 21% (20%)        |
|                                  |            |                      | Annual pretax operating margin   | -166% to 48% (18%)       |
|                                  |            |                      | Weighted-average cost of capital | 9 %                      |

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

The next 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 March 31, 2016 and December 31, 2015, but for which fair value is disclosed:

|  | March 31, 2016  |                  |         |         |         | December 31, 2015 |                  |         |         |         |
|--|-----------------|------------------|---------|---------|---------|-------------------|------------------|---------|---------|---------|
|  | Carrying Amount | Fair Value Total | Level 1 | Level 2 | Level 3 | Carrying Amount   | Fair Value Total | Level 1 | Level 2 | Level 3 |
| Assets: Accounts receivable — noncurrent | \$258           | \$337            | \$ —    | —       | —\$337  | \$270             | \$342            | \$ —    | \$20    | \$322   |
| Liabilities: Non-recourse debt           | 15,633          | 16,064           | —       | 13,654  | 2,410   | 15,461            | 15,939           | —       | 13,672  | 2,267   |
| Recourse debt                            | 4,924           | 4,998            | —       | 4,998   | —       | 4,966             | 4,696            | —       | 4,696   | —       |

(1) These amounts principally relate to amounts due from CAMMESA, and are included in Noncurrent assets—Other in the accompanying Condensed Consolidated Balance Sheets. The fair value and carrying amount of these receivables exclude VAT of \$24 million and \$27 million as of March 31, 2016 and December 31, 2015, respectively.

#### 4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

There are no changes to the information disclosed in Note 1—General and Summary of Significant Accounting Policies—Derivatives and Hedging Activities of Item 8.—Financial Statements and Supplementary Data in the 2015 Form 10-K.

Volume of Activity — The following table presents the Company’s outstanding notional (in millions) under its types of derivatives as of March 31, 2016 with significant notionals, regardless of whether they are in qualifying cash flow hedging relationships, and the date through which the maturities for each type of derivative range:

| Derivatives  | Current Notional Translated to USD | Latest Maturity |
|--|------------------------------------|-----------------|
| Interest Rate (LIBOR and EURIBOR)  | \$ 3,201                           | 2033            |
| Cross-Currency Swaps (Chilean Unidad de Fomento)                               | 169                                | 2028            |
| Foreign Currency:  |                                    |                 |
| Argentine Peso   | 162                                | 2026            |
| Chilean Unidad de Fomento  | 304                                | 2019            |
| Others, primarily with weighted average remaining maturities of a year or less | 687                                | 2017            |

Accounting and Reporting — Assets and Liabilities — The following tables present amounts about assets and liabilities related to the Company’s derivative instruments as of March 31, 2016 and December 31, 2015 (in millions):

| Fair Value                   | March 31, 2016 |                |       | December 31, 2015 |                |       |
|------------------------------|----------------|----------------|-------|-------------------|----------------|-------|
|                              | Designated     | Not Designated | Total | Designated        | Not Designated | Total |
| Assets                       |                |                |       |                   |                |       |
| Foreign currency derivatives | \$14           | \$ 327         | \$341 | \$8               | \$ 319         | \$327 |
| Commodity derivatives        | 37             | 34             | 71    | 30                | 18             | 48    |
| Total assets                 | \$51           | \$ 361         | \$412 | \$38              | \$ 337         | \$375 |
| Liabilities                  |                |                |       |                   |                |       |
| Interest rate derivatives    | \$464          | \$ —           | \$464 | \$358             | \$ —           | \$358 |
| Cross-currency derivatives   | 33             | —              | 33    | 43                | —              | 43    |
| Foreign currency derivatives | 35             | 25             | 60    | 35                | 21             | 56    |
| Commodity derivatives        | 11             | 39             | 50    | 12                | 21             | 33    |
| Total liabilities            | \$543          | \$ 64          | \$607 | \$448             | \$ 42          | \$490 |

| Fair Value | March 31, 2016 |             | December 31, 2015 |             |
|------------|----------------|-------------|-------------------|-------------|
|            | Assets         | Liabilities | Assets            | Liabilities |
| Current    | \$92           | \$ 145      | \$86              | \$ 144      |
| Noncurrent | 320            | 462         | 289               | 346         |

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|   |       |        |                      |                      |
|---|-------|--------|----------------------|----------------------|
| Total   | \$412 | \$ 607 | \$375                | \$ 490               |
| Credit Risk-Related Contingent Features   |       |        | March<br>31,<br>2016 | December<br>31, 2015 |
| Present value of liabilities subject to collateralization<br>based on credit rating of certain subsidiaries | \$68  |        | \$ 58                |                      |
| Cash collateral held by third parties or in an escrow<br>account as a result of the credit rating           | \$40  |        | \$ 38                |                      |

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Earnings and Other Comprehensive (Loss) Income — 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<br>Ended March<br>31,<br>2016 2015 |         |
|--|---|---------|
| Effective portion of cash flow hedges:             |   |         |
| Gain (Losses) recognized in AOCL                   |   |         |
| Interest rate derivatives                          | \$(130)   | \$(98 ) |
| Cross-currency derivatives                         | 8   | —       |
| Foreign currency derivatives                       | —   | 2       |
| Commodity derivatives                              | 37  | 7       |
| Total  | \$(85 )   | \$(89 ) |
| Gain (Losses) reclassified from AOCL into earnings |   |         |
| Interest rate derivatives                          | \$(29 )   | \$(24 ) |
| Cross-currency derivatives                         | 9   | (1 )    |
| Foreign currency derivatives                       | 2   | 6       |
| Commodity derivatives                              | 22  | 5       |
| Total  | \$4   | \$(14 ) |
| Gain (Losses) recognized in earnings related to    |   |         |
| Ineffective portion of cash flow hedges            | \$2   | \$(2 )  |
| Not designated as hedging instruments:             |   |         |
| Foreign currency derivatives                       | \$40  | \$32    |
| Other  | (9 )  | (8 )    |
| Total  | \$31  | \$24    |

|   | Twelve<br>Months<br>Ended<br>March<br>31,<br>2017 |          |
|---|---|----------|
| AOCL expected to increase (decrease) pre-tax income from<br>continuing operations (primarily interest rate derivatives) |   | \$(104 ) |

## 5. FINANCING RECEIVABLES

Financing receivables are defined as receivables that have contractual maturities of greater than one year. The Company primarily has financing receivables pursuant to amended agreements or government resolutions that are due from certain governmental bodies in Argentina. Presented below are financing receivables by country as of the periods indicated (in millions):

|                                       | March<br>31,<br>2016 | December 31,<br>2015 |
|---------------------------------------|----------------------|----------------------|
| Argentina                             | \$ 219               | \$ 237               |
| United States                         | 21                   | 20                   |
| Brazil                                | 42                   | 39                   |
| Total long-term financing receivables | \$ 282               | \$ 296               |

Argentina — Collection of the principal and interest on these receivables is subject to various business risks and uncertainties including, but not limited to, the completion and 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):

|                              | Three<br>Months<br>Ended<br>March 31, |        |
|------------------------------|---------------------------------------|--------|
| 50%-or-less-Owned Affiliates | 2016                                  | 2015   |
| Revenue                      | \$ 134                                | \$ 184 |
| Operating margin             | 35                                    | 56     |
| Net income                   | 15                                    | 36     |

#### 7. DEBT

##### Recourse Debt

During the first quarter of 2016, the Parent Company redeemed \$125 million of its senior unsecured notes outstanding. The repayment included a portion of the 7.375% senior notes due in 2021, the 4.875% senior notes due in 2023, the 5.5% senior notes due in 2024, the 5.5% senior notes due in 2025 and the floating rate senior

notes due in 2019.

As a result of these transactions, the Company recognized a net gain on extinguishment of debt of \$7 million that is included in the Condensed Consolidated Statement of Operations.

In March 2015, the Company redeemed in full the \$151 million balance of its 7.75% senior unsecured notes due October 2015 and the \$164 million balance of its 9.75% senior unsecured notes due April 2016. As a result of these transactions, the Company recognized a loss on extinguishment of debt of \$23 million for the three months ended March 31, 2015 that is included in the Condensed Consolidated Statement of Operations.

#### Non-Recourse Debt

During the three months ended March 31, 2016, the Company's subsidiaries engaged in the following significant debt transactions:

| Subsidiary | Issuances | Repayments | Gain (Loss) on Extinguishment of Debt |
|------------|-----------|------------|---------------------------------------|
| IPALCO     | \$ 148    | \$ 83      | \$ —                                  |
| Other      | 161       | 259        | (2 )                                  |
|            | \$ 309    | \$ 342     | \$ (2 )                               |

Non-recourse Debt in default — The following table summarizes the Company's subsidiary non-recourse debt in default as of March 31, 2016 (in millions). Due to the defaults, these amounts are included in the current portion of non-recourse debt:

| Subsidiary                        | Primary Nature of Default | Debt in Default | Net Assets |
|-----------------------------------|---------------------------|-----------------|------------|
| Maritza (Bulgaria) <sup>(1)</sup> | Covenant                  | \$ 551          | \$ 719     |
| Kavarna (Bulgaria)                | Covenant                  | 138             | 83         |
| Sogrinsk (Kazakhstan)             | Covenant                  | 6               | 8          |
|                                   |                           | \$ 695          |            |

<sup>(1)</sup> See Note 18—Subsequent Events for updates after March 31, 2016 impacting Maritza's debt in default.

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.

In the event that there is a default, bankruptcy or maturity acceleration at a subsidiary or group of subsidiaries that meets the applicable definition of materiality under the Parent Company's corporate debt agreements, there could be a cross-default to the Company's recourse debt. Materiality is defined in the Parent's senior secured credit facility as having provided 20% or more of the total cash distributions from businesses to the Parent Company for the four most recently completed fiscal quarters. As of March 31, 2016, none of the defaults listed above individually or in the aggregate result in or are 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 credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment 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 financing, acquisition, power purchase 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 subsidiaries. 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 19 years.

Presented below are 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. The table below summarizes the Parent Company's contingent contractual obligations as of March 31, 2016 (\$ in millions).

| Contingent Contractual Obligations                         | Amount | No. of Agreements | Maximum Exposure Range for Each Agreement |
|--|--------|-------------------|---|
| Guarantees and commitments                                 | \$ 355 | 13                | <\$1 — 53                                 |
| Asset sale related indemnities <sup>(1)</sup>              | 27     | 1                 | \$27                                      |
| Cash collateralized letters of credit                      | 31     | 3                 | \$3 — 15                                  |
| Letters of credit under the senior secured credit facility | 62     | 9                 | <\$1 — 29                                 |
| Total  | \$ 475 | 26                |   |

(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 three months ended March 31, 2016, the Company paid letter of credit fees ranging from 0.2% to 2.5% 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. As of March 31, 2016 and December 31, 2015, the Company had recognized liabilities of \$10 million for both periods, relating to projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation with current legislation or costs for new legislation introduced 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 March 31, 2016. In aggregate, the Company estimates the potential losses related to environmental matters, where estimable, to be up to \$1 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 evaluated claims in accordance with the accounting guidance for contingencies that it deems both probable and reasonably estimable and, accordingly, has recognized aggregate liabilities for all claims of approximately \$234 million and \$189 million as of March 31, 2016 and December 31, 2015, respectively. The increase in the current period is primarily related to the resolution of a dispute involving certain AES companies, for which the Company expects to be indemnified. Recognized aggregate liabilities for these claims 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 labor and employment, non-income tax and customer disputes in international jurisdictions, principally Brazil where there are a number of labor and employment lawsuits. The complaints generally seek unspecified monetary damages, injunctive relief, or other relief. The AES subsidiaries have denied any liability and intend to vigorously defend themselves in all of these proceedings. 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.

The Company believes, based upon information it currently possesses and taking into account established accruals for liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material effect on the Company's consolidated financial statements. However, 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 March 31, 2016. The material contingencies where a loss is reasonably possible primarily include (1) claims under financing agreements; (2) disputes with offtakers, suppliers and EPC contractors; (3) alleged violation of monopoly laws and regulations; (4) income tax and non-income tax matters with tax authorities; and (5) regulatory matters. In aggregate, the Company estimates that the range of potential losses, where estimable, related to these reasonably possible material contingencies is between \$1.3 billion and \$1.6 billion. Certain claims are in settlement negotiations. These claims considered reasonably possible do not include the amounts accrued, as discussed in the preceding paragraph, nor do they include income tax-related contingencies which are considered part of our uncertain tax positions.

Regulatory — During the fourth quarter of 2013, the Company recognized a regulatory liability of \$269 million for a contingency related to an administrative ruling which required Eletropaulo to refund customers' amounts related to the regulatory asset base. During the second half of 2014, Eletropaulo started refunding customers as part of the tariff. In January 2015, ANEEL updated the tariff to exclude any further customer refunds. On June 30, 2015, ANEEL included in the tariff reset the reimbursement to Eletropaulo of these amounts previously refunded to customers to begin in July 2015. During the second quarter of 2015, as a result of favorable events, management reassessed the contingency and determined that it no longer meets the recognition criteria under ASC 450 Contingencies. Management believes that it is now only reasonably possible that Eletropaulo will have to refund these amounts to customers. Accordingly, the Company reversed the remaining regulatory liability for this contingency of \$161 million in the second quarter of 2015, which increased Regulated Revenue by \$97 million and reduced Interest Expense by \$64 million. Amounts related to this case are now included as part of our reasonably possible contingent range mentioned in the preceding paragraph.

#### 9. PENSION PLANS

Total pension cost and employer contributions were as follows for the periods indicated (in millions):

|                                    | Three Months Ended March  |         |            |         |
|------------------------------------|---------------------------|---------|------------|---------|
|                                    | 2016                      |         | 2015       |         |
|                                    | U.S.                      | Foreign | U.S.       | Foreign |
| Service cost                       | \$3                       | \$ 3    | \$ 4       | \$ 4    |
| Interest cost                      | 10                        | 81      | 12         | 102     |
| Expected return on plan assets     | (17 )                     | (52 )   | (17)       | (72 )   |
| Amortization of prior service cost | 2                         | —       | 2          | —       |
| Amortization of net loss           | 5                         | 4       | 5          | 8       |
| Total pension cost                 | \$3                       | \$ 36   | \$ 6       | \$ 42   |
|                                    | Three Months Remainder of |         |            |         |
|                                    | Ended March               |         | 2016       |         |
|                                    | 31, 2016                  |         | (Expected) |         |
|                                    | U.S.                      | Foreign | U.S.       | Foreign |
| Total employer contributions       | \$21                      | \$ 22   | \$ —       | \$ 72   |

## 10. EQUITY

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

|  | Three Months Ended<br>March 31, 2016     |         |                 | Three Months Ended<br>March 31, 2015     |         |                 |
|--|--|---------|-----------------|--|---------|-----------------|
|  | The<br>Parent<br>Stockholders'<br>Equity | NCI     | Total<br>Equity | The<br>Parent<br>Stockholders'<br>Equity | NCI     | Total<br>Equity |
| Balance at the beginning of the period   | \$3,149                                  | \$3,022 | \$6,171         | \$4,272                                  | \$3,053 | \$7,325         |
| Net income (loss)  | 126                                      | (52 )   | 74              | 142                                      | 112     | 254             |
| Total foreign currency translation adjustment, net of income tax                   | 100                                      | 28      | 128             | (251 )                                   | (170 )  | (421 )          |
| Total change in derivative fair value, net of income tax                           | (25 )                                    | (40 )   | (65 )           | (26 )                                    | (34 )   | (60 )           |
| Total pension adjustments, net of income tax                                       | 1  | 2       | 3               | 1  | 4       | 5               |
| Cumulative effect of a change in accounting principle                              | —  | —       | —               | (5 )                                     | —       | (5 )            |
| Disposition of businesses  | —  | (2 )    | (2 )            | —  | —       | —               |
| Distributions to noncontrolling interests  | (2 )                                     | (17 )   | (19 )           | —  | (19 )   | (19 )           |
| Contributions from noncontrolling interests  | —  | 28      | 28              | —  | 67      | 67              |
| Dividends declared on common stock   | (71 )                                    | —       | (71 )           | —  | —       | —               |
| Purchase of treasury stock   | (79 )                                    | —       | (79 )           | (35 )                                    | —       | (35 )           |
| Issuance and exercise of stock-based compensation benefit plans, net of income tax | 4  | —       | 4               | 5  | —       | 5               |
| Sale of subsidiary shares to noncontrolling interests                              | —  | 17      | 17              | (81 )                                    | —       | (81 )           |
| Acquisition of subsidiary shares from noncontrolling interests                     | (2 )                                     | (3 )    | (5 )            | —  | —       | —               |
| Balance at the end of the period   | \$3,201                                  | \$2,983 | \$6,184         | \$4,022                                  | \$3,013 | \$7,035         |

## Equity Transactions with Noncontrolling Interests

IPALCO — In March 2016, La Caisse de depot et placement du Quebec (“CDPQ”) completed its investment commitment in IPALCO by investing \$134 million in IPALCO Enterprises, Inc. (“IPALCO”). As a result of this transaction, IPALCO is owned by AES U.S. Investments (82.35%) and CDPQ (17.65%), and AES U.S. Investments is owned by AES U.S. Holdings, LLC (85%) and CDPQ (15%).

As a cumulative result of CDPQ’s investment transactions, the Company recognized an increase of \$463 million to additional paid-in capital and a reduction to retained earnings of \$463 million for the excess of the fair value of the shares over their book value. Additionally, \$84 million in taxes and transaction costs were recognized as a net decrease to equity. Since the NCI is contingently redeemable, the total fair value of the consideration received of \$594 million is classified in temporary equity as redeemable stock of subsidiaries on the Condensed Consolidated Balance Sheet as of March 31, 2016. No gain or loss was recognized in net income as the sale is not considered to be a sale of in-substance real estate. Any subsequent adjustments to allocate earnings and dividends to CDPQ will be classified as NCI within permanent equity and adjustments to the amount in temporary equity will occur only if and when it is probable that the shares will become redeemable. As the Company maintained control after the sale, IPALCO continues to be accounted for as a consolidated subsidiary within the US SBU reportable segment.

Jordan — On February 18, 2016, the Company completed the sale of 40% of its interest in a wholly owned subsidiary in Jordan which owns a controlling interest in the Jordan IPP4 gas-fired plant, for \$21 million. The transaction was accounted for as a sale of in-substance real estate and a pretax gain of \$4 million, net of transaction costs, was recognized in net income. The cash proceeds from the sale is reflected in Proceeds from the sale of businesses, net of cash sold on the Consolidated Statement of Cash Flows for the period ended March 31, 2016. After completion of the sale, the Company owns a 36% net ownership interest in Jordan IPP4 and will continue to manage and operate the plant, with 40% owned by Mitsui Ltd. and 24% owned by Nebras Power Q.S.C. As the Company maintained control after the sale, Jordan IPP4 continues to be consolidated by the Company within the Europe SBU reportable segment.

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Accumulated Other Comprehensive Loss — See below for the changes in AOCL by component, net of tax and NCI, for the three months ended March 31, 2016 (in millions):

|  | Foreign currency<br>translation<br>adjustment, net | Unrealized<br>derivative<br>gains<br>(losses),<br>net | Unfunded<br>pension<br>obligations,<br>net | Total     |
|--|--|---|--|-----------|
| Balance at the beginning of the period                     | \$ (3,256 )  | \$ (353 )   | \$ (274 )                                  | \$(3,883) |
| Other comprehensive income (loss) before reclassifications | 100  | (25 )   | —  | 75        |
| Amount reclassified to earnings                            | —  | —   | 1  | 1         |
| Other comprehensive income (loss)                          | 100  | (25 )   | 1  | 76        |
| Balance at the end of the period                           | \$ (3,156 )  | \$ (378 )   | \$ (273 )                                  | \$(3,807) |

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:

| Details About   | Three<br>Months<br>Ended<br>March 31,<br>2016 | 2015   |
|---|---|--------|
| AOCL Components Affected Line Item in the Condensed Consolidated Statements of Operations |   |        |
| Unrealized derivative gains (losses), net   |   |        |
| Non-regulated revenue   | \$42  | \$5    |
| Non-regulated cost of sales   | (21 )   | —      |
| Interest expense  | (29 )   | (25 )  |
| Foreign currency transaction gains (losses)   | 12  | 6      |
| Income from operations before taxes and equity in earnings of affiliates                  | 4   | (14 )  |
| Income tax expense  | (3 )  | 2      |
| Net Income  | 1   | (12 )  |
| Less: (Income) from operations attributable to noncontrolling interests                   | (1 )  | 3      |
| Net income attributable to The AES Corporation  | \$—   | \$(9 ) |
| Amortization of defined benefit pension actuarial loss, net                               |   |        |
| Regulated cost of sales   | \$(4 )  | \$(8 ) |
| Income from operations before taxes and equity in earnings of affiliates                  | (4 )  | (8 )   |
| Income tax expense  | 1   | 3      |
| Net Income  | (3 )  | (5 )   |
| Less: (Income) from operations attributable to noncontrolling interests                   | 2   | 4      |
| Net income attributable to The AES Corporation  | \$(1 )  | \$(1 ) |
| Total reclassifications for the period, net of income tax and noncontrolling interests    | \$(1 )  | \$(10) |

Common Stock Dividends — The Company paid dividends of \$0.11 per outstanding share to its common stockholders during the first quarter of 2016 for dividends declared in December 2015.

On February 19, 2016, the Company declared dividends of \$0.11 per outstanding common share payable on May 16, 2016 to the shareholders of record at the close of business on May 2, 2016.

Stock Repurchase Program — During the three months ended March 31, 2016, the Parent Company repurchased 8.7 million shares of its common stock at a total cost of \$79 million under the existing stock repurchase program (the “Program”). The cumulative repurchases from the commencement of the Program in July 2010 through March 31, 2016 totaled 154.3 million shares for a total cost of \$1.9 billion, at an average price per share of \$12.12 (including a nominal amount of commissions). As of March 31, 2016, \$264 million remained available for repurchase under the Program.

## 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 organized by geographic regions which provide better socio-political-economic understanding of our business. The management reporting structure is organized by six SBUs led by our President and Chief Executive Officer: US; Andes; Brazil; MCAC; Europe; and Asia SBUs. Using the accounting guidance on segment reporting, the Company determined that it has six reportable segments corresponding to its six SBUs.

Corporate and Other — Corporate overhead costs which are not directly associated with the operations of our six reportable segments are included in “Corporate and Other.” Also included are 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 pretax income from continuing operations attributable to AES excluding (1) unrealized gains or losses related to derivative transactions, (2) unrealized foreign currency gains or losses, (3) gains or losses due to dispositions and acquisitions of business interests, (4) losses due to impairments, and (5) costs due to the early retirement of debt. The Company has concluded that Adjusted PTC best 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):

|                              | Total Revenue |         |
|------------------------------|---------------|---------|
| Three Months Ended March 31, | 2016          | 2015    |
| US SBU                       | \$855         | \$997   |
| Andes SBU                    | 622           | 612     |
| Brazil SBU                   | 1,040         | 1,330   |
| MCAC SBU                     | 519           | 598     |
| Europe SBU                   | 246           | 330     |
| Asia SBU                     | 194           | 119     |
| Corporate and Other          | 1             | 4       |
| Eliminations                 | \$(6 )        | \$(6 )  |
| Total Revenue                | \$3,471       | \$3,984 |

|   | Total Adjusted PTC |        |
|---|--------------------|--------|
| Three Months Ended March 31,  | 2016               | 2015   |
| US SBU  | \$85               | \$106  |
| Andes SBU   | 61                 | 91     |
| Brazil SBU  | (9 )               | 21     |
| MCAC SBU  | 48                 | 50     |
| Europe SBU  | 69                 | 85     |
| Asia SBU  | 22                 | 12     |
| Corporate and Other   | (104 )             | (113 ) |
| Total Adjusted PTC  | \$172              | \$252  |
| Reconciliation to Income from Continuing Operations before Taxes and Equity Earnings of Affiliates: |                    |        |
| Non-GAAP Adjustments:   |                    |        |
| Unrealized derivative gains   | 34                 | 15     |
| Unrealized foreign currency gains (losses)  | 8                  | (47 )  |
| Disposition/acquisition gains   | 19                 | 5      |
| Impairment losses   | (50 )              | (6 )   |
| Loss on extinguishment of debt  | (1 )               | (27 )  |
| Pretax contribution   | 182                | 192    |
| Add: (Loss) Income from continuing operations before taxes attributable to noncontrolling interests | (16 )              | 158    |
| Less: Net equity in earnings of affiliates  | 6                  | 15     |

|   |          |           |       |       |
|---|----------|-----------|-------|-------|
| Income from continuing operations before taxes and equity in earnings of affiliates |          |           | \$160 | \$335 |
|   | March    | December  |       |       |
| Total Assets  | 31,      | 31, 2015  |       |       |
|   | 2016     |           |       |       |
| US SBU  | \$9,890  | \$ 9,800  |       |       |
| Andes SBU   | 8,484    | 8,594     |       |       |
| Brazil SBU  | 6,988    | 6,419     |       |       |
| MCAC SBU  | 4,921    | 4,820     |       |       |
| Europe SBU  | 3,140    | 3,101     |       |       |
| Asia SBU  | 3,135    | 3,099     |       |       |
| Assets of held-for-sale businesses  | —        | 96        |       |       |
| Corporate and Other   | 342      | 541       |       |       |
| Total Assets  | \$36,900 | \$ 36,470 |       |       |

## 12. OTHER INCOME AND EXPENSE

Other income generally includes gains on asset sales and liability extinguishments, favorable judgments on contingencies, and other income from miscellaneous transactions. Other expense generally includes losses on asset sales and dispositions, losses on legal contingencies and losses from other miscellaneous transactions. The components are summarized as follows (in millions):



|               |   | Three<br>Months<br>Ended<br>March 31,<br>2016 | 2015  |
|---------------|---|---|-------|
| Other Income  | Allowance for funds used during construction (US utilities) | \$ 7  | \$ 4  |
|               | Gain on sale of assets                                      | 2   | 5     |
|               | Other   | 4   | 6     |
|               | Total other income  | \$ 13   | \$ 15 |
| Other Expense | Loss on sale and disposal of assets                         | \$ 7  | \$ 15 |
|               | Legal settlement  | 1   | 3     |
|               | Other   | —   | 2     |
|               | Total other expense   | \$ 8  | \$ 20 |

### 13. ASSET IMPAIRMENT EXPENSE

|                                | Three<br>Months<br>Ended<br>March 31,<br>2016 | 2015 |
|--------------------------------|---|------|
| (in millions)                  |   |      |
| Buffalo Gap II                 | \$ 159  | \$ — |
| Other                          | —   | 8    |
| Total asset impairment expense | \$ 159  | \$ 8 |

Buffalo Gap II — During the first quarter of 2016, the Company tested the recoverability of its long-lived assets at Buffalo Gap II. Impairment indicators were identified based on a decline in forward power curves. The Company determined that the carrying amount was not recoverable. The Buffalo Gap II asset group was determined to have a fair value of \$92 million using the income approach. As a result, the Company recognized asset impairment expense of \$159 million (\$49 million attributable to AES). Buffalo Gap II is reported in the US SBU reportable segment.

### 14. INCOME TAXES

Chilean Tax Reform — In February 2016, the Chilean government enacted further reforms to its income tax laws that resulted in an increase to statutory income tax rates for most of our Chilean businesses from 25% to 25.5% in 2017 and to 27% for 2018 and future years. The impact of remeasuring deferred taxes to account for the enacted change in future applicable income tax rates was recognized as discrete income tax expense in the first quarter of 2016, resulting in an increase of \$26 million to consolidated income tax expense.

### 15. DISPOSITIONS

DPLER — On January 1, 2016, the Company completed the sale of its interest in DPLER, a competitive retail marketer selling electricity to customers in Ohio. Upon completion, proceeds of \$76 million were received and a gain on sale of \$49 million was recognized. The sale of DPLER did not meet the criteria to be reported as a discontinued operation. Prior to its sale, DPLER was reported in the US SBU reportable segment.

Kelanitissa — On January 27, 2016, the Company completed the sale of its interest in Kelanitissa, a diesel-fired generation station in Sri Lanka. Upon completion, proceeds of \$18 million were received and a loss on sale of \$5 million was recognized. The sale of Kelanitissa did not meet the criteria to be reported as a discontinued operation. Prior to its sale, Kelanitissa was reported in the Asia SBU reportable segment.

### 16. ACQUISITIONS

Main Street Power — On February 18, 2015, the Company completed the acquisition of 100% of the common stock of Main Street Power Company, Inc. for approximately \$25 million pursuant to the terms and condition of a definitive agreement dated January 24, 2015. The purchase consideration was composed of \$20 million cash and the fair value of earn-out payments of \$5 million. At December 31, 2015, the assets acquired (including \$4 million cash) and

liabilities assumed at the acquisition date were recorded at fair value based on the final purchase price allocation, which resulted in the recognition of \$16 million of goodwill. Subsequent changes to the fair value of earn-out payments will be reflected in earnings. Since the date of acquisition, Main Street Power Company, Inc. has been renamed Distributed Energy, Inc.

#### 17. EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive RSUs, stock options and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable. Presented below is a reconciliation, for the periods indicated, of the numerator and denominator of the basic and diluted earnings per share computation for income from continuing operations, where income represents the numerator and weighted average shares represents the denominator:

(in millions except per share data)

|   | 2016      |                     | 2015      |                     |
|---|-----------|---------------------|-----------|---------------------|
|   | Incom     | Shares \$ per Share | Incom     | Shares \$ per Share |
| Three Months Ended March 31,<br>BASIC EARNINGS PER SHARE                                  |           |                     |           |                     |
| Income from continuing operations attributable to The AES Corporation common stockholders | \$126 661 | \$ 0.19             | \$142 704 | \$ 0.20             |
| EFFECT OF DILUTIVE SECURITIES   |           |                     |           |                     |
| Restricted stock units  | — 2       | —                   | — 2       | —                   |
| DILUTED EARNINGS PER SHARE  | \$126 663 | \$ 0.19             | \$142 706 | \$ 0.20             |

For the three months ended March 31, the calculation of diluted earnings per share excluded 8 million and 6 million outstanding stock awards for 2016 and 2015, respectively, that could potentially dilute basic earnings per share in the future. Additionally, for the three months ended March 31, 2016 and 2015, all 15 million shares of potential common stock associated with convertible debentures were omitted from the earnings per share calculation. These were not included because the impact would have been anti-dilutive.

#### 18. SUBSEQUENT EVENTS

Bulgaria — In April 2016, Maritza received all overdue payments from NEK, totaling \$291 million. In addition, all other conditions precedent were satisfied by NEK, which resulted in the extinguishment of \$57 million of liabilities owed by Maritza to MMI, a Maritza fuel supplier. The remaining conditions precedent to cure Maritza's debt covenant violation are administrative in nature and are generally within control of the Company; these conditions are expected to be satisfied in the second quarter of 2016, at which time we expect to reclassify \$493 million of Maritza's non-recourse debt from current to non-current. See Note 7—Debt for further information regarding non-recourse debt in default.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Quarterly Report on Form 10-Q ("Form 10-Q"), the terms "AES," "the Company," "us," or "we" refer to the consolidated entity and all of its subsidiaries and affiliates, collectively. The term "The AES Corporation," "the Parent Company", or "the Parent" refers only to the parent, publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. The condensed consolidated financial statements included in Item 1.—Financial Statements of this Form 10-Q and the discussions contained herein should be read in conjunction with our 2015 Form 10-K.

### FORWARD-LOOKING INFORMATION

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A.—Risk Factors and Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2015 Form 10-K and subsequent filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise of the risks and factors that may affect our business.

**Overview of Our Business** — We are a diversified power generation and utility company organized into the following six market-oriented SBUs: US (United States); Andes (Chile, Colombia and Argentina); Brazil; MCAC (Mexico, Central America and the Caribbean); Europe (Europe and Middle East); and Asia (India, Philippines, Vietnam, and Sri Lanka). For additional information regarding our business, see Item 1.—Business of our 2015 Form 10-K.

Within our six SBUs listed above, we have two lines of business. The first business line is generation, where we own and/or operate power plants to generate and sell power to customers such as utilities, industrial users and other intermediaries. The second business line is utilities, where we own and/or operate utilities to generate or purchase, distribute, transmit and sell electricity to end-user customers in the residential, commercial, industrial and governmental sectors within a defined service area. In certain circumstances, our utilities also generate and sell electricity on the wholesale market.

**Key Topics in Management's Discussion and Analysis** — Our discussion covers the following:

• Overview of Q1 2016 Results and Strategic Performance

• Review of Consolidated Results of Operations

• Non-GAAP Measures and SBU Performance Analysis

• Key Trends and Uncertainties

• Capital Resources and Liquidity

• Overview of Q1 2016 Results and Strategic Performance

**Management's Strategic Priorities** — Management is focused on the following priorities:

**Leveraging our platforms** — We are focusing our growth on platform expansions in markets where we already operate and have a competitive advantage to realize attractive risk-adjusted returns. We currently have 5,945 MW under construction. These projects represent \$7.5 billion in total capital expenditures, with the majority of AES' \$1.3 billion in equity already funded. We expect the majority of these projects to come on-line through 2018. Beyond the projects we currently have under construction, we will continue to advance select projects from our development pipeline.

**Reducing complexity** — By exiting businesses and markets where we do not have a competitive advantage, we are simplifying our portfolio and reducing risk. During the first quarter of 2016, we announced or closed \$249 million in equity proceeds from the sales or sell-downs of four businesses.

**Performance excellence** — We strive to be the low-cost manager of a portfolio of assets and to derive synergies and scale from our businesses. In late 2015, we launched a \$150 million cost reduction and revenue



enhancement initiative. This initiative will include overhead reductions, procurement efficiencies and operational improvements. We expect to achieve at least \$50 million in savings in 2016, ramping up to a total of \$150 million in 2018.

Expanding access to capital — We are building strategic partnerships at the project- and business-levels. Through these partnerships, we aim to optimize our risk-adjusted returns in our existing businesses and growth projects. By selling down portions of certain businesses, we can adjust our global exposure to commodity, fuel, country and other macroeconomic risks. Partial sell-downs of our assets can also serve to highlight or enhance the value of businesses in our portfolio.

Allocating capital in a disciplined manner — Our top priority is to maximize risk-adjusted returns to our shareholders, which we achieve by investing our discretionary cash and recycling the capital we receive from asset sales and strategic partnerships. In the first quarter of 2016, we generated substantial cash by executing on our strategy, which we allocated in line with our capital allocation framework:

- Used \$116 million to prepay Parent debt;

Returned \$151 million to shareholders through share repurchases and quarterly dividends; and  
Invested \$139 million in our subsidiaries.

#### Q1 2016 Strategic Performance

Earnings Per Share and Proportional Free Cash Flow Results in Q1 2016 (in millions, except per share amounts)

|   | Three Months Ended March 31, |        |           |          |
|---|------------------------------|--------|-----------|----------|
|   | 2016                         | 2015   | \$ Change | % Change |
| Diluted earnings per share from continuing operations           | \$0.19                       | \$0.20 | \$(0.01)  | -5 %     |
| Adjusted EPS (a non-GAAP measure) <sup>(1)</sup>                | 0.13                         | 0.25   | (0.12)    | -48 %    |
| Net cash provided by operating activities                       | 640                          | 437    | 203       | 46 %     |
| Proportional free cash flow (a non-GAAP measure) <sup>(1)</sup> | 253                          | 265    | (12)      | -5 %     |

<sup>(1)</sup>See reconciliation and definition under Non-GAAP Measures.

Three Months Ended March 31, 2016

Diluted earnings per share from continuing operations decreased \$0.01, or 5%, to \$0.19, primarily due to lower operating margin; partially offset by unrealized foreign currency transaction gains, gains on extinguishment of debt, unrealized derivative gains, gain on sale of our interest in DPLER, and higher interest income.

Adjusted EPS, a non-GAAP measure, decreased \$0.12, or 48%, to \$0.13, primarily driven by a higher effective tax rate, and lower operating margin at Tietê, DPL and Eletropaulo; partially offset by lower share count, gain on contract termination at DP&L, and Mong Duong Unit 2 commencing operations in April 2015.

Net cash provided by operating activities increased by \$203 million, or 46% to \$640 million, primarily driven by an increase in collections at our Brazil utilities and a full quarter's impact from the commencement of operations at Mong Duong. These favorable impacts were offset by lower operating margin and a decline in collections in the Dominican Republic and Puerto Rico.

Proportional free cash flow decreased by \$12 million, or 5% to \$253 million, primarily due to lower operating margin, a decline in collections in the Dominican Republic and Puerto Rico, and an increase in fuel supplier payments at Maritza. These impacts were partially offset by an increase in collections at our Brazil utilities and a full quarter's impact from the commencement of operations at Mong Duong.

Safe Operations — Safety is our first value and a top priority. We consistently analyze and evaluate our safety performance in order to capture lessons learned and strengthen mitigation plans that improve our safety performance.

## Review of Consolidated Results of Operations

|  | Three Months Ended March 31, |       |              |             |   |
|--|------------------------------|-------|--------------|-------------|---|
| (\$ in millions, except per share amounts) | 2016                         | 2015  | \$<br>Change | %<br>Change |   |
| Revenue:                                   |                              |       |              |             |   |
| US SBU                                     | \$855                        | \$997 | \$(142)      | -14         | % |
| Andes SBU                                  | 622                          | 612   | 10           | 2           | % |
| Brazil SBU                                 | 1,040                        | 1,330 | (290)        | -22         | % |
| MCAC SBU                                   | 519                          | 598   | (79)         | -13         | % |
| Europe SBU                                 | 246                          | 330   | (84)         | -25         | % |
| Asia SBU                                   | 194                          | 119   | 75           | 63          | % |
| Corporate and Other                        | 1                            | 4     | (3)          | -75         | % |
| Intersegment eliminations                  | (6)                          | (6)   | —            | —           | % |
| Total Revenue                              | 3,471                        | 3,984 | (513)        | -13         | % |
| Operating Margin:                          |                              |       |              |             |   |
| US SBU                                     | 114                          | 173   | (59)         | -34         | % |
| Andes SBU                                  | 123                          | 131   | (8)          | -6          | % |
| Brazil SBU                                 | 39                           | 177   | (138)        | -78         | % |
| MCAC SBU                                   | 96                           | 103   | (7)          | -7          | % |
| Europe SBU                                 | 83                           | 103   | (20)         | -19         | % |
| Asia SBU                                   | 37                           | 24    | 13           | 54          | % |
| Corporate and Other                        | 8                            | 12    | (4)          | -33         | % |
| Intersegment eliminations                  | 4                            | (2)   | 6            | 300         | % |
| Total Operating Margin                     | 504                          | 721   | (217)        | -30         | % |
| General and administrative expenses        | (48)                         | (55)  | 7            | -13         | % |
| Interest expense                           | (364)                        | (363) | (1)          | NM          |   |
| Interest income                            | 130                          | 90    | 40           | 44          | % |
| Gain (loss) on extinguishment of debt      | 4                            | (23)  | 27           | 117         | % |
| Other expense                              | (8)                          | (20)  | 12           | -60         | % |
| Other income                               | 13                           | 15    | (2)          | -13         | % |
| Gain on sale of businesses                 | 47                           | 1     | 46           | NM          |   |
| Asset impairment expense                   |                              |       |              |             |   |