AES CORP
Form 10-Q
August 06, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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 June 30, 2012

or

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

Commission file number 1-12291

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**54 1163725**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4300 Wilson Boulevard Arlington, Virginia	**22203**
(Address of principal executive offices)	**(Zip Code)**

(703) 522-1315

Registrant s telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	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 x

The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, on July 27, 2012 was 747,996,061.

THE AES CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION

Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2012	December 31, 2011 (Revised)
	(in millions, except share and per share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,727	$ 1,704
Restricted cash	574	478
Short-term investments	883	1,356
Accounts receivable, net of allowance for doubtful accounts of $285 and $273, respectively	2,628	2,534
Inventory	826	785
Deferred income taxes	433	454
Prepaid expenses	159	157
Other current assets	1,087	1,570
Current assets of discontinued and held for sale businesses	-	191
Total current assets	8,317	9,229
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	1,037	1,090
Electric generation, distribution assets and other	31,016	31,029
Accumulated depreciation	(9,274)	(8,944)
Construction in progress	2,318	1,833
Property, plant and equipment, net	25,097	25,008
Other Assets:		
Investments in and advances to affiliates	1,392	1,422
Debt service reserves and other deposits	800	876
Goodwill	3,801	3,803
Other intangible assets, net of accumulated amortization of $230 and $164, respectively	507	570
Deferred income taxes	658	715
Other	2,177	2,330
Noncurrent assets of discontinued and held for sale businesses	-	1,340
Total other assets	9,335	11,056
TOTAL ASSETS	$ 42,749	$ 45,293
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,171	$ 2,014
Accrued interest	320	327
Accrued and other liabilities	2,250	3,398
Non-recourse debt, including $238 and $259, respectively, related to variable interest entities	2,287	2,123
Recourse debt	11	305

Current liabilities of discontinued and held for sale businesses	-	279
Total current liabilities	7,039	8,446
NONCURRENT LIABILITIES		
Non-recourse debt, including $1,161 and $1,156, respectively, related to variable interest entities	13,250	13,412
Recourse debt	6,178	6,180
Deferred income taxes	1,354	1,289
Pension and other post-retirement liabilities	1,593	1,729
Other noncurrent liabilities	3,756	3,082
Noncurrent liabilities of discontinued and held for sale businesses	-	1,348
Total noncurrent liabilities	26,131	27,040
Contingencies and Commitments (see Note 8)		
Cumulative preferred stock of subsidiaries	78	78
EQUITY		
THE AES CORPORATION STOCKHOLDERS EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 809,947,514 issued and 749,556,111 outstanding at June 30, 2012 and 807,573,277 issued and 765,186,316 outstanding at December 31, 2011	8	8
Additional paid-in capital	8,530	8,507
Retained earnings	1,159	678
Accumulated other comprehensive loss	(2,865)	(2,758)
Treasury stock, at cost (60,391,403 shares at June 30, 2012 and 42,386,961 shares at December 31, 2011, respectively)	(709)	(489)
Total AES Corporation stockholders equity	6,123	5,946
NONCONTROLLING INTERESTS	3,378	3,783
Total equity	9,501	9,729
TOTAL LIABILITIES AND EQUITY	$ 42,749	$ 45,293

See Notes to Condensed Consolidated Financial Statements

THE AES CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
Revenue:				
Regulated	$ 2,209	$ 2,414	$ 4,829	$ 4,763
Non-Regulated	1,983	2,021	4,103	3,828
Total revenue	4,192	4,435	8,932	8,591
Cost of Sales:				
Regulated	(1,971)	(1,852)	(4,153)	(3,625)
Non-Regulated	(1,529)	(1,591)	(3,009)	(2,981)
Total cost of sales	(3,500)	(3,443)	(7,162)	(6,606)
Gross margin	692	992	1,770	1,985
General and administrative expenses	(74)	(97)	(161)	(192)
Interest expense	(385)	(381)	(801)	(719)
Interest income	83	96	174	191
Other expense	(15)	(35)	(44)	(50)
Other income	15	34	33	50
Gain on sale of investments	5	1	184	7
Asset impairment expense	(18)	(33)	(29)	(33)
Foreign currency transaction gains (losses)	(101)	37	(102)	70
Other non-operating expense	(1)	-	(50)	-
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	201	614	974	1,309
Income tax expense	(76)	(174)	(343)	(389)
Net equity in earnings of affiliates	11	(4)	24	6
INCOME FROM CONTINUING OPERATIONS	136	436	655	926
Income (loss) from operations of discontinued businesses, net of income tax (benefit) expense of $3, $(3), $5, and $(6), respectively	(4)	(9)	(3)	(16)
Net gain (loss) from disposal and impairments of discontinued businesses, net of income tax expense of $61, $0, $61, and $0, respectively	75	-	70	-
NET INCOME	207	427	722	910
Noncontrolling interests:				
Less: Income from continuing operations attributable to noncontrolling interests	(67)	(245)	(241)	(498)
Less: Income from discontinued operations attributable to noncontrolling interests	-	(8)	-	(14)
Total net income attributable to noncontrolling interests	(67)	(253)	(241)	(512)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	$ 140	$ 174	$ 481	$ 398
BASIC EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ 0.09	$ 0.24	$ 0.54	$ 0.54

Discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.09	(0.02)	0.09	(0.03)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ 0.18	$ 0.22	$ 0.63	$ 0.51
DILUTED EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ 0.09	$ 0.24	$ 0.54	$ 0.53
Discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.09	(0.02)	0.09	(0.03)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ 0.18	$ 0.22	$ 0.63	$ 0.50
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income from continuing operations, net of tax	$ 69	$ 191	$ 414	$ 428
Discontinued operations, net of tax	71	(17)	67	(30)
Net income	$ 140	$ 174	$ 481	$ 398

See Notes to Condensed Consolidated Financial Statements

THE AES CORPORATION

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)			
NET INCOME	$ 207	$ 427	$ 722	$ 910
Available-for-sale securities activity:				
Change in fair value of available-for-sale securities, net of income tax (expense) benefit of $0, $(1), $0, and $0, respectively	1	1	1	1
Reclassification to earnings, net of income tax (expense) benefit of $0, $1, $0, and $1, respectively	(1)	(2)	(1)	(3)
Total change in fair value of available-for-sale securities	-	(1)	-	(2)
Foreign currency translation activity:				
Foreign currency translation adjustments, net of income tax (expense) benefit of $2, $(10), $1, and $(14), respectively	(383)	139	(241)	270
Reclassification to earnings, net of income tax (expense) benefit of $0, $0, $0, and $0, respectively	(2)	(5)	(3)	(8)
Total foreign currency translation adjustments	(385)	134	(244)	262
Derivative activity:				
Change in derivative fair value, net of income tax (expense) benefit of $24, $34, $20, and $26, respectively	(133)	(110)	(112)	(69)
Reclassification to earnings, net of income tax (expense) benefit of $(5), $5, $(33), and $(3), respectively	40	29	126	59
Total change in fair value of derivatives	(93)	(81)	14	(10)
Pension activity:				
Amortization of net actuarial loss, net of income tax (expense) benefit of $(3) $(2), $(6), and $(4), respectively	7	4	13	7
Total pension adjustments	7	4	13	7
OTHER COMPREHENSIVE INCOME (LOSS)	(471)	56	(217)	257
COMPREHENSIVE INCOME (LOSS)	(264)	483	505	1,167
Less: Comprehensive (income) loss attributable to noncontrolling interests	114	(339)	(131)	(664)

COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (150)	$ 144	$ 374	$ 503

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$ 722	$ 910
Adjustments to net income:		
Depreciation and amortization	706	622
(Gain) loss from sale of investments and impairment expense	(71)	37
Provision for deferred taxes	72	28
Contingencies	35	46
(Gain) loss on the extinguishment of debt	-	15
(Gain) loss on disposal and impairment write-down - discontinued operations	(131)	-
Other	50	(89)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(175)	(182)
(Increase) decrease in inventory	(43)	(88)
(Increase) decrease in prepaid expenses and other current assets	18	149
(Increase) decrease in other assets	(293)	(43)
Increase (decrease) in accounts payable and other current liabilities	228	(254)
Increase (decrease) in income taxes and other income tax payables, net	(249)	(152)
Increase (decrease) in other liabilities	245	178
Net cash provided by operating activities	1,114	1,177
INVESTING ACTIVITIES:		
Capital expenditures	(1,071)	(1,019)
Acquisitions - net of cash acquired	(13)	(157)
Proceeds from the sale of businesses, net of cash sold	332	8
Proceeds from the sale of assets	2	22
Sale of short-term investments	3,605	3,065
Purchase of short-term investments	(3,261)	(2,493)
Increase in restricted cash	(73)	(16)
(Increase) decrease in debt service reserves and other assets	26	(92)
Affiliate advances and equity investments	1	(60)
Proceeds from government grants for asset construction	117	5
Other investing	(17)	(20)
Net cash used in investing activities	(352)	(757)
FINANCING ACTIVITIES:		
(Repayments) borrowings under the revolving credit facilities, net	(310)	125
Issuance of recourse debt	-	2,050
Issuance of non-recourse debt	579	574
Repayments of recourse debt	(5)	(471)
Repayments of non-recourse debt	(328)	(768)
Payments for financing fees	(17)	(74)
Distributions to noncontrolling interests	(578)	(714)
Contributions from noncontrolling interests	12	-
Financed capital expenditures	(12)	(6)
Purchase of treasury stock	(231)	(98)
Other financing	28	2

Net cash (used in) provided by financing activities	(862)	620
Effect of exchange rate changes on cash	3	29
Decrease in cash of discontinued and held for sale businesses	120	10
Total increase in cash and cash equivalents	23	1,079
Cash and cash equivalents, beginning	1,704	2,522
Cash and cash equivalents, ending	$ 1,727	$ 3,601
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 783	$ 734
Cash payments for income taxes, net of refunds	$ 525	$ 506

See Notes to Condensed Consolidated Financial Statements

THE AES CORPORATION

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2012 and 2011

1. FINANCIAL STATEMENT PRESENTATION

The prior period condensed consolidated financial statements in this Quarterly Report on Form 10-Q (Form 10-Q) have been reclassified to reflect the businesses held for sale and discontinued operations as discussed in Note 16 *Discontinued Operations and Held for Sale Businesses* and the prior period condensed consolidated balance sheet has been revised to reflect the adjustments to the preliminary purchase price allocation related to the DPL acquisition as discussed in Note 17 *Acquisitions and Dispositions.*

On June 26, 2012, The AES Corporation filed a Current Report on Form 8-K (June 2012 Form 8-K) to recast previously filed financial statements included in the Company s Form 10-K for the year ended December 31, 2011 (2011 Form 10-K) to reclassify certain businesses held for sale as discussed in Note 16 *Discontinued Operations and Held for Sale Businesses,* to present a separate consolidated statement of comprehensive income in accordance with the new accounting guidance on comprehensive income and to reflect changes in the Company s reportable segments in accordance with the accounting guidance on segment reporting as discussed in Note 12 *Segments*. The revisions to the 2011 Form 10-K were limited to the Company s Business Overview, Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and Notes, and the Financial Statement Schedules contained in Items 1, 6, 7, 8 and 15, respectively.

Consolidation

In this Quarterly Report the terms AES , the Company , us or we refer to the consolidated entity including its subsidiaries and affiliates. The term 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.

On June 29, 2012, the State Public Service Commission of New York approved the sale of Somerset and Cayuga, two coal-fired power plants in New York, to the bondholders for approximately $240 million. The plants were owned by AES Eastern Energy L.P. (AES Eastern Energy), which had filed for bankruptcy protection under Chapter 11 in the U.S. Bankruptcy Court on December 30, 2011 and, effective that date, had been deconsolidated from the Company s consolidated financial statements due to the loss of control. The gain on deconsolidation of AES Eastern Energy continues to be deferred pending the resolution of bankruptcy protection proceedings. See Note 1. *General and Summary of Significant Accounting Policies, Principles of Consolidation* to the Consolidated Financial Statement in our June 2012 Form 8-K for further information.

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), as contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification, for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income and cash flows. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of results that may be expected for the year ending December 31, 2012. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2011 audited consolidated financial statements and notes thereto, which are included in the June 2012 Form 8-K.

New Accounting Policies Adopted

ASU No. 2011-04, Fair Value Measurements (Topic 820),   Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued ASU No. 2011-04, which among other requirements, prohibits the use of the block discount factor for all fair value level hierarchies; permits an entity to measure the fair value of its financial instruments on a net basis when the related market risks are managed on a net basis; states the highest and best use concept is no longer relevant in the measurement of financial assets and liabilities; clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in Level 3 measurements and that the application of premiums and discounts is related to the unit of account for the asset or liability being measured at fair value; and requires expanded disclosures to describe the valuation process used for Level 3 measurements and the sensitivity of Level 3 measurements to changes in unobservable inputs. In addition, entities are required to disclose the hierarchy level for items which are not measured at fair value in the statement of financial position, but for which fair value is required to be disclosed. AES adopted ASU No. 2011-04 on January 1, 2012. The adoption did not have a material impact on the Company s financial position, results of operations or cash flows.

ASU No. 2011-05, Comprehensive Income (Topic 220),   Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, which requires comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income. The amendment does not change what items are reported in other comprehensive income or the U.S. GAAP requirement to report the reclassification of items from other comprehensive income to net income. The Company adopted ASU No. 2011-05 on January 1, 2012 and chose to report comprehensive income in two consecutive statements by adding a new consolidated statement of comprehensive income for the three and six months ended June 30, 2012 and 2011 in these consolidated financial statements. As ASU No. 2011-05 impacts financial statement presentation only, the adoption did not have an impact on the Company s historical financial position or results of operations and is not expected to have an impact in future periods.

Revenue Recognition   Following the Company s acquisition of DPL Inc. (DPL) and its competitive retail supply business in November 2011, we have modified our definition of regulated and non-regulated revenue as follows: revenue is classified as regulated on the condensed consolidated statements of operations where the price is determined or set by a regulator, including alternative forms of price regulation such as a price range, price cap or earnings tests. Typically, revenue of utility businesses meets the above criteria and would be classified as regulated revenue. Revenue that is not subject to rate regulation or is not determined by a regulator is classified as non-regulated revenue. Typically, revenue of generation businesses would be classified as non-regulated revenue.

Accounting Pronouncements Issued But Not Yet Effective

The following accounting standard has been issued, but are not yet effective for, and has not been adopted by AES.

ASU No. 2012-02, Intangibles   Goodwill and Other (Topic 350,)   Testing Indefinite-Lived Intangible Assets for Impairment

On July 27, 2012, the FASB issued ASU No. 2012-02 under which an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 or January 1, 2013 for the Company. Early adoption is permitted. The adoption of ASU No. 2012-02 is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

2. INVENTORY

The following table summarizes the Company s inventory balances as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in millions)	
Coal, fuel oil and other raw materials	$ 452	$ 444
Spare parts and supplies	374	341
Total	$ 826	$ 785

3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximate their reported carrying amounts. The fair value of non-recourse debt is estimated differently based upon the type of loan. In general, the carrying amount of variable rate debt is a close approximation of its fair value. For fixed rate loans, the fair value is estimated using quoted market prices or discounted cash flow analyses. The fair value of interest rate swap, cap and floor agreements, foreign currency forwards, swaps and options, and energy derivatives is the estimated net amount that the Company would receive or pay to sell or transfer the agreements as of the balance sheet date.

The estimated fair values of the Company s assets and liabilities have been determined using available market information. By virtue of these amounts being estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Valuation Techniques

The fair value measurement accounting guidance describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on current market expectations of the return on those future amounts. The cost approach is based on the amount that would currently be required to replace an asset. The Company measures its investments and derivatives at fair value on a recurring basis. Additionally, in connection with annual or event-driven impairment evaluations, certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis. These include long-lived tangible assets (i.e., property, plant and equipment), goodwill and intangible assets (e.g., sales concessions, land use rights and emissions allowances, etc.). In general, the Company determines the fair value of investments and derivatives using the market approach and the income approach, respectively. In the nonrecurring measurements of nonfinancial assets and liabilities, all three approaches are considered; however, fair value estimated under the income approach is often selected. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the determination of the fair value of the assets and liabilities and their placement within the fair value hierarchy levels.

Investments

The Company s investments measured at fair value generally consist of marketable debt and equity securities. Equity securities are measured at fair value using quoted market prices. Debt securities primarily consist of unsecured debentures, certificates of deposit and government debt securities held by our Brazilian subsidiaries. Returns and pricing on these instruments are generally indexed to the CDI (Brazilian equivalent to London Inter-Bank Offered Rate, or LIBOR, a benchmark interest rate widely used by banks in the interbank lending market) or Selic (overnight borrowing rate) rates in Brazil. Fair value is determined from comparisons to market data obtained for similar assets and are considered Level 2 in the fair value hierarchy. For more detail regarding the fair value of investments see Note 4 *Investments in Marketable Securities*.

Derivatives

When deemed appropriate, the Company manages its risk from interest and foreign currency exchange rate and commodity price fluctuations through the use of over-the-counter or exchange traded financial and physical derivative instruments. The derivatives are primarily interest rate swaps to hedge non-recourse debt to establish a fixed rate on variable rate debt, foreign exchange instruments to hedge against currency fluctuations, commodity derivatives to hedge against commodity price fluctuations and embedded derivatives associated with commodity contracts. The Company s subsidiaries are counterparties to various over-the-counter or exchange traded derivatives, which include interest rate swaps and options, foreign currency options and forwards and commodity swaps. In addition, the Company s subsidiaries are counterparties to certain PPAs and fuel supply agreements that are derivatives or include embedded derivatives.

For derivatives for which there is a standard industry valuation model, the Company uses a third-party treasury and risk management software product that uses a standard model and observable inputs to estimate the fair value. For these derivatives, the Company performs analytical procedures and makes comparisons to other third-party information in order to assess the reasonableness of the fair value. For derivatives (such as PPAs and fuel supply agreements that are derivatives or include embedded derivatives) for which there is not a standard industry valuation model, the Company has created internal valuation models to estimate the fair value, using observable data to the extent available. At each quarter-end, the models for the commodity and foreign currency-based derivatives are generally prepared by employees who globally manage the respective commodity and foreign currency risks. For all derivatives, with the exception of those classified as Level 1, the income approach is used, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. Among the most common market data inputs used in the income approach include volatilities, spot and forward benchmark interest rates (such as LIBOR and Euro Inter Bank Offered Rate (EURIBOR)), foreign exchange rates and commodity prices. Forward rates with the same tenor as the derivative instrument being valued are generally obtained from published sources, with these forward rates being assessed quarterly at a portfolio-level for reasonableness versus comparable published information provided from another source. In situations where significant inputs are not observable, the Company uses relevant techniques to best estimate the inputs, such as regression analysis, Monte Carlo simulation or prices for similarly traded instruments available in the market.

For each derivative, with the exception of those classified as Level 1, the income approach is used to estimate the cash flows over the remaining term of the contract. Those cash flows are then discounted using the

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relevant spot benchmark interest rate (such as LIBOR or EURIBOR) plus a spread that reflects the credit or nonperformance risk. This risk is estimated by the Company using credit spreads and risk premiums that are observable in the market, whenever possible, or estimated borrowing costs based on bank quotes, industry publications and/or information on financing closed on similar projects. To the extent that management can estimate the fair value of these assets or liabilities without the use of significant unobservable inputs, the fair value of these derivatives are classified as Level 2.

The Company s methodology to fair value its derivatives is to start with any observable inputs; however, in certain instances the published forward rates or prices may not extend through the remaining term of the contract and management must make assumptions to extrapolate the curve, which necessitates the use of unobservable inputs, such as proxy commodity prices or historical settlements to forecast forward prices. In addition, in certain instances, there may not be third party data readily available, requiring the use of unobservable inputs. Similarly, in certain instances, the spread that reflects the credit or nonperformance risk is unobservable. The fair value hierarchy of an asset or a liability is based on the level of significance of the input assumptions. An input assumption is considered significant if it affects the fair value by at least 10%. Assets and liabilities are transferred to Level 3 when the use of unobservable inputs becomes significant. Similarly, when the use of unobservable inputs becomes insignificant for Level 3 assets and liabilities, they are transferred to Level 2. Transfers between Level 3 and Level 2 are determined as of the end of the reporting period.

The following table summarizes the significant unobservable inputs used for the Level 3 derivative assets (liabilities) at June 30, 2012:

		Fair Value (in millions)	**Unobservable Input**	**Amount or Range (Weighted Average)**
Interest rate		$ (281)	Subsidiaries credit risk	3% - 4.1% (3.5%)
Foreign currency:				
Embedded derivative	Argentine Peso	48	Argentine Peso to U.S. Dollar currency exchange rate after 2 years	7.53
Other		(1)		
Commodity & other:				
Embedded derivative	Aluminum	(66)	Market price of power for customer in Cameroon (per KWh)	$0.05 -$0.17 ($0.12)
Embedded derivative	Philippine inflation	8	U.S. Producer Price Index after 5 years (where base year of 2005 = 100)	143 - 174 (154)
Other		6		
Total		$ (286)		

Changes in the above significant unobservable inputs that lead to a significant and unusual impact to current period earnings are disclosed to the Financial Audit Committee. For interest rate derivatives, increases (decreases) in the estimates of our own credit risk would decrease (increase) the value of the derivatives in a liability position. For foreign currency derivatives, increases (decreases) in the estimate of the above exchange rate would increase (decrease) the value of the derivative. For commodity and other derivatives in the above table, increases (decreases) in the estimated inflation would increase (decrease) the value of those embedded derivatives, while increases (decreases) in the estimated market price for power would increase (decrease) the value of that embedded derivative.

The only Level 1 derivative instruments as of June 30, 2012 are exchange-traded commodity futures for which the pricing is observable in active markets, and as such, these are not expected to transfer to other levels. There have been no transfers between Level 1 and Level 2.

Debt

Recourse and non-recourse debt are carried at amortized cost. The fair value of recourse debt is estimated based on quoted market prices. The fair value of non-recourse debt is estimated based upon the type of borrowing. The fair value of fixed rate borrowings is estimated using quoted market prices, if available, or a discounted cash flow analysis. In the discounted cash flow analysis, the discount rate is based on the credit rating of the individual debt instruments, if available, or the credit rating of the subsidiary. If the subsidiary s credit rating is not available, a synthetic credit rating is determined using certain key metrics, including cash flow ratios and interest coverage, as well as other industry specific factors. For subsidiaries located outside the U.S., in the event that the country rating is lower than the credit rating previously determined, the country rating is used for the purposes of the discounted cash flow analysis. The fair value of recourse and non-recourse debt excludes accrued interest at the valuation date. The fair value was determined using available market information as of June 30, 2012. The Company is [not] aware of any factors that would significantly affect the fair value amounts subsequent to June 30, 2012.

Nonfinancial Assets and Liabilities

For nonrecurring measurements derived using the income approach, fair value is determined using valuation models based on the principles of discounted cash flows (DCF). The income approach is most often used in the impairment evaluation of long-lived tangible assets, goodwill and intangible assets. The Company has developed internal valuation models for such valuations; however, an independent valuation firm may be engaged in certain situations. In such situations, the independent valuation firm largely uses DCF valuation models as the primary measure of fair value though other valuation approaches are also considered. A few examples of input assumptions to such valuations include macroeconomic factors such as growth rates, industry demand, inflation, exchange rates and power and commodity prices. Whenever possible, the Company attempts to obtain market observable data to develop input assumptions. Where the use of market observable data is limited or not available for certain input assumptions, the Company develops its own estimates using a variety of techniques such as regression analysis and extrapolations.

For nonrecurring measurements derived using the market approach, recent market transactions involving the sale of identical or similar assets are considered. The use of this approach is limited because it is often difficult to identify sale transactions of identical or similar assets. This approach is used in impairment evaluations of certain intangible assets. Otherwise, it is used to corroborate the fair value determined under the income approach.

For nonrecurring measurements derived using the cost approach, fair value is typically determined using the replacement cost approach. Under this approach, the depreciated replacement cost of assets is determined by first determining the current replacement cost of assets and then applying the remaining useful life percentages to such costs. Further adjustments for economic and functional obsolescence are made to the depreciated replacement cost. This approach involves a considerable amount of judgment, which is why its use is limited to the measurement of a few long-lived tangible assets. Like the market approach, this approach is also used to corroborate the fair value determined under the income approach.

Fair Value Considerations

In determining fair value, the Company considers the source of observable market data inputs, liquidity of the instrument, the credit risk of the counterparty and the risk of the Company s or its counterparty s nonperformance. The conditions and criteria used to assess these factors are:

Sources of market assumptions

The Company derives most of its market assumptions from market efficient data sources (e.g., Bloomberg, Reuters and Platt s). To determine fair value, where market data is not readily available, management uses comparable market sources and empirical evidence to develop its own estimates of market assumptions.

Market liquidity

The Company evaluates market liquidity based on whether the financial or physical instrument, or the underlying asset, is traded in an active or inactive market. An active market exists if the prices are fully transparent to market participants, can be measured by market bid and ask quotes, the market has a relatively large proportion of trading volume as compared to the Company s current trading volume and the market has a significant number of market participants that will allow the market to rapidly absorb the quantity of assets traded without significantly affecting the market price. Another factor the Company considers when determining whether a market is active or inactive is the presence of government or regulatory controls over pricing that could make it difficult to establish a market based price when entering into a transaction.

Nonperformance risk

Nonperformance risk refers to the risk that an obligation will not be fulfilled and affects the value at which a liability is transferred or an asset is sold. Nonperformance risk includes, but may not be limited to, the Company or its counterparty s credit and settlement risk. Nonperformance risk adjustments are dependent on credit spreads, letters of credit, collateral, other arrangements available and the nature of master netting arrangements. The Company and its subsidiaries are parties to various interest rate swaps and options; foreign currency options and forwards; and derivatives and embedded derivatives, which subject the Company to nonperformance risk. The financial and physical instruments held at the subsidiary level are generally non-recourse to the Parent Company.

Nonperformance risk on the investments held by the Company is incorporated in the fair value derived from quoted market data to mark the investments to fair value.

The Company adjusts for nonperformance or credit risk on its derivative instruments by deducting a credit valuation adjustment (CVA). The CVA is based on the margin or debt spread of the Company s subsidiary or its counterparty and the tenor of the respective derivative instrument. The counterparty for a derivative asset position is considered to be the bank or government sponsored banking entity or counterparty to the PPA or commodity contract. The CVA for asset positions is based on the counterparty s credit ratings and debt spreads or, in the absence of readily obtainable credit information, the respective country s debt spreads are used as a proxy. The CVA for liability positions is based on the Parent Company s or the subsidiary s current debt spread, the margin on indicative financing arrangements, or in the absence of readily obtainable credit information, the respective country s debt spreads are used as a proxy. All derivative instruments are analyzed individually and are subject to unique risk exposures.

Recurring Measurements

The following table sets forth, 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 June 30, 2012 and December 31, 2011:

	Total	Fair Value Level 1	 Level 2	 Level 3
		(in millions)		
June 30, 2012				
Assets				
Available-for-sale securities	$ 864	$ 1	$ 863	$ -
Trading securities	12	12	-	-
Derivatives	116	-	45	71
Total assets	$ 992	$ 13	$ 908	$ 71
Liabilities				
Derivatives	$ 805	$ -	$ 448	$ 357
Total liabilities	$ 805	$ -	$ 448	$ 357
December 31, 2011				
Assets				
Available-for-sale securities	$ 1,340	$ 1	$ 1,339	$ -
Trading securities	12	12	-	-
Derivatives	120	2	52	66
Total assets	$ 1,472	$ 15	$ 1,391	$ 66
Liabilities				
Derivatives	$ 690	$ -	$ 476	$ 214
Total liabilities	$ 690	$ -	$ 476	$ 214

The following tables present a reconciliation of net derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2012 and 2011 (presented net by type of derivative where any foreign currency impacts are presented as part of gains (losses) in earnings or other comprehensive income as appropriate):

	Three Months Ended June 30, 2012 Interest Rate	 Cross Currency	 Foreign Currency	 Commodity and Other	 Total
			(in millions)		
Balance at April 1	$ (124)	$ -	$ 48	$ (46)	$ (122)
Total gains (losses) (realized and unrealized):					
Included in earnings [(1)]	-	-	-	(13)	(13)
Included in other comprehensive income	(58)	-	-	-	(58)
Included in regulatory (assets) liabilities	-	-	-	7	7
Settlements	6	-	(1)	-	5
Transfers of assets (liabilities) into Level 3 [(2)]	(105)	-	-	-	(105)
Transfers of (assets) liabilities out of Level 3 [(2)]	-	-	-	-	-

Balance at June 30	$ (281)	$ -	$ 47	$ (52)	$ (286)
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	$ -	$ -	$ (1)	$ (13)	$ (14)

	Three Months Ended June 30, 2011				
	Interest Rate	**Cross Currency**	**Foreign Currency**	**Commodity and Other**	**Total**
			(in millions)		
Balance at April 1	$ (7)	$ 5	$ 23	$ 24	$ 45
Total gains (losses) (realized and unrealized):					
Included in earnings [1]	-	(2)	18	(16)	-
Included in other comprehensive income	(12)	8	-	-	(4)
Included in regulatory (assets) liabilities	-	-	-	7	7
Settlements	1	4	(1)	-	4
Transfers of assets (liabilities) into Level 3 [2]	(58)	-	-	-	(58)
Transfers of (assets) liabilities out of Level 3 [2]	16	-	(2)	2	16
Balance at June 30	$ (60)	$ 15	$ 38	$ 17	$ 10
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/(losses) relating to assets and liabilities held at the end of the period	$ -	$ (2)	$ 15	$ (7)	$ 6

	Six Months Ended June 30, 2012				
	Interest Rate	**Cross Currency**	**Foreign Currency**	**Commodity and Other**	**Total**
			(in millions)		
Balance at January 1	$ (128)	$ (18)	$ 51	$ (53)	$ (148)
Total gains (losses) (realized and unrealized):					
Included in earnings [1]	(1)	-	(2)	(5)	(8)
Included in other comprehensive income	(19)	4	-	-	(15)
Included in regulatory (assets) liabilities	-	-	-	7	7
Settlements	13	8	(2)	(1)	18
Transfers of assets (liabilities) into Level 3 [2]	(146)	-	-	-	(146)
Transfers of (assets) liabilities out of Level 3 [2]	-	6	-	-	6
Balance at June 30	$ (281)	$ -	$ 47	$ (52)	$ (286)
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	$ -	$ -	$ (3)	$ (5)	$ (8)

	Six Months Ended June 30, 2011				
	Interest Rate	**Cross Currency**	**Foreign Currency**	**Commodity and Other**	**Total**
			(in millions)		
Balance at January 1	$ (1)	$ 10	$ 22	$ 18	$ 49
Total gains (losses) (realized and unrealized):					
Included in earnings [1]	-	-	18	(7)	11
Included in other comprehensive income	(1)		-	-	(1)
Included in regulatory (assets) liabilities	-	-	-	6	6
Settlements	-	5	(2)	-	3
Transfers of assets (liabilities) into Level 3 [2]	(58)	-	-	-	(58)
Transfers of (assets) liabilities out of Level 3 [2]	-	-	-	-	-
Balance at June 30	$ (60)	$ 15	$ 38	$ 17	$ 10
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/(losses) relating to	$ -	$ -	$ 15	$ (1)	$ 14

assets and liabilities held at the end of the period

[1] The gains (losses) included in earnings for these Level 3 derivatives are classified as follows: interest rate and cross currency derivatives as interest expense; foreign currency derivatives as foreign currency transaction gains (losses); and commodity and other derivatives as either non-regulated revenue, non-regulated cost of sales, or other expense. See Note 5 *Derivative Instruments and Hedging Activities* for further information regarding the classification of gains and losses included in earnings in the condensed consolidated statements of operations.

[2] Transfers in and out of Level 3 are determined as of the end of the reporting period and are from and to Level 2. The assets (liabilities) transferred into and out of Level 3 are primarily the result of an increase or decrease in the significance of unobservable inputs used to calculate the credit valuation adjustments of these derivative instruments.

The following table presents a reconciliation of available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Balance at beginning of period	$ -	$ 40	$ -	$ 42
Settlements	-	-	-	(2)
Balance at June 30	$ -	$ 40	$ -	$ 40
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets held at the end of the period	$ -	$ -	$ -	$ -

Nonrecurring Measurements

For purposes of impairment evaluation, the Company measured the fair value of long-lived assets and equity method investments under the fair value measurement accounting guidance. Impairment expense is measured by comparing the fair value of asset groups at the evaluation date to their carrying amount at the end of the month prior to the evaluation date. The following table summarizes major categories of assets and liabilities measured at fair value on a nonrecurring basis during the period and their level within the fair value hierarchy:

	Six Months Ended June 30, 2012				
	Carrying Amount	Fair Value			Gross Loss
		Level 1	Level 2	Level 3	
			in million		
Assets					
Long-lived assets held and used:[1]					
Kelanitissa	$ 22	$ -	$ -	$ 10	$ 12
Long-lived assets held for sale:[1]					
St. Patrick	33	-	22	-	11
Equity method investments[2]	205	-	155	-	50

	Six Months Ended June 30, 2011				
	Carrying Amount	Fair Value			Gross Loss
		Level 1	Level 2	Level 3	
			in million		
Assets					
Long-lived assets held and used:[1]					
Kelanitissa	$ 66	$ -	$ -	$ 33	$ 33

[1] See Note 14 Asset Impairment Expense for further information.

[2] See Note 15 *Other Non-Operating Expense* for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement of long-lived assets during the period:

	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range
Long-lived assets held and used:				
Kelanitissa	$ 10	Discounted cash flow	Annual revenue growth	-9% to 4%
			Annual pretax operating margin	-4% to 16%
			Weighted average cost of capital	11.9%
Total	$ 10			

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

The following table sets forth the carrying amount and fair value of the Company s financial assets and liabilities that are not measured at fair value in the condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, but for which fair value is disclosed. In addition, the fair value level hierarchy of such assets and liabilities is presented as of June 30, 2012:

		Fair Value			
	Carrying Amount	Total	Level 1	Level 2	Level 3
June 30, 2012			(in millions)		
Assets					
Trade receivables[1]	$ 460	$ 398	$ -	$ -	$ 398
Liabilities					
Non-recourse debt	15,537	16,021	-	11,944	4,077
Recourse debt	6,189	6,802	-	6,802	-
December 31, 2011					
Assets					
Trade receivables	$ 469	$ 484			
Liabilities					
Non-recourse debt	15,535	15,862			
Recourse debt	6,485	6,640			

[1] Trade receivables are included in Current Assets Accounts Receivable and Noncurrent Assets Other in the accompanying condensed consolidated balance sheets. These receivables principally relate to amounts due from the independent system operator in Argentina. During the three months ended June 30, 2012, the significant decline in fair value of these receivables was a result of the increased credit risk in Argentina.

4. INVESTMENTS IN MARKETABLE SECURITIES

The following table sets forth the Company s investments in marketable debt and equity securities as of June 30, 2012 and December 31, 2011 by security class and by level within the fair value hierarchy. The security classes 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.

	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(in millions)				
AVAILABLE-FOR-SALE:[1]								
Debt securities:								
Unsecured debentures	$ -	$ 377	$ -	$ 377	$ -	$ 665	$ -	$ 665
Certificates of deposit	-	389	-	389	-	576	-	576
Government debt securities	-	26	-	26	-	31	-	31
Other	-	14	-	14	-	-	-	-
Subtotal	-	806	-	806	-	1,272	-	1,272
Equity securities:								
Mutual funds	-	57	-	57	-	67	-	67
Common stock	1	-	-	1	1	-	-	1
Subtotal	1	57	-	58	1	67	-	68
Total available-for-sale	1	863	-	864	1	1,339	-	$ 1,340
TRADING:								
Equity securities:								
Mutual funds	12	-	-	12	12	-	-	12
Total trading	12	-	-	12	12	-	-	12
TOTAL	$ 13	$ 863	$ -	$ 876	$ 13	$ 1,339	$ -	$ 1,352
Held-to-maturity securities				7				4
Total marketable securities				$ 883				$ 1,356

[1] Cost/amortized cost approximated fair value at June 30, 2012 and December 31, 2011, with the exception of certain common stock investments with a cost basis and fair value of $1 million at June 30, 2012, and a cost basis and fair value of $4 million and $1 million, respectively, at December 31, 2011.

As of June 30, 2012, all available-for-sale debt securities had stated maturities within one year.

The following table summarizes the pre-tax gains and losses related to available-for-sale and trading securities for the three and six months ended June 30, 2012 and 2011. Gains and losses on the sale of investments are determined using the specific identification method. For the three and six months ended June 30, 2012 and 2011, there were [no] realized losses on the sale of available-for-sale securities and [no] other-than-temporary impairment of marketable securities recognized in earnings or other comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)			
Gains included in earnings that relate to trading securities held at the reporting date	$ -	$ -	$ -	$ 1
Unrealized gains (losses) on available-for-sale securities included in other comprehensive income	-	(1)	-	(3)
Proceeds from sales of available-for-sale securities	2,080	1,846	3,603	3,077
Gross realized gains on sales	1	3	1	4

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives

The Company is exposed to market risks associated with its enterprise-wide business activities, namely the purchase and sale of fuel and electricity as well as foreign currency risk and interest rate risk. In order to manage the market risks associated with these business activities, we enter into contracts that incorporate derivatives and financial instruments, including forwards, futures, options, swaps or combinations thereof, as appropriate. The Company generally applies hedge accounting to contracts as long as they are eligible under the accounting standards for derivatives and hedging. While derivative transactions are not entered into for trading purposes, some contracts are not eligible for hedge accounting.

Interest Rate Risk

AES and its subsidiaries utilize variable rate debt financing for construction projects and operations, resulting in an exposure to interest rate risk. Interest rate swap, cap and floor agreements are entered into to manage interest rate risk by effectively fixing or limiting the interest rate exposure on the underlying financing. These interest rate contracts range in maturity through 2030, and are typically designated as cash flow hedges. The following table sets forth, by underlying type of interest rate index, the Company s current and maximum outstanding notional under its interest rate derivative instruments, the weighted average remaining term and the percentage of variable-rate debt hedged that is based on the related index as of June 30, 2012 regardless of whether the derivative instruments are in qualifying cash flow hedging relationships:

	June 30, 2012					
	Current		Maximum[1]			
Interest Rate Derivatives	Derivative Notional	Derivative Notional Translated to USD	Derivative Notional	Derivative Notional Translated to USD	Weighted Average Remaining Term[1]	% of Debt Currently Hedged by Index[2]
	(in millions)				(in years)	
Libor (U.S. Dollar)	3,604	$ 3,604	4,608	$ 4,608	10	69%
Euribor (Euro)	626	793	629	796	10	63%
Libor (British Pound)	60	94	101	158	14	91%

[1] The Company s interest rate derivative instruments primarily include accreting and amortizing notionals. The maximum derivative notional represents the largest notional at any point between June 30, 2012 and the maturity of the derivative instrument, which includes forward starting derivative instruments. The weighted average remaining term represents the remaining tenor of our interest rate derivatives weighted by the corresponding maximum notional.

[2] Excludes variable-rate debt tied to other indices where the Company has no interest rate derivatives.

Cross currency swaps are utilized in certain instances to manage the risk related to fluctuations in both interest rates and certain foreign currencies. These cross currency contracts range in maturity through 2028. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional amount under its cross currency derivative instruments as of June 30, 2012, which are all in qualifying cash flow hedge relationships. These swaps are amortizing and therefore the notional amount represents the maximum outstanding notional amount as of June 30, 2012:

	June 30, 2012			
Cross Currency Swaps	**Notional**	**Notional Translated to USD** **(in millions)**	**Weighted Average Remaining Term[1]** **(in years)**	**% of Debt Currently Hedged by Index[2]**
Chilean Unidad de Fomento (CLF)	6	$ 253	14	85%

[1] Represents the remaining tenor of our cross currency swaps weighted by the corresponding notional.

[2] Represents the proportion of foreign currency denominated debt hedged by the same foreign currency denominated notional of the cross currency swap.

Foreign Currency Risk

We are exposed to foreign currency risk as a result of our investments in foreign subsidiaries and affiliates. AES operates businesses in many foreign countries and such operations may be impacted by significant fluctuations in foreign currency exchange rates. Foreign currency options and forwards are utilized, where deemed appropriate, to manage the risk related to fluctuations in certain foreign currencies. These foreign currency contracts range in maturity through 2015. The following tables set forth, by type of foreign currency denomination, the Company s outstanding notional amounts over the remaining terms of its foreign currency derivative instruments as of June 30, 2012 regardless of whether the derivative instruments are in qualifying hedging relationships:

	June 30, 2012			
Foreign Currency Options	**Notional**	**Notional Translated to USD[1]** **(in millions)**	**Probability Adjusted Notional[2]**	**Weighted Average Remaining Term[3]** **(in years)**
Euro (EUR)	68	$ 87	$ 56	<1
Philippine Peso (PHP)	1,625	38	15	<1
British Pound (GBP)	2	3	2	<1

[1] Represents contractual notionals at inception of trade.

[2] Represents the gross notional amounts times the probability of exercising the option, which is based on the relationship of changes in the option value with respect to changes in the price of the underlying currency.

[3] Represents the remaining tenor of our foreign currency options weighted by the corresponding notional.

	June 30, 2012		
Foreign Currency Forwards	**Notional**	**Notional Translated to USD** **(in millions)**	**Weighted Average Remaining Term[1]** **(in years)**
Euro (EUR)	95	$ 131	2
Chilean Peso (CLP)	60,833	122	<1
Colombian Peso (COP)	189,847	105	<1
Philippine Peso (PHP)	2,183	51	<1
British Pound (GBP)	24	37	<1
Argentine Peso (ARS)	31	7	<1

[1] Represents the remaining tenor of our foreign currency forwards weighted by the corresponding notional.

In addition, certain of our subsidiaries have entered into contracts which contain embedded derivatives that require separate valuation and accounting due to the fact that the item that is being purchased or sold is denominated in a currency other than the functional currency of the subsidiary or the currency of the item. These contracts range in maturity through 2026. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional over the remaining terms of its foreign currency embedded derivative instruments as of June 30, 2012:

	June 30, 2012		
Embedded Foreign Currency Derivatives	Notional	Notional Translated to USD	Weighted Average Remaining Term[1]
	(in millions)		(in years)
Philippine Peso (PHP)[2]	64,870	$ 1,553	11
Argentine Peso (ARS)	943	208	12
Kazakhstani Tenge (KZT)	1,275	9	4
Euro (EUR)	2	3	9

[1] Represents the remaining tenor of our foreign currency embedded derivatives weighted by the corresponding notional.

[2] Notional also relates to an embedded derivative related to inflation.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the price of electricity, fuel and environmental credits. Although our businesses primarily enter into long-term contracts or retail sales concessions (which provide our distribution businesses with a franchise to serve a specific geographic region), a portion of our current and expected future revenues are derived from businesses without significant long-term purchase or sales contracts. These businesses subject our results of operations to the volatility of prices for electricity, fuel and environmental credits in competitive markets. We have used a hedging strategy, where appropriate, to hedge our financial performance against the effects of fluctuations in energy commodity prices.

The PPAs and fuel supply agreements entered into by the Company are evaluated to determine if they meet the definition of a derivative or contain embedded derivatives, either of which requires separate valuation and accounting. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. Generally, these agreements do not meet the definition of a derivative, often due to the inability to be net settled. On a quarterly basis, we evaluate the markets for the commodities to be delivered under these agreements to determine if facts and circumstances have changed such that the agreements could then be net settled and meet the definition of a derivative.

Nonetheless, certain of the PPAs and fuel supply agreements entered into by certain of the Company s subsidiaries are derivatives or contain embedded derivatives requiring separate valuation and accounting. These contracts range in maturity through 2024. The following table sets forth, by type of commodity, the Company s outstanding notionals for the remaining term of its commodity derivatives and embedded derivative instruments as of June 30, 2012:

	June 30, 2012	
Commodity Derivatives	Notional (in millions)	Weighted Average Remaining Term[1] (in years)
Natural gas (MMBTU)	30	11
Aluminum (MWh)	15 [2]	8
Petcoke (Metric tons)	12	12
Coal (Metric tons)	2	1
Power (Mwh)	3	3
Heating Oil (Gallons)	1	<1

[1] Represents the remaining tenor of our commodity and embedded derivatives weighted by the corresponding volume.

[2] The embedded derivative relates to fluctuations in the price of aluminum versus fluctuations in the price of electricity, where the notional is based on the amount of power we sell under the PPA.

Accounting and Reporting

The following table sets forth the Company s derivative instruments as of June 30, 2012 and December 31, 2011 by type of derivative and by level within the fair value hierarchy. Derivative assets and liabilities are recognized at their fair value. Derivative assets and liabilities are combined with other balances and included in the following captions in our condensed consolidated balance sheets: current derivative assets in other current assets, noncurrent derivative assets in other noncurrent assets, current derivative liabilities in accrued and other liabilities and noncurrent derivative liabilities in other noncurrent liabilities.

	June 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)				(in millions)			
Assets								
Current assets:								
Foreign currency derivatives	$ -	$ 9	$ 5	$ 14	$ -	$ 24	$ 4	$ 28
Commodity and other derivatives	-	19	8	27	2	16	3	21
Total current assets	-	28	13	41	2	40	7	49
Noncurrent assets:								
Interest rate derivatives	-	2	-	2	-	-	-	-
Cross currency derivatives	-	4	-	4	-	-	1	1
Foreign currency derivatives	-	6	50	56	-	3	58	61
Commodity and other derivatives	-	5	8	13	-	9	-	9
Total noncurrent assets	-	17	58	75	-	12	59	71
Total assets	$ -	$ 45	$ 71	$ 116	$ 2	$ 52	$ 66	$ 120
Liabilities								
Current liabilities:								
Interest rate derivatives	$ -	$ 78	$ 44	$ 122	$ -	$ 97	$ 22	$ 119
Cross currency derivatives	-	6	-	6	-	-	5	5
Foreign currency derivatives	-	4	1	5	-	5	1	6
Commodity and other derivatives	-	20	7	27	-	17	6	23
Total current liabilities	-	108	52	160	-	119	34	153
Noncurrent liabilities:								
Interest rate derivatives	-	250	237	487	-	334	106	440
Cross currency derivatives	-	4	-	4	-	-	14	14
Foreign currency derivatives	-	76	7	83	-	10	10	20
Commodity and other derivatives	-	10	61	71	-	13	50	63
Total noncurrent liabilities	-	340	305	645	-	357	180	537
Total liabilities	$ -	$ 448	$ 357	$ 805	$ -	$ 476	$ 214	$ 690

The following table sets forth the fair value and balance sheet classification of derivative instruments as of June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
	Designated as Hedging Instruments	Not Designated as Hedging Instruments (in millions)	Total	Designated as Hedging Instruments	Not Designated as Hedging Instruments (in millions)	Total
Assets						
Current assets:						
Foreign currency derivatives	$ 6	$ 8	$ 14	$ 10	$ 18	$ 28
Commodity and other derivatives	2	25	27	2	19	21
Total current assets	8	33	41	12	37	49
Noncurrent assets:						
Interest rate derivatives	-	2	2	-	-	-
Cross currency derivatives	4	-	4	1	-	1
Foreign currency derivatives	6	50	56	3	58	61
Commodity and other derivatives	1	12	13	-	9	9
Total noncurrent assets	11	64	75	4	67	71
Total assets	$ 19	$ 97	$ 116	$ 16	$ 104	$ 120
Liabilities						
Current liabilities:						
Interest rate derivatives	$ 114	$ 8	$ 122	$ 110	$ 9	$ 119
Cross currency derivatives	6	-	6	5	-	5
Foreign currency derivatives	3	2	5	1	5	6
Commodity and other derivatives	3	24	27	-	23	23
Total current liabilities	126	34	160	116	37	153
Noncurrent liabilities:						
Interest rate derivatives	473	14	487	425	15	440
Cross currency derivatives	4	-	4	14	-	14
Foreign currency derivatives	-	83	83	-	20	20
Commodity and other derivatives	4	67	71	3	60	63
Total noncurrent liabilities	481	164	645	442	95	537
Total liabilities	$ 607	$ 198	$ 805	$ 558	$ 132	$ 690

The Company has elected not to offset derivative positions in the financial statements. Accordingly, we do not offset such derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements. At June 30, 2012 and December 31, 2011, we held $0 million and $3 million, respectively, of cash collateral that we received from counterparties to our derivative positions. Beyond the cash collateral held by us, our derivative assets are exposed to the credit risk of the respective counterparty and, due to this credit risk, the fair value of our derivative assets (as shown in the above two tables) have been reduced by a credit valuation adjustment. Also, at June 30, 2012 and December 31, 2011, there was $20 million and $16 million, respectively, of cash collateral posted with (held by) counterparties to our derivative positions.

The table below sets forth the pre-tax accumulated other comprehensive income (loss) expected to be recognized as an increase (decrease) to income from continuing operations before income taxes (in millions) over the next twelve months as of June 30, 2012 for the following types of derivative instruments:

Interest rate derivatives	$	(114)
Cross currency derivatives	$	4
Foreign currency derivatives	$	2
Commodity and other derivatives	$	(1)

The balance in accumulated other comprehensive loss related to derivative transactions will be reclassified into earnings as interest expense is recognized for interest rate hedges and cross currency swaps (except for the amount reclassified to foreign currency transaction gains and losses to offset the remeasurement of the foreign currency-denominated debt being hedged by the cross currency swaps), as depreciation is recognized for interest rate hedges during construction, as foreign currency transaction gains and losses are recognized for hedges of foreign currency exposure, and as electricity sales and fuel purchases are recognized for hedges of forecasted electricity and fuel transactions. These balances are included in the consolidated statements of cash flows as operating and/or investing activities based on the nature of the underlying transaction.

The following tables set forth the gains (losses) recognized in accumulated other comprehensive loss (AOCL) and earnings related to the effective portion of derivative instruments in qualifying cash flow hedging relationships, as defined in the accounting standards for derivatives and hedging, for the three and six months ended June 30, 2012 and 2011:

	Gains (Losses) Recognized in AOCL		Classification in	Gains (Losses) Reclassified from AOCL into Earnings	
	Three Months Ended June 30,		Condensed Consolidated Statements of Operations	Three Months Ended June 30,	
	2012	2011		2012	2011
	(in millions)			(in millions)	
Interest rate derivatives	$ (153)	$ (144)	Interest expense	$ (30)	$ (27)
			Non-regulated cost of sales	(1)	(1)
			Net equity in earnings of affiliates	(1)	(1)
			Gain on sale of investments	(4)	-
Cross currency derivatives	(9)	11	Interest expense	(3)	7
			Foreign currency transaction gains (losses)	(6)	10
Foreign currency derivatives	6	(7)	Foreign currency transaction gains (losses)	-	(2)
Commodity and other derivatives	(1)	(1)	Non-regulated revenue	-	-
Total	$ (157)	$ (141)		$ (45)	$ (14)

	Gains (Losses) Recognized in AOCL		Classification in	Gains (Losses) Reclassified from AOCL into Earnings[1]	
	Six Months Ended June 30,		Condensed Consolidated Statements of Operations	Six Months Ended June 30,	
	2012	2011		2012	2011
	(in millions)			(in millions)	
Interest rate derivatives	$ (142)	$ (92)	Interest expense	$ (62)	$ (53)
			Non-regulated cost of sales	(3)	(2)
			Net equity in earnings of affiliates	(2)	(2)
			Gain on sale of investments	(96)	-
Cross currency derivatives	5	3	Interest expense	(6)	2
			Foreign currency transaction gains (losses)	12	5
Foreign currency derivatives	12	(2)		-	(4)

					Foreign currency transaction gains (losses)				
Commodity and other derivatives		(7)		-	Non-regulated revenue		(2)		-
Total	$	(132)	$	(91)		$	(159)	$	(54)

[1] Includes amounts that were reclassified from AOCL related to derivative instruments that previously, but no longer, qualify for cash flow hedge accounting.

The following table sets forth the pre-tax gains (losses) recognized in earnings related to the ineffective portion of derivative instruments in qualifying cash flow hedging relationships, as defined in the accounting standards for derivatives and hedging, for the three and six months ended June 30, 2012 and 2011:

	Classification in Condensed Consolidated Statements of Operations	Gains (Losses) Recognized in Earnings Three Months Ended June 30,		Gains (Losses) Recognized in Earnings Six Months Ended June 30,	
		2012	2011	2012	2011
		(in millions)		(in millions)	
Interest rate derivatives	Interest expense	$ 2	$ -[1]	$ 1	$ (7)
	Net equity in earnings of affiliates	(1)	(1)	(1)	(1)
Cross currency derivatives	Interest expense	-[1]	(2)	-[1]	(2)
Foreign currency derivatives					
	Foreign currency transaction gains (losses)	-[1]	-[1]	-[1]	-[1]
Commodity derivatives electricity	Non-regulated revenue	-[1]	-[1]	-[1]	-[1]
Total		$ 1	$ (3)	$ -	$ (10)

[1] De minimis amount.

The following table sets forth the gains (losses) recognized in earnings related to derivative instruments not designated as hedging instruments under the accounting standards for derivatives and hedging, for the three and six months ended June 30, 2012 and 2011:

	Classification in Condensed Consolidated Statements of Operations	Gains (Losses) Recognized in Earnings Three Months Ended June 30,		Gains (Losses) Recognized in Earnings Six Months Ended June 30,	
		2012	2011	2012	2011
		(in millions)			
Interest rate derivatives	Interest expense	$ (1)	$ (1)	$ (3)	$ (1)
Foreign currency derivatives					
	Foreign currency transaction gains	(38)	20	(76)	27
Commodity and other derivatives	Non-regulated revenue	(13)	(13)	1	(9)
	Regulated revenue	(3)	-	1	-
	Non-regulated cost of sales	-	(2)	3	(1)
	Regulated cost of sales	(5)	-	(17)	-

Total	$ (60)	$ 4	$ (91)	$ 16

In addition, DPL and IPL, our utilities in North America, have derivative instruments for which the gains and losses are accounted for in accordance with accounting standards for regulated operations, as regulatory assets or liabilities. Gains and losses due to changes in the fair value of these derivatives are probable of recovery through future rates and are initially recognized as an adjustment to the regulatory asset or liability and recognized through earnings when the related costs are recovered through rates. Therefore, these gains and losses are excluded from the above table. The following table sets forth the change in regulatory assets and liabilities resulting from the change in the fair value of these derivatives for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)			
(Increase) decrease in regulatory assets	$ (8)	$ (2)	$ (5)	$ (2)
Increase (decrease) in regulatory liabilities	$ (1)	$ 7	$ (1)	$ 6

Credit Risk-Related Contingent Features

Gener, our generation business in Chile, has cross currency swap agreements with counterparties to swap Chilean inflation indexed bonds issued in December 2007 into U.S. Dollars. The derivative agreements contain credit contingent provisions which would permit the counterparties with which Gener is in a net liability position to require collateral credit support when the fair value of the derivatives exceeds the unsecured thresholds established in the agreements. These thresholds vary based on Gener s credit rating. If Gener s credit rating were to fall below the minimum threshold established in the swap agreements, the counterparties can demand immediate collateralization of the entire mark-to-market loss of the swaps (excluding credit valuation adjustments), which was $10 million at June 30, 2012. The mark-to-market value of the swaps was $18 million at December 31, 2011. As of June 30, 2012 and December 31, 2011, Gener had not posted collateral to support these swaps.

DPL has certain over-the-counter commodity derivative contracts under master netting agreements that contain provisions that require its debt to maintain an investment-grade credit rating from credit rating agencies. If its debt were to fall below investment grade, the business would be in violation of these provisions, and the counterparties to the derivative contracts could request immediate payment or demand immediate and ongoing full overnight collateralization of the mark-to-market loss (excluding credit valuation adjustments), which was $29 million as of June 30, 2012. As of June 30, 2012, DPL had posted $20 million of cash collateral directly with third parties and in a broker margin account and held $0 million of cash collateral that it received from counterparties to its derivative instruments that were in an asset position. As of December 31, 2011, DPL had posted $16 million of cash collateral directly with third parties and in a broker margin account and held $3 million of cash collateral that it received from counterparties to its derivative instruments that were in an asset position.

6. LONG-TERM FINANCING RECEIVABLES

Long-term financing receivables represent receivables from certain Latin American governmental bodies that have contractual maturities of greater than one year. Management continually assesses the collectability of these receivables and believes they are recoverable. The receivables are included in Noncurrent assets other on the condensed consolidated balance sheets. The following table sets forth the breakdown of financing receivables by country as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in millions)	
Argentina	$ 218	$ 232
Dominican Republic	43	49
Brazil	12	14
Total long-term financing receivables	$ 273	$ 295

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7. DEBT

Non-Recourse Debt

The following table summarizes the Company s subsidiary non-recourse debt in default or accelerated as of June 30, 2012 and is in the current portion of non-recourse debt unless otherwise indicated:

		June 30, 2012	
Subsidiary	Primary Nature of Default	Default Amount	Net Assets (Liabilities)
		(in millions)	
Maritza	Covenant	$ 861	$ 231
Sonel	Covenant	302	288
Kribi	Payment	137	(11)
Dibamba	Covenant	77	36
Saurashtra	Covenant	26	15
Kelanitissa	Covenant	10	48
Total		$ 1,413	

None of the subsidiaries that are currently in default are subsidiaries that met the applicable definition of materiality under AES corporate debt agreements as of June 30, 2012 in order to trigger an event of default or permit acceleration under such indebtedness. The bankruptcy or acceleration of material amounts of debt at such subsidiaries would cause a cross default under the recourse senior secured credit facility. It is possible that one or more of these subsidiaries could fall within the definition of a material subsidiary as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations or the financial position or results of operations of an individual subsidiary, and thereby a bankruptcy or an acceleration of its non-recourse debt could trigger an event of default and possible acceleration of the indebtedness under the AES Parent Company s outstanding debt securities.

8. CONTINGENCIES AND COMMITMENTS

Guarantees, Letters of Credit and Commitments

In connection with certain project financing, acquisition, power purchase and other agreements, AES 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, AES has entered into various agreements, mainly guarantees and letters of credit, to provide financial or performance assurance to third parties on behalf of AES businesses. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to more than 14 years.

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The following table summarizes the Parent Company s contingent contractual obligations as of June 30, 2012. Amounts presented in the table below represent the Parent Company s current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure. The maximum exposure is not reduced by the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees. The amounts include obligations made by the Parent Company for the direct benefit of the lenders associated with the non-recourse debt of its businesses of $24 million.

Contingent Contractual Obligations	Amount (in millions)	Number of Agreements	Maximum Exposure Range for Each Agreement (in millions)
Guarantees	$ 528	18	<$ 1 - $219
Letters of credit under the senior secured credit facility	5	9	<$1 - $2
Cash collateralized letters of credit	246	11	<$1 - $209
Total	$ 779	38	

As of June 30, 2012, the Company had $9 million of commitments to invest in subsidiaries under construction and to purchase related equipment that were not included in the letters of credit discussed above. The Company expects to fund these net investment commitments in 2012. The exact payment schedules will be dictated by the construction milestones.

Environmental

The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of June 30, 2012, the Company had recorded liabilities of $24 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Based on currently available information and analysis, the Company believes that it is reasonably possible that costs associated with such liabilities, or as yet unknown liabilities, may exceed current reserves in amounts that could be material but cannot be estimated as of June 30, 2012.

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 recorded aggregate reserves for all claims of approximately $342 million and $363 million as of June 30, 2012 and December 31, 2011, respectively. These reserves are reported on the consolidated balance sheets within accrued and other liabilities and other noncurrent liabilities. A significant portion of the reserves relate to employment, non-income tax and customer disputes in international jurisdictions, principally Brazil. Certain of the Company s subsidiaries, principally in Brazil, are defendants in a number of labor and employment lawsuits. The complaints generally seek unspecified monetary damages, injunctive relief, or other relief. The subsidiaries have denied any liability and intend to vigorously defend themselves in all of these proceedings. There can be no assurance that these reserves 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 reserves 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 reserve has been recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of June 30, 2012. The material contingencies where a loss is reasonably possible primarily include: claims under financing agreements; disputes with offtakers, suppliers and EPC contractors; alleged violation of monopoly laws and regulations; income tax and non-income tax assessments by tax authorities; and environmental and regulatory matters. In aggregate, the Company estimates that the range of potential losses, where estimable, related to these material contingences to be in the range of $227 million to $1.4 billion. The amounts considered reasonably possible do not include amounts reserved, as discussed above. These material contingencies do not include income tax related contingencies which are considered part of our uncertain tax positions.

9. REGULATORY LIABILITIES

In July 2012, the Brazilian energy regulator (the Regulator) approved the periodic review and reset of a component of Eletropaulo s regulated tariff which determines the margin to be earned by Eletropaulo. The review and reset of this tariff component is retroactive to July 2011 and will be applied to customers invoices from July 2012 to June 2015. From July 2011 through June 2012, Eletropaulo invoiced customers under the then existing tariff rate, as required by the Regulator. As the new tariff rate is lower than the pre-existing tariff rate, Eletropaulo is required to reduce customer tariffs for this difference over the next three years. Accordingly, since the third quarter of 2011, Eletropaulo has been recognizing a regulatory liability for such estimated future refunds and updating this estimate as the periodic review and tariff reset process has progressed with the Regulator. As of June 30, 2012, Eletropaulo had recorded a regulatory liability of $536 million. This includes a cumulative increase of $80 million related to the estimated regulatory liability recognized in the second half of 2011 and the first quarter of 2012 based on the latest information available.

10. PENSION PLANS

Total pension cost for the three and six months ended June 30, 2012 and 2011 included the following components:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	(in millions)				(in millions)			
Service cost	$ 3	$ 3	$ 2	$ 5	$ 7	$ 10	$ 4	$ 10
Interest cost	12	126	8	148	24	267	16	290
Expected return on plan assets	(14)	(111)	(8)	(133)	(28)	(233)	(16)	(261)
Amortization of prior service cost	2	-	1	-	3	-	2	-
Amortization of net loss	6	11	4	6	12	21	7	12
Loss on curtailment	-	-	-	-	-	-	-	4
Total pension cost	$ 9	$ 29	$ 7	$ 26	$ 18	$ 65	$ 13	$ 55

Total employer contributions for the six months ended June 30, 2012 for the Company s U.S. and foreign subsidiaries were $17 million and $83 million, respectively. The expected remaining scheduled employer contributions for 2012 are $31 million for U.S. subsidiaries and $85 million for foreign subsidiaries.

11. EQUITY

Changes in Equity

The following table provides a reconciliation of the beginning and ending equity attributable to stockholders of The AES Corporation, noncontrolling interests and total equity as of June 30, 2012 and 2011:

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	The AES Corporation Stockholders Equity	Noncontrolling Interests	Total Equity	The AES Corporation Stockholders Equity	Noncontrolling Interests	Total Equity
		(in millions)			(in millions)	
Balance at January 1	$ 5,946	$ 3,783	$ 9,729	$ 6,473	$ 3,940	$ 10,413
Net income	481	241	722	398	512	910
Total change in fair value of available-for-sale securities, net of income tax	-	-	-	(2)	-	(2)
Total foreign currency translation adjustment, net of income tax	(134)	(110)	(244)	118	144	262
Total pension adjustments, net of income tax	4	9	13	2	5	7
Total change in fair value of derivatives, net of income tax	23	(9)	14	(13)	3	(10)
Capital contributions from noncontrolling interests	-	12	12	-	3	3
Distributions to noncontrolling interests	-	(507)	(507)	-	(679)	(679)
Disposition of businesses	-	(37)	(37)	-	(2)	(2)
Acquisition of treasury stock	(231)	-	(231)	(98)	-	(98)
Issuance and exercise of stock-based compensation benefit plans, net of income tax	34	-	34	33	-	33
Acquisition of subsidiary shares from noncontrolling interests	-	(4)	(4)	-	-	-
Balance at June 30	$ 6,123	$ 3,378	$ 9,501	$ 6,911	$ 3,926	$ 10,837

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss as of June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
	(in millions)	
Foreign currency translation adjustment	$ 2,101	$ 1,967
Unrealized derivative losses, net	511	534
Unfunded pension obligation	253	257
Accumulated other comprehensive loss	$ 2,865	$ 2,758

Stock Repurchase Program

On April 19, 2012, the Company s Board of Directors approved an increase to the stock repurchase program (the Program), which was announced on July 7, 2010, bringing the total amount authorized for purchases of AES common stock from $500 million to $680 million. The Board authorization permits the Company to repurchase stock through a variety of methods, including open market repurchases and/or privately negotiated transactions. There can be no assurances as to the amount, timing or prices of repurchases, which may vary based on market conditions and other factors. The Program does not have an expiration date and it can be modified or terminated by the Board of Directors at any time. During the three and six months ended June 30, 2012, shares of common stock repurchased under this plan totaled 18,744,363 at a total cost of $231 million, which includes a nominal amount of commissions (average of $12.31 per share including commissions), bringing the cumulative total purchases under the program to 52,669,168 shares at a total cost of $608 million plus a nominal amount of commissions (average of $11.57 per share including commissions).

The shares of stock repurchased have been classified as treasury stock and accounted for using the cost method. A total of 60,391,403 and 42,386,961 shares were held as treasury stock at June 30, 2012 and December 31, 2011, respectively. The Company has not retired any shares held in treasury during the three and six months ended June 30, 2012.

12. SEGMENTS

During the first quarter of 2012, the Company completed its operational management and reporting restructuring. The management reporting structure is organized along two lines of business Generation and Utilities, each led by a Chief Operating Officer. The segment reporting structure primarily uses the Company s management reporting structure as its foundation to reflect how the Company manages the business internally with further aggregation by geographic regions to provide better socio-political-economic understanding of our business. For the three and six months ended June 30, 2012, the Company applied the segment reporting accounting guidance, which provides certain quantitative thresholds and aggregation criteria. The Company concluded that Tietê, our 2,663 MW hydro generation business in Brazil, met the quantitative thresholds to require separate presentation. As such, an additional reportable segment which consists solely of the results of Tietê is now reported as Generation Tietê. Tietê was formerly reported within the Latin America Generation segment. The previously disclosed Latin America Generation segment is now reported as Generation Latin America Other and, with the exception of Tietê, includes the results of all remaining businesses as previously reported. All prior period results have been retrospectively revised to reflect the new segment reporting structure. The Company has increased from six to the following seven reportable segments:

Generation Latin America Other;

Generation Tietê;

Generation North America;

Generation Europe;

Generation Asia;

Utilities Latin America;

Utilities North America.

Corporate and Other The Company s Europe Utilities, Africa Utilities, Africa Generation, Wind Generation operating segments and other climate solutions and renewables projects are reported within Corporate and Other because they do not meet the criteria to allow for aggregation with another operating segment or the quantitative thresholds that would require separate disclosure under segment reporting accounting guidance. None of these operating segments are currently material to our presentation of reportable segments, individually or in the aggregate. AES Solar and certain other unconsolidated businesses are accounted for using the equity method of accounting; therefore, their operating results are included in Net Equity in Earnings of Affiliates on the face of the Condensed Consolidated Statements of Operations, not in revenue or gross margin. Corporate and Other also includes corporate overhead costs which are not directly associated with the operations of our seven reportable segments and other intercompany charges such as self-insurance premiums which are fully eliminated in consolidation.

The Company uses adjusted gross margin, a non-GAAP measure, to evaluate the performance of its segments. Adjusted gross margin is defined by the Company as gross margin plus depreciation and amortization less general and administrative expenses.

Total revenue includes inter-segment sales related to the transfer of electricity from generation plants to utilities within Latin America. No material inter-segment revenue relationships exist between other segments. Corporate allocations include certain self-insurance activities which are reflected within segment adjusted gross margin. All intra-segment activity has been eliminated with respect to revenue and adjusted gross margin within the segment. Inter-segment activity has been eliminated within the total consolidated results. Asset information for businesses that were discontinued or classified as held for sale as of June 30, 2012 is segregated and is shown in the line Discontinued Businesses in the accompanying segment tables.

Information about the Company s operations by segment for the three and six months ended June 30, 2012 and 2011 was as follows:

Three months ended	**Total Revenue**		**Intersegment**		**External Revenue**	
June 30,	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
			(in millions)			
Generation Latin America Other	$ 1,029	$ 1,122	$ (9)	$ (11)	$ 1,020	$ 1,111
Generation Tietê	274	256	(248)	(251)	26	5
Generation North America	328	339	-	(4)	328	335
Generation Europe	233	328	(1)	-	232	328
Generation Asia	181	162	-	-	181	162
Utilities Latin America	1,446	1,944	-	-	1,446	1,944
Utilities North America	678	280	-	-	678	280
Corp and Other	284	273	(3)	(3)	281	270
Total Revenue	$ 4,453	$ 4,704	$ (261)	$ (269)	$ 4,192	$ 4,435

Six Months Ended	**Total Revenue**		**Intersegment**		**External Revenue**	
June 30,	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
			(in millions)			
Generation Latin America Other	$ 1,988	$ 2,000	$ (19)	$ (20)	$ 1,969	$ 1,980
Generation Tietê	579	509	(530)	(493)	49	16
Generation North America	645	673	-	(4)	645	669
Generation Europe	683	728	(1)	(1)	682	727
Generation Asia	362	277	-	-	362	277
Utilities Latin America	3,180	3,784	-	-	3,180	3,784
Utilities North America	1,410	569	-	-	1,410	569
Corp and Other	640	574	(5)	(5)	635	569
Total Revenue	$ 9,487	$ 9,114	$ (555)	$ (523)	$ 8,932	$ 8,591

Three months ended	Total Adjusted Gross Margin		Intersegment		External Adjusted Gross Margin	
June 30,	2012	2011	2012	2011	2012	2011
			(in millions)			
Generation Latin America Other	$ 232	$ 326	$ 6	$ 3	$ 238	$ 329
Generation Tietê	210	191	(248)	(251)	(38)	(60)
Generation North America	116	110	4	(1)	120	109
Generation Europe	84	93	-	1	84	94
Generation Asia	64	53	1	-	65	53
Utilities Latin America	44	340	250	253	294	593
Utilities North America	193	89	1	1	194	90
Corp and Other	14	(9)	(12)	(9)	2	(18)
Reconciliation to Income from Continuing Operations before Taxes						
Depreciation and amortization					(341)	(295)
Interest expense					(385)	(381)
Interest income					83	96
Other expense					(15)	(35)
Other income					15	34
Gain on sale of investments					5	1
Asset impairment expense					(18)	(33)
Foreign currency transaction gains (losses)					(101)	37
Other non-operating expense					(1)	-
Income from continuing operations before taxes and equity in earnings of affiliates					$ 201	$ 614

Six months ended	Total Adjusted Gross Margin		Intersegment		External Adjusted Gross Margin	
June 30,	2012	2011	2012	2011	2012	2011
			(in millions)			
Generation Latin America Other	$ 519	$ 594	$ 10	$ 6	$ 529	$ 600
Generation Tietê	449	393	(530)	(493)	(81)	(100)
Generation North America	222	216	6	3	228	219
Generation Europe	321	199	(7)	2	314	201
Generation Asia	122	98	1	1	123	99
Utilities Latin America	211	660	535	498	746	1,158
Utilities North America	406	179	1	1	407	180
Corp and Other	61	34	(26)	(22)	35	12
Reconciliation to Income from Continuing Operations before Taxes						
Depreciation and amortization					(692)	(576)
Interest expense					(801)	(719)
Interest income					174	191
Other expense					(44)	(50)
Other income					33	50
Gain on sale of investments					184	7
Asset impairment expense					(29)	(33)
Foreign currency transaction gains (losses)					(102)	70
Other non-operating expense					(50)	-
Income from continuing operations before taxes and equity in earnings of affiliates					$974	$1,309

Assets by segment as of June 30, 2012 and December 31, 2011 were as follows:

	Total Assets	
	June 30, 2012	December 31, 2011
	(in millions)	
Assets		
Generation Latin America Other	$ 9,120	$ 9,067
Generation Tietê	1,422	1,645
Generation North America	3,568	3,625
Generation Europe	3,340	3,276
Generation Asia	2,099	1,717
Utilities Latin America	8,491	9,468
Utilities North America	9,245	9,344
Discontinued businesses	-	1,531
Corp and Other	5,464	5,620
Total assets	$ 42,749	$ 45,293

13. OTHER INCOME (EXPENSE)

The components of other income for the three and six months ended June 30, 2012 and 2011 were as follows:

	Three MonthsEnded June 30,		Six MonthsEnded June 30,	
	2012	2011	2012	2011
		(in millions)		
Gain on sale of assets	$ 1	$ 14	$ 3	$ 16
Other	14	20	30	