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, 2020

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)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**AES**	**New York Stock Exchange**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐ Non-accelerated filer ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of Registrant’s Common Stock, par value $0.01 per share, on July 30, 2020 was 665,131,148.

The AES Corporation

Form 10-Q for the Quarterly Period ended June 30, 2020

Table of Contents

Glossary of Terms		**1**
PART I: FINANCIAL INFORMATION		**2**
ITEM 1.	***FINANCIAL STATEMENTS (UNAUDITED)***	**2**
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Comprehensive Income (Loss)	4
	Condensed Consolidated Statements of Changes in Equity	5
	Condensed Consolidated Statements of Cash Flows	7
	Notes to Condensed Consolidated Financial Statements	8
	Note 1 - Financial Statement Presentation	8
	Note 2 - Inventory	10
	Note 3 - Asset Retirement Obligations	10
	Note 4 - Fair Value	11
	Note 5 - Derivative Instruments and Hedging Activities	14
	Note 6 - Financing Receivables	15
	Note 7 - Investments in and Advances to Affiliates	16
	Note 8 - Debt	16
	Note 9 - Commitments and Contingencies	17
	Note 10 - Leases	19
	Note 11 - Redeemable Stock of Subsidiaries	19
	Note 12 - Equity	20
	Note 13 - Segments	20
	Note 14 - Revenue	22
	Note 15 - Other Income and Expense	23
	Note 16 - Asset Impairment Expense	23
	Note 17 - Income Taxes	23
	Note 18 - Held-for-Sale and Dispositions	24
	Note 19 - Acquisitions	25
	Note 20 - Earnings Per Share	25
	Note 21 - Risks and Uncertainties	26
	Note 22 - Subsequent Events	26
ITEM 2.	***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***	**27**
	Executive Summary	27
	Review of Consolidated Results of Operations	31
	SBU Performance Analysis	38
	Key Trends and Uncertainties	44
	Capital Resources and Liquidity	50
	Critical Accounting Policies and Estimates	56
ITEM 3.	***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***	**57**
ITEM 4.	***CONTROLS AND PROCEDURES***	**59**
PART II: OTHER INFORMATION		**60**
ITEM 1.	***LEGAL PROCEEDINGS***	**60**
ITEM 1A.	***RISK FACTORS***	**63**
ITEM 2.	***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***	**65**
ITEM 3.	***DEFAULTS UPON SENIOR SECURITIES***	**65**
ITEM 4.	***MINE SAFETY DISCLOSURES***	**65**
ITEM 5.	***OTHER INFORMATION***	**65**
ITEM 6.	***EXHIBITS***	**65**
SIGNATURES		**66**

Glossary of Terms

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

Adjusted EPS	Adjusted Earnings Per Share, a non-GAAP measure
Adjusted PTC	Adjusted Pre-tax Contribution, a non-GAAP measure of operating performance
AOCL	Accumulated Other Comprehensive Loss
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CAA	United States Clean Air Act
CAMMESA	Wholesale Electric Market Administrator in Argentina
CCR	Coal Combustion Residuals, which includes bottom ash, fly ash and air pollution control wastes generated at coal-fired generation plant sites
CECL	Current Expected Credit Loss
CO_2	Carbon Dioxide
DP&L	The Dayton Power & Light Company
DPL	DPL Inc.
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement and Construction
ESP	Electric Security Plan
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
FONINVEMEM	Fund for the Investment Needed to Increase the Supply of Electricity in the Wholesale Market in Argentina
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
GILTI	Global Intangible Low Taxed Income
GW	Gigawatts
HLBV	Hypothetical Liquidation Book Value
HPP	Hydropower Plant
IDEM	Indiana Department of Environmental Management
IPALCO	IPALCO Enterprises, Inc.
IPL	Indianapolis Power & Light Company
IURC	Indiana Utility Regulatory Commission
LIBOR	London Interbank Offered Rate
LNG	Liquid Natural Gas
MMBtu	Million British Thermal Units
MRO	Market Rate Option, a market-based plan that a utility may file with PUCO to establish SSO rates pursuant to Ohio law
MW	Megawatts
MWh	Megawatt Hours
NCI	Noncontrolling Interest
NM	Not Meaningful
NOV	Notice of Violation
NO_X	Nitrogen Oxide
OPGC	Odisha Power Generation Corporation, Ltd.
PPA	Power Purchase Agreement
PREPA	Puerto Rico Electric Power Authority
PUCO	The Public Utilities Commission of Ohio
RSU	Restricted Stock Unit
SBU	Strategic Business Unit
SEC	United States Securities and Exchange Commission
SEET	Significantly Excessive Earnings Test
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
SSO	Standard Service Offer
TCJA	Tax Cuts and Jobs Act
TDSIC	Transmission, Distribution, and Storage System Improvement Charge
U.S.	United States
USD	United States Dollar
VAT	Value-Added Tax
VIE	Variable Interest Entity

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2020	December 31, 2019
	(in millions, except share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,417	$ 1,029
Restricted cash	364	336
Short-term investments	422	400
Accounts receivable, net of allowance for doubtful accounts of $18 and $20, respectively	1,414	1,479
Inventory	504	487
Prepaid expenses	92	80
Other current assets, net of allowance of $2 and $0, respectively	880	802
Current held-for-sale assets	873	618
Total current assets	5,966	5,231
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	411	447
Electric generation, distribution assets and other	26,925	25,383
Accumulated depreciation	(8,623)	(8,505)
Construction in progress	4,123	5,249
Property, plant and equipment, net	22,836	22,574
Other Assets:		
Investments in and advances to affiliates	802	966
Debt service reserves and other deposits	326	207
Goodwill	1,059	1,059
Other intangible assets, net of accumulated amortization of $323 and $307, respectively	566	469
Deferred income taxes	204	156
Loan receivable, net of allowance of $31 and $0, respectively	1,280	1,351
Other noncurrent assets, net of allowance of $27 and $0, respectively	1,527	1,635
Total other assets	5,764	5,843
TOTAL ASSETS	$ 34,566	$ 33,648
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,207	$ 1,311
Accrued interest	183	201
Accrued non-income taxes	244	253
Accrued and other liabilities	1,247	1,021
Non-recourse debt, including $340 and $337, respectively, related to variable interest entities	2,041	1,868
Current held-for-sale liabilities	526	442
Total current liabilities	5,448	5,096
NONCURRENT LIABILITIES		
Recourse debt	3,693	3,391
Non-recourse debt, including $4,375 and $3,872, respectively, related to variable interest entities	15,639	14,914
Deferred income taxes	1,166	1,213
Other noncurrent liabilities	3,103	2,917
Total noncurrent liabilities	23,601	22,435
Commitments and Contingencies (see Note 9)		
Redeemable stock of subsidiaries	875	888
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 817,964,353 issued and 664,935,827 outstanding at June 30, 2020 and 817,843,916 issued and 663,952,656 outstanding at December 31, 2019)	8	8
Additional paid-in capital	7,670	7,776
Accumulated deficit	(665)	(692)
Accumulated other comprehensive loss	(2,693)	(2,229)
Treasury stock, at cost (153,028,526 and 153,891,260 shares at June 30, 2020 and December 31, 2019, respectively)	(1,858)	(1,867)
Total AES Corporation stockholders' equity	2,462	2,996
NONCONTROLLING INTERESTS	2,180	2,233
Total equity	4,642	5,229
TOTAL LIABILITIES AND EQUITY	$ 34,566	$ 33,648

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions, except share and per share amounts)			
Revenue:				
Regulated	$ 624	$ 724	$ 1,336	$ 1,509
Non-Regulated	1,593	1,759	3,219	3,624
Total revenue	2,217	2,483	4,555	5,133
Cost of Sales:				
Regulated	(535)	(605)	(1,127)	(1,240)
Non-Regulated	(1,158)	(1,376)	(2,397)	(2,805)
Total cost of sales	(1,693)	(1,981)	(3,524)	(4,045)
Operating margin	524	502	1,031	1,088
General and administrative expenses	(40)	(49)	(78)	(95)
Interest expense	(218)	(273)	(451)	(538)
Interest income	64	82	134	161
Loss on extinguishment of debt	(40)	(51)	(41)	(61)
Other expense	(3)	(14)	(7)	(26)
Other income	9	18	54	48
Loss on disposal and sale of business interests	(27)	(3)	(27)	(7)
Asset impairment expense	—	(116)	(6)	(116)
Foreign currency transaction gains (losses)	(6)	22	18	18
Other non-operating expense	(158)	—	(202)	—
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	105	118	425	472
Income tax expense	(113)	(57)	(202)	(172)
Net equity in earnings (losses) of affiliates	8	5	6	(1)
INCOME FROM CONTINUING OPERATIONS	—	66	229	299
Gain from disposal of discontinued businesses	3	1	3	1
NET INCOME	3	67	232	300
Less: Net income attributable to noncontrolling interests and redeemable stock of subsidiaries	(86)	(50)	(171)	(129)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (83)	$ 17	$ 61	$ 171
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income (loss) from continuing operations, net of tax	$ (86)	$ 16	$ 58	$ 170
Income from discontinued operations, net of tax	3	1	3	1
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (83)	$ 17	$ 61	$ 171
BASIC EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ (0.13)	$ 0.02	$ 0.09	$ 0.26
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.01	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ (0.12)	$ 0.02	$ 0.09	$ 0.26
DILUTED EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ (0.13)	$ 0.02	$ 0.09	$ 0.26
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	0.01	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ (0.12)	$ 0.02	$ 0.09	$ 0.26
DILUTED SHARES OUTSTANDING	665	667	668	667

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in millions)			
NET INCOME	$ 3	$ 67	$ 232	$ 300
Foreign currency translation activity:				
Foreign currency translation adjustments, net of $0 income tax for all periods	17	9	(135)	8
Reclassification to earnings, net of $0 income tax for all periods	(2)	23	(2)	23
Total foreign currency translation adjustments	15	32	(137)	31
Derivative activity:				
Change in derivative fair value, net of income tax benefit of $33, $35, $166 and $53, respectively	(99)	(129)	(547)	(197)
Reclassification to earnings, net of income tax expense of $25, $1, $33 and $3, respectively	78	9	110	19
Total change in fair value of derivatives	(21)	(120)	(437)	(178)
Pension activity:				
Change in pension adjustments due to net actuarial gain (loss) for the period, net of $0 income tax for all periods	—	2	—	2
Reclassification to earnings, net of income tax expense of $1, $13, $1 and $13, respectively	—	26	—	27
Total pension adjustments	—	28	—	29
OTHER COMPREHENSIVE LOSS	(6)	(60)	(574)	(118)
COMPREHENSIVE INCOME (LOSS)	(3)	7	(342)	182
Less: Comprehensive income attributable to noncontrolling interests and redeemable stock of subsidiaries	(81)	(30)	(60)	(83)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (84)	$ (23)	$ (402)	$ 99

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Changes in Equity
(Unaudited)

	Six Months Ended June 30, 2020							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount	Shares	Amount				
	(in millions)							
Balance at January 1, 2020	817.8	$ 8	153.9	$(1,867)	$ 7,776	$ (692)	$ (2,229)	$ 2,233
Net income	—	—	—	—	—	144	—	82
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	(96)	(56)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	(366)	(25)
Total other comprehensive loss	—	—	—	—	—	—	(462)	(81)
Cumulative effect of a change in accounting principle [1]	—	—	—	—	—	(35)	—	(16)
Fair value adjustment [2]	—	—	—	—	(7)	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(33)
Dividends declared on common stock ($0.1433/share)	—	—	—	—	(95)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	0.1	—	(0.8)	9	(11)	—	—	—
Sales to noncontrolling interests	—	—	—	—	(1)	—	—	1
Acquisition from noncontrolling interests	—	—	—	—	2	—	(1)	(8)
Balance at March 31, 2020	817.9	$ 8	153.1	$(1,858)	$ 7,664	$ (583)	$ (2,692)	$ 2,178
Net income (loss)	—	—	—	—	—	(83)	—	83
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	17	(2)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	(18)	(2)
Total other comprehensive income (loss)	—	—	—	—	—	—	(1)	(4)
Cumulative effect of a change in accounting principle	—	—	—	—	—	1	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(89)
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	(0.1)	—	5	—	—	—
Sales to noncontrolling interests	—	—	—	—	(2)	—	—	14
Acquisition of subsidiary shares from noncontrolling interests	—	—	—	—	3	—	—	(2)
Balance at June 30, 2020	817.9	$ 8	153.0	$(1,858)	$ 7,670	$ (665)	$ (2,693)	$ 2,180

[1] Includes $39 million adjustment due to ASC 326 adoption, partially offset by $4 million adjustment due to ASC 842 adoption at sPower. See Note 1—*Financial Statement Presentation—New Accounting Pronouncements Adopted in 2020* for further information.

[2] Adjustment to record the redeemable stock of Colon at fair value.

	Six Months Ended June 30, 2019							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount	Shares	Amount				
	(in millions)							
Balance at January 1, 2019	817.2	$ 8	154.9	$(1,878)	$ 8,154	$ (1,005)	$ (2,071)	$ 2,396
Net income	—	—	—	—	—	154	—	81
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	4	(5)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	(37)	(18)
Total pension adjustments, net of income tax	—	—	—	—	—	—	1	—
Total other comprehensive loss	—	—	—	—	—	—	(32)	(23)
Cumulative effect of a change in accounting principle [1]	—	—	—	—	—	12	(4)	—
Fair value adjustment [2]	—	—	—	—	(6)	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(40)
Dividends declared on common stock ($0.1365/share)	—	—	—	—	(91)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	0.4	—	(1)	11	(17)	—	—	—
Sales to noncontrolling interests	—	—	—	—	(1)	—	—	1
Balance at March 31, 2019	817.6	$ 8	153.9	$(1,867)	$ 8,039	$ (839)	$ (2,107)	$ 2,415
Net income	—	—	—	—	—	17	—	52
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	27	5
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	(95)	(22)
Total pension adjustments, net of income tax	—	—	—	—	—	—	28	—
Total other comprehensive income (loss)	—	—	—	—	—	—	(40)	(17)
Cumulative effect of a change in accounting principle [1]	—	—	—	—	—	(2)	—	—
Fair value adjustment [2]	—	—	—	—	(11)	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(198)
Issuance and exercise of stock-based compensation benefit plans, net of income tax	0.1	—	—	—	10	—	—	—
Sales to noncontrolling interests	—	—	—	—	—	—	—	8
Balance at June 30, 2019	817.7	$ 8	153.9	$(1,867)	$ 8,038	$ (824)	$ (2,147)	$ 2,260

(1) See Note 1—*Financial Statement Presentation—New Accounting Pronouncements* in Item 8.—*Financial Statements and Supplementary Data* of our 2019 Form 10-K for further information.

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

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$ 232	$ 300
Adjustments to net income:		
Depreciation and amortization	539	512
Loss on disposal and sale of business interests	27	7
Impairment expense	208	116
Deferred income taxes	54	15
Loss on extinguishment of debt	41	61
Loss (gain) on sale and disposal of assets	(40)	16
Other	25	143
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(30)	10
(Increase) decrease in inventory	(46)	25
(Increase) decrease in prepaid expenses and other current assets	33	26
(Increase) decrease in other assets	(75)	11
Increase (decrease) in accounts payable and other current liabilities	(81)	(29)
Increase (decrease) in income tax payables, net and other tax payables	(67)	(175)
Increase (decrease) in other liabilities	—	(24)
Net cash provided by operating activities	820	1,014
INVESTING ACTIVITIES:		
Capital expenditures	(962)	(1,070)
Acquisitions of business interests, net of cash and restricted cash acquired	(84)	—
Proceeds from the sale of business interests, net of cash and restricted cash sold	44	229
Proceeds from the sale of assets	17	17
Sale of short-term investments	341	330
Purchase of short-term investments	(463)	(424)
Contributions and loans to equity affiliates	(178)	(173)
Other investing	(76)	(22)
Net cash used in investing activities	(1,361)	(1,113)
FINANCING ACTIVITIES:		
Borrowings under the revolving credit facilities	1,318	897
Repayments under the revolving credit facilities	(958)	(598)
Issuance of recourse debt	1,597	—
Repayments of recourse debt	(1,596)	(3)
Issuance of non-recourse debt	1,913	2,581
Repayments of non-recourse debt	(763)	(2,281)
Payments for financing fees	(46)	(37)
Distributions to noncontrolling interests	(99)	(146)
Contributions from noncontrolling interests and redeemable security holders	—	16
Dividends paid on AES common stock	(190)	(181)
Payments for financed capital expenditures	(39)	(110)
Other financing	21	(30)
Net cash provided by financing activities	1,158	108
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(37)	(2)
Increase in cash, cash equivalents and restricted cash of held-for-sale businesses	(45)	(57)
Total increase (decrease) in cash, cash equivalents and restricted cash	535	(50)
Cash, cash equivalents and restricted cash, beginning	1,572	2,003
Cash, cash equivalents and restricted cash, ending	$ 2,107	$ 1,953
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 458	$ 478
Cash payments for income taxes, net of refunds	176	236
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Partial reinvestment of consideration from the sPower transaction (see Note 7)	—	58

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2020 and 2019

(Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

Consolidation — In this Quarterly Report, the terms "AES," "the Company," "us" or "we" refer to the consolidated entity, including its subsidiaries and affiliates. The terms "The AES Corporation" or "the Parent Company" refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, VIEs in which the Company has a variable interest have been consolidated where the Company is the primary beneficiary. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

Interim Financial Presentation — The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with GAAP, as contained in the FASB ASC, for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income, changes in equity, and cash flows. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of expected results for the year ending December 31, 2020. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2019 audited consolidated financial statements and notes thereto, which are included in the 2019 Form 10-K filed with the SEC on February 27, 2020 (the "2019 Form 10-K").

Cash, Cash Equivalents, and Restricted Cash — The following table provides a summary of cash, cash equivalents, and restricted cash amounts reported on the Condensed Consolidated Balance Sheet that reconcile to the total of such amounts as shown on the Condensed Consolidated Statements of Cash Flows (in millions):

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 1,417	$ 1,029
Restricted cash	364	336
Debt service reserves and other deposits	326	207
Cash, Cash Equivalents, and Restricted Cash	$ 2,107	$ 1,572

New Accounting Pronouncements Adopted in 2020 — The following table provides a brief description of recent accounting pronouncements that had an impact on the Company's consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Adopted			
ASU Number and Name	**Description**	**Date of Adoption**	**Effect on the financial statements upon adoption**
2016-02, 2018-01, 2018-10, 2018-11, 2018-20, 2019-01, Leases (Topic 842)	ASC 842 was adopted by sPower on January 1, 2020. sPower was not required to adopt ASC 842 using the public adoption date, as sPower is an equity method investee that meets the definition of a public business entity only by virtue of the inclusion of its summarized financial information in the Company's SEC filings.	January 1, 2020	The adoption of this standard resulted in a $4 million decrease to accumulated deficit attributable to the AES Corporation stockholders' equity.
2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, 2020-03, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	See discussion of the ASU below.	January 1, 2020	See impact upon adoption of the standard below.

ASC 326 — Financial Instruments — Credit Losses

On January 1, 2020, the Company adopted ASC 326 *Financial Instruments — Credit Losses* and its subsequent corresponding updates ("ASC 326"). The new standard updates the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities are required to use a new

forward-looking "expected loss" model that generally results in the earlier recognition of an allowance for credit losses. For available-for-sale debt securities with unrealized losses, entities measure credit losses as it was done under previous GAAP, except that unrealized losses due to credit-related factors are now recognized as an allowance on the balance sheet with a corresponding adjustment to earnings in the income statement.

The Company applied the modified retrospective method of adoption for ASC 326. Under this transition method, the Company applied the transition provisions starting at the date of adoption. The cumulative effect of the adoption of ASC 326 on our January 1, 2020 Condensed Consolidated Balance Sheet was as follows (in millions):

Condensed Consolidated Balance Sheet	Balance at December 31, 2019	Adjustments Due to ASC 326	Balance at January 1, 2020
Assets			
Accounts receivable, net of allowance for doubtful accounts of $20	$ 1,479	$ —	$ 1,479
Other current assets [1]	802	(2)	800
Deferred income taxes	156	9	165
Loan receivable, net of allowance of $32	1,351	(32)	1,319
Other noncurrent assets [2]	1,635	(30)	1,605
Liabilities and Equity			
Accumulated deficit	$ (692)	$ (39)	$ (731)
Noncontrolling interests	2,233	(16)	2,217

[1] Other current assets include the short-term portion of the Mong Duong loan receivable.
[2] Other noncurrent assets include Argentina financing receivables.

Mong Duong — The Mong Duong II power plant in Vietnam is the primary driver of changes in credit reserves under the new standard. This plant is operated under a build, operate, and transfer (“BOT”) contract and will be transferred to the Vietnamese government after the completion of a 25-year PPA. A loan receivable was recognized in 2018 upon the adoption of ASC 606 in order to account for the future expected payments for the construction performance obligation portion of the BOT contract. As the payments for the construction performance obligation occur over a 25-year term, a significant financing element was determined to exist which is accounted for under the effective interest rate method. Historically, the Company has not incurred any losses on this arrangement, of which no directly comparable assets exist in the market. In order to determine expected credit losses under ASC 326 arising from this $1.4 billion loan receivable as of January 1, 2020, the Company considered average historical default and recovery rates on similarly rated sovereign bonds, which formed an initial basis for developing a probability of default, net of expected recoveries, to be applied as a key credit quality indicator for this arrangement. A resulting estimated loss rate of 2.4% was applied to the weighted-average remaining life of the loan receivable, after adjustments for certain asset-specific characteristics, including the Company’s status as a large foreign direct investor in Vietnam, Mong Duong’s status as critical energy infrastructure in Vietnam, and cash flows from the operations of the plant, which are under the Company’s control until the end of the BOT contract. As a result of this analysis, the Company recognized an opening CECL reserve of $34 million as an adjustment to *Accumulated deficit* and *Noncontrolling interests* as of January 1, 2020.

Argentina — Exposure to CAMMESA, the administrator of the wholesale energy market in Argentina, is the driver of credit reserves in Argentina. As discussed in Note 7 of the Company’s 2019 Form 10-K, the Company has credit exposures through the FONINVEMEM Agreements, other agreements related to resolutions passed by the Argentine government in which AES Argentina will receive compensation for investments in new generation plants and technologies, as well as regular accounts receivable balances. The timing of collections depends on corresponding agreements and collectability of these receivables are assessed on an ongoing basis.

Collection of the principal and interest on these receivables is subject to various business risks and uncertainties, including, but not limited to, the continued operation of power plants which generate cash for payments of these receivables, regulatory changes that could impact the timing and amount of collections, and economic conditions in Argentina. The Company monitors these risks, including the credit ratings of the Argentine government, on a quarterly basis to assess the collectability of these receivables. Historically, the Company has not incurred any credit-related losses on these receivables. In order to determine expected credit losses under ASC 326, the Company considered historical default probabilities utilizing similarly rated sovereign bonds and historic recovery rates for Argentine government bond defaults. This information formed an initial basis for developing a probability of default, net of expected recoveries, to be applied as a key credit quality indicator across the underlying financing receivables. A resulting estimated weighted average loss rate of 41.2% was applied to the remaining balance of these receivables, after adjustments for certain asset-specific characteristics, including AES Argentina’s role in providing critical energy infrastructure to Argentina, our history of collections on these receivables, and the average term that the receivables are expected to be outstanding. As a result of this analysis, the Company recognized an opening CECL reserve of $29 million as an adjustment to *Accumulated deficit* as of January 1, 2020.

Other financial assets — Application of ASC 326 to the Company's $1.5 billion of trade accounts receivable and $326 million of available-for-sale debt securities at January 1, 2020 did not result in any material adjustments, primarily due to the short-term duration and high turnover of these financial assets. Additionally, a large portion of our trade accounts receivables and amounts reserved for doubtful accounts under legacy GAAP arise from arrangements accounted for as an operating lease under ASC 842, which are excluded from the scope of ASC 326.

As discussed in Note 7 of the Company's 2019 Form 10-K, AES Gener recorded $33 million of noncurrent receivables pertaining to revenues recognized on regulated energy contracts that were impacted by the Stabilization Fund created by the Chilean government in October 2019. It is expected that these noncurrent receivables will be collected prior to December 31, 2027. However, given the investment grade rating of Chile and the history of zero credit losses for regulated customers, management determined that no incremental CECL reserves were required to be recognized as of January 1, 2020.

The following table represents the rollforward of the allowance for credit losses from January 1, 2020 to June 30, 2020 (in millions):

Rollforward of CECL Reserves by Portfolio Segment	Reserve at January 1, 2020	Current Period Provision	Write-offs charged against allowance	Recoveries Collected	Foreign Exchange	Reserve at June 30, 2020
Accounts Receivable [1]	$ 4	$ 10	$ (7)	$ 5	$ —	$ 12
Mong Duong Loan Receivable	34	—	—	(1)	—	33
Argentina Receivables	29	2	—	(1)	(4)	26
Other	1	—	—	—	—	1
Total CECL Reserves	$ 68	$ 12	$ (7)	$ 3	$ (4)	$ 72

[1] Excludes operating lease receivable allowances and contractual dispute allowances of $16 million and $6 million as of January 1, 2020 and June 30, 2020, respectively. Those reserves are not in scope under ASC 326.

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

New Accounting Standards Issued But Not Yet Effective			
ASU Number and Name	**Description**	**Date of Adoption**	**Effect on the financial statements upon adoption**
2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	The standard provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference to LIBOR or another reference rate expected to be discontinued by reference rate reform. This standard is effective for a limited period of time (March 12, 2020 - December 21, 2022).	Effective for all entities as of March 12, 2020 through December 31, 2022.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2019-12, Income Taxes (Topic 740): Simplifying the Accounting For Income Taxes	The standard removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. It also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. Transition Method: various	January 1, 2021. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.

2. INVENTORY

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

	June 30, 2020	December 31, 2019
Fuel and other raw materials	$ 254	$ 230
Spare parts and supplies	250	257
Total	$ 504	$ 487

3. ASSET RETIREMENT OBLIGATIONS

The Company uses the cost approach to determine the initial value of ARO liabilities, which is estimated by discounting expected cash outflows to their present value using market-based rates at the initial recording of the liabilities. Cash outflows are based on the approximate future disposal costs as determined by market information,

historical information or other management estimates. Subsequent downward revisions of ARO liabilities are discounted using the market-based rates that existed when the liability was initially recognized.

During the six months ended June 30, 2019, the Company decreased the asset retirement obligation at DPL by $23 million, resulting in a reduction to *Cost of Sales* on the Condensed Consolidated Statement of Operations as the related plants were no longer in service. This decrease was due to reductions in estimated closure costs associated with ash ponds and landfills.

4. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximate their reported carrying amounts. The estimated fair values of the Company's assets and liabilities have been determined using available market information. Because these amounts are estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. For further information on our valuation techniques and policies, see Note 5—*Fair Value* in Item 8.—*Financial Statements and Supplementary Data* of our 2019 Form 10-K.

Recurring Measurements

The following table presents, by level within the fair value hierarchy, the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of the dates indicated (in millions). For the Company's investments in marketable debt securities, the security classes presented were determined based on the nature and risk of the security and are consistent with how the Company manages, monitors and measures its marketable securities:

	June 30, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
DEBT SECURITIES:								
Available-for-sale:								
Certificates of deposit	$ —	$ 360	$ —	$ 360	$ —	$ 326	$ —	$ 326
EQUITY SECURITIES:								
Mutual funds	23	48	—	71	22	61	—	83
DERIVATIVES:								
Interest rate derivatives	—	—	—	—	—	31	—	31
Foreign currency derivatives	—	20	76	96	—	17	93	110
Commodity derivatives	—	81	3	84	—	28	2	30
Total derivatives — assets	—	101	79	180	—	76	95	171
TOTAL ASSETS	$ 23	$ 509	$ 79	$ 611	$ 22	$ 463	$ 95	$ 580
Liabilities								
DERIVATIVES:								
Interest rate derivatives	$ —	$ 507	$ 286	$ 793	$ —	$ 144	$ 184	$ 328
Cross-currency derivatives	—	22	23	45	—	10	11	21
Foreign currency derivatives	—	46	—	46	—	44	—	44
Commodity derivatives	—	63	2	65	—	29	2	31
Total derivatives — liabilities	—	638	311	949	—	227	197	424
TOTAL LIABILITIES	$ —	$ 638	$ 311	$ 949	$ —	$ 227	$ 197	$ 424

As of June 30, 2020, all available-for-sale debt securities had stated maturities within one year. There were no other-than-temporary impairments of marketable securities during the three and six months ended June 30, 2019, and as of January 1, 2020, credit-related impairments are recognized in earnings under ASC 326. See Note 1—*Financial Statement Presentation* for further information. Gains and losses on the sale of investments are determined using the specific-identification method. The following table presents gross proceeds from the sale of available-for-sale securities during the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross proceeds from sale of available-for-sale securities	$ 55	$ 176	$ 313	$ 324

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, 2020 and 2019 (presented net by type of derivative in millions). Transfers between Level 3 and Level 2 principally result from changes in the significance of unobservable inputs used to calculate the credit valuation adjustment.

Three Months Ended June 30, 2020	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at April 1	$ (269)	$ (29)	$ 99	$ —	$ (199)
Total realized and unrealized gains (losses):					
Included in earnings	—	—	(7)	—	(7)
Included in other comprehensive income — derivative activity	(21)	5	(7)	—	(23)
Included in regulatory (assets) liabilities	—	—	—	1	1
Settlements	10	1	(9)	—	2
Transfers of assets (liabilities), net into Level 3	(6)	—	—	—	(6)
Balance at June 30	$ (286)	$ (23)	$ 76	$ 1	$ (232)
Total 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	$ —	$ —	$ (16)	$ —	$ (16)

Three Months Ended June 30, 2019	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at April 1	$ (182)	$ —	$ 194	$ 2	$ 14
Total realized and unrealized gains (losses):					
Included in earnings	(1)	—	(1)	1	(1)
Included in other comprehensive income — derivative activity	(75)	—	—	—	(75)
Included in regulatory (assets) liabilities	—	—	—	1	1
Settlements	2	—	(1)	—	1
Transfers of assets (liabilities), net into Level 3	(1)	—	—	—	(1)
Transfers of assets out of Level 3	14	—	—	—	14
Balance at June 30	$ (243)	$ —	$ 192	$ 4	$ (47)
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)	$ 1	$ (1)

Six Months Ended June 30, 2020	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	$ (184)	$ (11)	$ 94	$ (1)	$ (102)
Total realized and unrealized gains (losses):					
Included in earnings	2	—	2	1	5
Included in other comprehensive income — derivative activity	(71)	(14)	1	—	(84)
Included in regulatory (assets) liabilities	—	—	—	2	2
Settlements	10	2	(21)	(1)	(10)
Transfers of assets (liabilities), net into Level 3	(43)	—	—	—	(43)
Balance at June 30	$ (286)	$ (23)	$ 76	$ 1	$ (232)
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	$ —	$ —	$ (13)	$ 1	$ (12)

Six Months Ended June 30, 2019	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	$ (140)	$ —	$ 199	$ 4	$ 63
Total realized and unrealized gains (losses):					
Included in earnings	(1)	—	(5)	1	(5)
Included in other comprehensive income — derivative activity	(88)	—	—	—	(88)
Included in regulatory (assets) liabilities	—	—	—	(1)	(1)
Settlements	4	—	(2)	—	2
Transfers of assets (liabilities), net into Level 3	(23)	—	—	—	(23)
Transfers of (assets) liabilities, net out of Level 3	5	—	—	—	5
Balance at June 30	$ (243)	$ —	$ 192	$ 4	$ (47)
Total 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	$ —	$ —	$ (6)	$ —	$ (6)

The following table summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of June 30, 2020 (in millions, except range amounts):

Type of Derivative	Fair Value	Unobservable Input	Amount or Range (Weighted Average)
Interest rate	$ (286)	Subsidiaries' credit spreads	1.8% - 5.7% (5.2%)
Cross-currency	(23)	Subsidiaries' credit spreads	3.2%
Foreign currency:			
Argentine peso	76	Argentine peso to U.S. dollar currency exchange rate after one year	111 - 805 (356)
Commodity:			
Other	1		
Total	$ (232)		

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

Nonrecurring Measurements

The Company measures fair value using the applicable fair value measurement guidance. Impairment expense, shown as pre-tax loss below, is measured by comparing the fair value at the evaluation date to the then-latest available carrying amount and is included in *Asset impairment expense* or *Other non-operating expense,* as applicable*,* on the Condensed Consolidated Statements of Operations. The following table summarizes our major categories of assets measured at fair value on a nonrecurring basis and their level within the fair value hierarchy (in millions):

Six Months Ended June 30, 2020	Measurement Date	Carrying Amount [1]	Fair Value			Pre-tax Loss
			Level 1	Level 2	Level 3	
Equity method investments:						
OPGC [2]	03/31/2020	$ 195	$ —	$ —	$ 152	$ 43
OPGC [3]	06/30/2020	272	—	104	—	158

Six Months Ended June 30, 2019	Measurement Date	Carrying Amount [1]	Fair Value			Pre-tax Loss
			Level 1	Level 2	Level 3	
Dispositions and held-for-sale businesses: [4]						
Kilroot and Ballylumford	04/12/2019	$ 232	$ —	$ 118	$ —	$ 115

[1] Represents the carrying values at the dates of measurement, before fair value adjustment.
[2] Excludes $115 million of cumulative translation adjustment (debit balance) in the carrying value.
[3] Includes $114 million of cumulative translation adjustment (debit balance) in the carrying value. Pre-tax loss is limited to the carrying value of the equity method investment excluding CTA.
[4] Per the Company's policy, pre-tax loss is limited to the impairment of long-lived assets. Any additional losses are recognized on completion of the sale. See Note 18—*Held-for-Sale and Dispositions* for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement of equity method investments on a nonrecurring basis during the six months ended June 30, 2020 (in millions, except range amounts):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity method investments:				
OPGC [1]	$ 152	Expected present value	Annual dividend growth	-25% to 40% (2%)
			Weighted-average cost of equity	12%

[1] Fair value measurement performed as of March 31, 2020, which included the Level 3 inputs shown above. The fair value measurement performed at June 30, 2020 included only Level 2 inputs; therefore, it is not included in this table.

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

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

		June 30, 2020				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent [1]	$ 153	$ 210	$ —	$ —	$ 210
Liabilities:	Non-recourse debt	17,680	19,060	—	16,203	2,857
	Recourse debt	3,693	2,186	—	2,186	—

		December 31, 2019				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent [1]	$ 98	$ 145	$ —	$ —	$ 145
Liabilities:	Non-recourse debt	16,712	16,579	—	15,804	775
	Recourse debt	3,396	3,529	—	3,529	—

[1] These amounts primarily relate to amounts due from CAMMESA, the administrator of the wholesale electricity market in Argentina, and amounts impacted by the Stabilization Fund enacted by the Chilean government, and are included in *Other noncurrent assets* in the accompanying Condensed Consolidated Balance Sheets. The fair value and carrying amount of these receivables exclude VAT of $10 million and $11 million as of June 30, 2020 and December 31, 2019, respectively.

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

For further information on the Company's derivative and hedge accounting policies, see Note 1—*General and Summary of Significant Accounting Policies—Derivative Instruments and Hedging Activities* of Item 8.—*Financial Statements and Supplementary Data* in the 2019 Form 10-K.

Volume of Activity — The following tables present the Company's maximum notional (in millions) over the remaining contractual period by type of derivative as of June 30, 2020, regardless of whether they are in qualifying cash flow hedging relationships, and the dates through which the maturities for each type of derivative range:

Interest Rate and Foreign Currency Derivatives	Maximum Notional Translated to USD	Latest Maturity
Interest rate (LIBOR and EURIBOR)	$ 5,852	2047
Cross-currency swaps (Chilean Unidad de Fomento and Chilean peso)	229	2029
Foreign Currency:		
Argentine peso	73	2026
Chilean peso	147	2022
Colombian peso	125	2022
Mexican peso	202	2020
Euro	91	2022
Others, primarily with weighted average remaining maturities of a year or less	26	2022

Commodity Derivatives	Maximum Notional	Latest Maturity
Natural Gas (in MMBtu)	60	2020
Power (in MWhs)	5	2024
Coal (in Tons or Metric Tons)	9	2027

Accounting and Reporting — *Assets and Liabilities* — The following tables present the fair value of assets and liabilities related to the Company's derivative instruments as of the periods indicated (in millions):

Fair Value	June 30, 2020			December 31, 2019		
Assets	Designated	Not Designated	Total	Designated	Not Designated	Total
Interest rate derivatives	$ —	$ —	$ —	$ 31	$ —	$ 31
Foreign currency derivatives	26	70	96	31	79	110
Commodity derivatives	—	84	84	—	30	30
Total assets	$ 26	$ 154	$ 180	$ 62	$ 109	$ 171
Liabilities						
Interest rate derivatives	$ 783	$ 10	$ 793	$ 323	$ 5	$ 328
Cross-currency derivatives	45	—	45	21	—	21
Foreign currency derivatives	22	24	46	22	22	44
Commodity derivatives	—	65	65	2	29	31
Total liabilities	$ 850	$ 99	$ 949	$ 368	$ 56	$ 424

Fair Value	June 30, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Current	$ 125	$ 478	$ 72	$ 126
Noncurrent	55	471	99	298
Total	$ 180	$ 949	$ 171	$ 424

Credit Risk-Related Contingent Features [1]	June 30, 2020
Present value of liabilities subject to collateralization	$ 32
Cash collateral held by third parties or in escrow	32

[1] Based on the credit rating of certain subsidiaries

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash flow hedges				
Gains (losses) recognized in AOCL				
Interest rate derivatives	$ (137)	$ (170)	$ (624)	$ (264)
Equity in earnings	—	—	(43)	—
Cross-currency derivatives	3	4	(36)	9
Foreign currency derivatives	(2)	3	(14)	6
Commodity derivatives	4	(1)	4	(1)
Total	$ (132)	$ (164)	$ (713)	$ (250)
Gains (losses) reclassified from AOCL into earnings				
Interest rate derivatives	$ (102)	$ (9)	$ (117)	$ (17)
Cross-currency derivatives	2	(1)	(15)	6
Foreign currency derivatives	(5)	—	(13)	(11)
Commodity derivatives	2	—	2	—
Total	$ (103)	$ (10)	$ (143)	$ (22)
Loss reclassified from AOCL to earnings due to discontinuance of hedge accounting [1]	$ —	$ 2	$ —	$ 2
Gains (losses) recognized in earnings related to				
Not designated as hedging instruments:				
Interest rate derivatives	$ —	$ (2)	$ —	$ (4)
Foreign currency derivatives	(18)	11	22	6
Commodity derivatives and other	—	2	6	4
Total	$ (18)	$ 11	$ 28	$ 6

[1] Cash flow hedge was discontinued on a cross-currency swap because the underlying debt was prepaid.

AOCL is expected to decrease pre-tax income from continuing operations for the twelve months ended June 30, 2021 by $121 million, primarily due to interest rate derivatives.

6. FINANCING RECEIVABLES

Receivables with contractual maturities of greater than one year are considered financing receivables. The following table presents financing receivables by country as of the dates indicated (in millions). As the Company applied the modified retrospective method of adoption for ASC 326 effective January 1, 2020, CECL reserves are included in the receivable balance as of June 30, 2020. See Note 1—*Financial Statement Presentation* for further information.

	June 30, 2020			December 31, 2019
	Gross Receivable	Allowance	Net Receivable	Receivable
Chile	$ 88	$ —	$ 88	$ 33
Argentina	56	12	44	64
U.S.	18	—	18	—
Other	13	—	13	12
Total	$ 175	$ 12	$ 163	$ 109

Chile — AES Gener has recorded noncurrent receivables pertaining to revenues recognized on regulated energy contracts that were impacted by the Stabilization Fund created by the Chilean government in October 2019. Historically, the government updated the prices for these contracts every six months to reflect the indexation the contracts have to exchange rates and commodities prices. The Stabilization Fund does not allow the pass-through of these contractual indexation updates to customers beyond the pricing in effect at July 1, 2019, until new lower-cost renewable contracts are incorporated into pricing in 2023. Consequently, costs incurred in excess of the July 1, 2019 price will be accumulated and borne by generators. It is expected that these noncurrent receivables will be collected prior to December 31, 2027. A portion of the Chile noncurrent receivables relates to the extension of existing PPAs with the addition of renewable energy, resulting in a discount for the remaining original contract period and additional quantities for an extended period.

Argentina — Collection of the principal and interest on these receivables is subject to various business risks and uncertainties, including, but not limited to, the operation of power plants which generate cash for payments of these receivables, regulatory changes that could impact the timing and amount of collections, and economic conditions in Argentina. The Company monitors these risks, including the credit ratings of the Argentine government, on a quarterly basis to assess the collectability of these receivables. The Company accrues interest on

these receivables once the recognition criteria have been met. The Company's collection estimates are based on assumptions that it believes to be reasonable, but are inherently uncertain. Actual future cash flows could differ from these estimates.

United States — In March 2020, the Company completed the sale and leaseback of land held by AES Redondo Beach, a gas-fired generating facility in California. A portion of the sale proceeds were deferred over a future period. It is expected that the noncurrent receivables will be collected by December 2021. See Note 18—*Held-for-Sale and Dispositions* for further information about the sale.

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES

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

	50%-or-less Owned Affiliates		Majority-Owned Unconsolidated Subsidiaries	
Six Months Ended June 30,	2020	2019	2020	2019
Revenue	$ 939	$ 481	$ 1	$ 43
Operating margin	153	55	(1)	(1)
Net income (loss)	11	(30)	(2)	(6)

OPGC — In December 2019, an other-than-temporary impairment was identified at OPGC primarily due to the estimated market value of the Company's investment and other negative developments impacting future expected cash flows at the investee. A calculation of the fair value of the Company's investment in OPGC was required to evaluate whether there was a loss in the carrying value of the investment. Based on management's estimate of fair value of $212 million, the Company had recognized an other-than-temporary impairment of $92 million in December 2019.

In March 2020, management's updated estimate of fair value was $152 million and the Company then recognized an additional other-than-temporary impairment of $43 million due to the current economic slowdown.

In June 2020, the Company agreed to sell its entire 49% stake in OPGC resulting in an additional other-than-temporary impairment of $158 million. Total other-than-temporary impairment for the six months ended June 30, 2020 was $201 million recognized in *Other non-operating expense*. The sale is expected to close in the first quarter of 2021. The OPGC equity method investment is reported in the Eurasia SBU reportable segment.

sPower — In April 2019, the Company closed on the sale of approximately 48% of its interest in a portfolio of sPower's operating assets for $173 million, subject to customary purchase price adjustments, of which $58 million was used to pay down debt at sPower. This sale resulted in a pre-tax gain on sale of business interests of $28 million. After the sale, the Company's ownership interest in this portfolio of sPower's operating assets decreased from 50% to approximately 26%. The sPower equity method investment is reported in the US and Utilities SBU reportable segment.

8. DEBT

Recourse Debt

During the first quarter of 2020, the Company drew $840 million on revolving lines of credit at the Parent Company, of which approximately $250 million was used to enhance our liquidity position due to the uncertain economic conditions surrounding the COVID-19 pandemic and the remaining $590 million was used for other general corporate purposes. In the second quarter of 2020, the Parent Company repaid approximately $350 million on these revolving lines of credit. As of June 30, 2020, we had approximately $455 million of outstanding indebtedness on the Parent Company credit facility at a weighted average interest rate of 1.88%.

In May 2020, the Company issued $900 million aggregate principal of 3.30% senior secured notes due in 2025 and $700 million of 3.95% senior secured notes due in 2030. The Company used the net proceeds from these issuances to purchase via tender offer a portion of the 4.00% senior notes due in 2021, the 4.50% senior notes due in 2023, and the 4.875% senior notes due in 2023. Subsequent to the tender offers, the Company redeemed the remaining balance of its 4.00% and 4.875% senior notes due in 2021 and 2023, respectively, and $7 million of the remaining 4.50% senior notes due in 2023. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $37 million.

Non-Recourse Debt

During the six months ended June 30, 2020, the Company's subsidiaries had the following significant debt transactions:

Subsidiary	Transaction Period	Issuances	Repayments
Southland [1]	Q1, Q2	$ 283	$ —
Gener	Q1, Q2	90	(8)
IPALCO	Q2	475	(470)
DPL	Q2	415	—
Mong Duong	Q2	150	—
Tietê	Q2	95	(1)

[1] Issuances relate to the June 2017 long-term non-recourse debt financing to fund the Southland repowering construction projects.

DP&L — In June 2019, DP&L issued $425 million aggregate principal of 3.95% First Mortgage Bonds due in 2049. The net proceeds from the issuance were used to prepay the outstanding principal of $435 million under its variable rate $445 million credit agreement due in 2022.

DPL — In April 2019, DPL issued $400 million aggregate principal of 4.35% senior unsecured notes due in 2029. The net proceeds from the issuance were used to redeem $400 million of the $780 million aggregate principal outstanding of its 7.25% senior unsecured notes due in 2021. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $43 million for the six months ended June 30, 2019.

In June 2020, DPL issued $415 million aggregate principal of 4.125% senior secured notes due in 2025. In July 2020, the net proceeds from the issuance were used to prepay the outstanding principal of $380 million of its 7.25% senior unsecured notes due in 2021.

IPALCO — In April 2020, IPALCO issued $475 million aggregate principal of 4.25% senior secured notes due in 2030. The net proceeds from the issuance were used to prepay the outstanding principal of $405 million of its 3.45% senior unsecured notes and a $65 million term loan both due in July 2020. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $2 million for the six months ended June 30, 2020.

Non-Recourse Debt in Default — The following table summarizes the Company's subsidiary non-recourse debt in default (in millions) as of June 30, 2020. Due to the defaults, these amounts are included in the current portion of non-recourse debt:

Subsidiary	Primary Nature of Default	Debt in Default	Net Assets
AES Puerto Rico	Covenant	$ 268	$ 260
AES Ilumina (Puerto Rico)	Covenant	32	26
AES Jordan Solar	Covenant	6	2
Total		$ 306	

The above defaults are not payment defaults. In Puerto Rico, the subsidiary non-recourse debt defaults were triggered by failure to comply with covenants or other requirements contained in the non-recourse debt documents due to the bankruptcy of the offtaker.

The AES Corporation's recourse debt agreements include cross-default clauses that will trigger if a subsidiary or group of subsidiaries for which the non-recourse debt is in default provides 20% or more of the Parent Company's total cash distributions from businesses for the four most recently completed fiscal quarters. As of June 30, 2020, the Company had no defaults which resulted in, or were at risk of triggering, a cross-default under the recourse debt of the Parent Company. In the event the Parent Company is not in compliance with the financial covenants of its senior secured revolving credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment defaults and bankruptcy defaults would preclude the making of any restricted payments.

9. COMMITMENTS AND CONTINGENCIES

Guarantees, Letters of Credit and Commitments — In connection with certain project financings, acquisitions and dispositions, power purchases and other agreements, the Parent Company has expressly undertaken limited obligations and commitments, most of which will only be effective or will be terminated upon the occurrence of future events. In the normal course of business, the Parent Company has entered into various agreements, mainly guarantees and letters of credit, to provide financial or performance assurance to third parties

on behalf of AES businesses. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to no more than 15 years.

The following table summarizes the Parent Company's contingent contractual obligations as of June 30, 2020. Amounts presented in the following table represent the Parent Company's current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure. The maximum exposure is not reduced by the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees.

Contingent Contractual Obligations	Amount (in millions)	Number of Agreements	Maximum Exposure Range for Each Agreement (in millions)
Guarantees and commitments	$ 1,243	63	$0 — 157
Letters of credit under the unsecured credit facility	238	5	$1 — 211
Letters of credit under the senior secured credit facility	27	30	$0 — 6
Total	$ 1,508	98	

During the six months ended June 30, 2020, the Company paid letter of credit fees ranging from 1% to 3% per annum on the outstanding amounts of letters of credit.

Contingencies

Environmental — The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. For each of the periods ended June 30, 2020 and December 31, 2019, the Company recognized liabilities of $4 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Moreover, where no liability has been recognized, it is reasonably possible that the Company may be required to incur remediation costs or make expenditures in amounts that could be material but could not be estimated as of June 30, 2020. In aggregate, the Company estimates the range of potential losses related to environmental matters, where estimable, to be up to $12 million. The amounts considered reasonably possible do not include amounts accrued as discussed above.

Litigation — The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has recognized aggregate liabilities for all claims of approximately $31 million and $55 million as of June 30, 2020 and December 31, 2019, respectively. These amounts are reported on the Condensed Consolidated Balance Sheets within *Accrued and other liabilities* and *Other noncurrent liabilities*. A significant portion of these accrued liabilities relate to regulatory matters and commercial disputes in international jurisdictions. There can be no assurance that these accrued liabilities will be adequate to cover all existing and future claims or that we will have the liquidity to pay such claims as they arise.

Where no accrued liability has been recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of June 30, 2020. The material contingencies where a loss is reasonably possible primarily include disputes with offtakers, suppliers and EPC contractors; alleged breaches of contract; alleged violation of laws and regulations; income tax and non-income tax matters with tax authorities; and regulatory matters. In aggregate, the Company estimates the range of potential losses, where estimable, related to these reasonably possible material contingencies to be between $265 million and $313 million. The amounts considered reasonably possible do not include the amounts accrued, as discussed above. These material contingencies do not include income tax-related contingencies which are considered part of our uncertain tax positions.

10. LEASES

LESSOR — The Company has operating leases for certain generation contracts that contain provisions to provide capacity to a customer, which is a stand-ready obligation to deliver energy when required by the customer. Capacity payments are generally considered lease elements as they cover the majority of available output from a facility. The allocation of contract payments between the lease and non-lease elements is made at the inception of the lease. Lease payments from such contracts are recognized as lease revenue on a straight-line basis over the lease term, whereas variable lease payments are recognized when earned.

The following table presents lease revenue from operating leases in which the Company is the lessor for the six months ended June 30, 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
Lease Income	**2020**	**2019**	**2020**	**2019**
Total Lease Revenue	$ 153	$ 155	$ 288	$ 308
Less: Variable Lease Payments	23	24	34	36
Total Non-Variable Lease Revenue	$ 130	$ 131	$ 254	$ 272

The option to extend or terminate a lease is based on customary early termination provisions in the contract, such as payment defaults, bankruptcy, and lack of performance on energy delivery. The Company has not recognized any early terminations as of June 30, 2020. Certain leases may provide for variable lease payments based on usage or index-based (e.g., the U.S. Consumer Price Index) adjustments to lease payments.

The following table shows the future lease receipts as of June 30, 2020 for the remainder of 2020 through 2024 and thereafter (in millions):

	Future Cash Receipts for	
	Sales-Type Leases	**Operating Leases**
2020	$ 1	$ 255
2021	2	475
2022	2	459
2023	2	396
2024	2	396
Thereafter	38	1,425
Total	$ 47	$ 3,406
Less: Imputed interest	(25)	
Present value of total lease receipts	$ 22	

11. REDEEMABLE STOCK OF SUBSIDIARIES

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

	June 30, 2020	December 31, 2019
IPALCO common stock	$ 618	$ 618
Colon quotas [1]	197	210
IPL preferred stock	60	60
Total redeemable stock of subsidiaries	$ 875	$ 888

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

Colon — Our partner in Colon made capital contributions of $10 million during the six months ended June 30, 2019. No contributions were made in 2020. Any subsequent adjustments to allocate earnings and dividends to our partner, or measure the investment at fair value, will be classified as temporary equity each reporting period as it is probable that the shares will become redeemable.

12. EQUITY

Accumulated Other Comprehensive Loss — The following table summarizes the changes in AOCL by component, net of tax and NCI, for the six months ended June 30, 2020 (in millions):

	Foreign currency translation adjustment, net	Unrealized derivative gains (losses), net	Unfunded pension obligations, net	Total
Balance at the beginning of the period	$ (1,721)	$ (470)	$ (38)	$ (2,229)
Other comprehensive loss before reclassifications	(77)	(505)	—	(582)
Amount reclassified to earnings	(2)	121	—	119
Other comprehensive loss	(79)	(384)	—	(463)
Reclassification from NCI due to Gener share repurchases	—	(1)	—	(1)
Balance at the end of the period	$ (1,800)	$ (855)	$ (38)	$ (2,693)

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

AOCL Components	Affected Line Item in the Condensed Consolidated Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
		2020	2019	2020	2019
Foreign currency translation adjustment, net					
	Loss on disposal and sale of business interests	$ 2	$ (23)	$ 2	$ (23)
	Net income (loss) attributable to The AES Corporation	$ 2	$ (23)	$ 2	$ (23)
Derivative gains (losses), net					
	Non-regulated revenue	$ (1)	$ —	$ (1)	$ —
	Non-regulated cost of sales	2	(1)	1	(10)
	Interest expense	(103)	(7)	(119)	(15)
	Loss on disposal and sale of business interests	—	1	—	1
	Foreign currency transaction gains (losses)	—	(2)	(23)	3
	Income from continuing operations before taxes and equity in earnings of affiliates	(102)	(9)	(142)	(21)
	Income tax expense	25	2	33	4
	Net equity in earnings (losses) of affiliates	(1)	(2)	(1)	(2)
	Income (loss) from continuing operations	(78)	(9)	(110)	(19)
	Less: Income from continuing operations attributable to noncontrolling interests and redeemable stock of subsidiaries	(17)	1	(11)	1
	Net income (loss) attributable to The AES Corporation	$ (95)	$ (8)	$ (121)	$ (18)
Amortization of defined benefit pension actuarial loss, net					
	Other expense	$ (1)	$ —	$ (1)	$ (1)
	Loss on disposal and sale of business interests	—	(26)	—	(26)
	Income from continuing operations before taxes and equity in earnings of affiliates	(1)	(26)	(1)	(27)
	Income tax expense	1	—	1	—
	Income (loss) from continuing operations	—	(26)	—	(27)
	Net income (loss)	—	(26)	—	(27)
	Net income (loss) attributable to The AES Corporation	$ —	$ (26)	$ —	$ (27)
Total reclassifications for the period, net of income tax and noncontrolling interests		$ (93)	$ (57)	$ (119)	$ (68)

Common Stock Dividends — The Parent Company paid dividends of $0.1433 per outstanding share to its common stockholders during the first and second quarters of 2020 for dividends declared in December 2019 and February 2020, respectively.

On July 17, 2020, the Board of Directors declared a quarterly common stock dividend of $0.1433 per share payable on August 18, 2020, to shareholders of record at the close of business on August 3, 2020.

13. SEGMENTS

The segment reporting structure uses the Company's management reporting structure as its foundation to reflect how the Company manages the businesses internally and is mainly organized by geographic regions, which provides a socio-political-economic understanding of our business. The management reporting structure is organized by four SBUs led by our President and Chief Executive Officer: US and Utilities, South America, MCAC, and Eurasia SBUs. Using the accounting guidance on segment reporting, the Company determined that its four operating segments are aligned with its four reportable segments corresponding to its SBUs.

Corporate and Other — Included in "Corporate and Other" are the results of the AES self-insurance company and certain equity affiliates, corporate overhead costs which are not directly associated with the operations of our four reportable segments, and certain intercompany charges such as self-insurance premiums which are fully

eliminated in consolidation.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Revenue	**2020**	**2019**	**2020**	**2019**
US and Utilities SBU	$ 913	$ 976	$ 1,884	$ 1,995
South America SBU	711	765	1,423	1,610
MCAC SBU	381	478	813	928
Eurasia SBU	214	265	439	604
Corporate and Other	114	16	142	25
Eliminations	(116)	(17)	(146)	(29)
Total Revenue	$ 2,217	$ 2,483	$ 4,555	$ 5,133

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Adjusted PTC	**2020**	**2019**	**2020**	**2019**
Income from continuing operations before taxes and equity in earnings of affiliates	$ 105	$ 118	$ 425	$ 472
Add: Net equity in earnings (losses) of affiliates	8	5	6	(1)
Less: Income from continuing operations before taxes, attributable to noncontrolling interests	(118)	(71)	(237)	(180)
Pre-tax contribution	(5)	52	194	291
Unrealized derivative and equity securities losses (gains)	14	6	(2)	9
Unrealized foreign currency losses (gains)	(12)	7	(3)	18
Disposition/acquisition losses	29	5	30	14
Impairment expense	168	121	221	123
Loss on extinguishment of debt	44	49	48	57
Total Adjusted PTC	$ 238	$ 240	$ 488	$ 512

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Adjusted PTC	**2020**	**2019**	**2020**	**2019**
US and Utilities SBU	$ 57	$ 118	$ 128	$ 240
South America SBU	140	106	259	221
MCAC SBU	66	63	144	113
Eurasia SBU	49	39	93	95
Corporate and Other	(85)	(84)	(143)	(156)
Eliminations	11	(2)	7	(1)
Total Adjusted PTC	$ 238	$ 240	$ 488	$ 512

Total Assets	**June 30, 2020**	**December 31, 2019**
US and Utilities SBU	$ 14,236	$ 13,334
South America SBU	11,408	11,314
MCAC SBU	4,993	4,770
Eurasia SBU	3,587	3,990
Corporate and Other	342	240
Total Assets	$ 34,566	$ 33,648

14. REVENUE

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

	Three Months Ended June 30, 2020					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$ 610	$ —	$ —	$ —	$ —	$ 610
Other regulated revenue	14	—	—	—	—	14
Total regulated revenue	624	—	—	—	—	624
Non-Regulated Revenue						
Revenue from contracts with customers	201	708	356	156	(2)	1,419
Other non-regulated revenue [1]	88	3	25	58	—	174
Total non-regulated revenue	289	711	381	214	(2)	1,593
Total revenue	$ 913	$ 711	$ 381	$ 214	$ (2)	$ 2,217

	Three Months Ended June 30, 2019					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$ 706	$ —	$ —	$ —	$ —	$ 706
Other regulated revenue	18	—	—	—	—	18
Total regulated revenue	724	—	—	—	—	724
Non-Regulated Revenue						
Revenue from contracts with customers	180	764	455	201	(2)	1,598
Other non-regulated revenue [1]	72	1	23	64	1	161
Total non-regulated revenue	252	765	478	265	(1)	1,759
Total revenue	$ 976	$ 765	$ 478	$ 265	$ (1)	$ 2,483

	Six Months Ended June 30, 2020					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$ 1,313	$ —	$ —	$ —	$ —	$ 1,313
Other regulated revenue	23	—	—	—	—	23
Total regulated revenue	1,336	—	—	—	—	1,336
Non-Regulated Revenue						
Revenue from contracts with customers	364	1,419	764	327	(4)	2,870
Other non-regulated revenue [1]	184	4	49	112	—	349
Total non-regulated revenue	548	1,423	813	439	(4)	3,219
Total revenue	$ 1,884	$ 1,423	$ 813	$ 439	$ (4)	$ 4,555

	Six Months Ended June 30, 2019					
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	$ 1,484	$ —	$ —	$ —	$ —	$ 1,484
Other regulated revenue	25	—	—	—	—	25
Total regulated revenue	1,509	—	—	—	—	1,509
Non-Regulated Revenue						
Revenue from contracts with customers	353	1,607	884	468	(2)	3,310
Other non-regulated revenue [1]	133	3	44	136	(2)	314
Total non-regulated revenue	486	1,610	928	604	(4)	3,624
Total revenue	$ 1,995	$ 1,610	$ 928	$ 604	$ (4)	$ 5,133

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

Contract Balances — The timing of revenue recognition, billings, and cash collections results in accounts receivable and contract liabilities. The contract liabilities from contracts with customers were $137 million and $117 million as of June 30, 2020 and December 31, 2019, respectively.

During the six months ended June 30, 2020 and 2019, we recognized revenue of $11 million and $7 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods.

A significant financing arrangement exists for our Mong Duong plant in Vietnam. The plant was constructed under a build, operate, and transfer contract and will be transferred to the Vietnamese government after the completion of a 25 year PPA. The performance obligation to construct the facility was substantially completed in 2015. Approximately $1.4 billion of contract consideration related to the construction, but not yet collected through the 25 year PPA, was reflected as a loan receivable, net of CECL reserve of $33 million, as of June 30, 2020.

Remaining Performance Obligations — The transaction price allocated to remaining performance obligations represents future consideration for unsatisfied (or partially unsatisfied) performance obligations at the end of the reporting period. As of June 30, 2020, the aggregate amount of transaction price allocated to remaining performance obligations was $12 million, primarily consisting of fixed consideration for the sale of renewable energy credits ("RECs") in long-term contracts in the U.S. We expect to recognize revenue on approximately one-fifth of the remaining performance obligations in 2020 and 2021, with the remainder recognized thereafter.

15. OTHER INCOME AND EXPENSE

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2020	2019	2020	2019
Other Income	Gain on sale of assets [1]	$ —	$ —	$ 43	$ —
	Gain on insurance proceeds [2]	—	12	—	35
	Other	9	6	11	13
	Total other income	$ 9	$ 18	$ 54	$ 48
Other Expense	Loss on sale and disposal of assets	$ 1	$ 9	$ 2	$ 14
	Non-service pension and other postretirement costs	1	5	1	9
	Other	1	—	4	3
	Total other expense	$ 3	$ 14	$ 7	$ 26

(1) Primarily associated with the gain on sale of Redondo Beach land at Southland. See Note 18—*Held-for-Sale and Dispositions* for further information.
(2) Associated with recoveries for property damage at the Andres facility in the Dominican Republic from a lightning incident in September 2018.

16. ASSET IMPAIRMENT EXPENSE

The following table presents our asset impairment expense by asset group for the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Kilroot and Ballylumford	$ —	$ 115	$ —	$ 115
Other	—	1	6	1
Total	$ —	$ 116	$ 6	$ 116

Kilroot and Ballylumford — In April 2019, the Company entered into an agreement to sell its entire 100% interest in the Kilroot coal and oil-fired plant and energy storage facility and the Ballylumford gas-fired plant in the United Kingdom. Upon meeting the held-for-sale criteria, the Company performed an impairment analysis and determined that the carrying value of the asset group of $232 million was greater than its fair value less costs to sell of $114 million. As a result, the Company recognized asset impairment expense of $115 million. The Company completed the sale of Kilroot and Ballylumford in June 2019. Prior to their sale, Kilroot and Ballylumford were reported in the Eurasia SBU reportable segment. See Note 18—*Held-for-Sale and Dispositions* for further information.

17. INCOME TAXES

The Company's provision for income taxes is based on the estimated annual effective tax rate, plus discrete items. The effective tax rates for the three and six months ended June 30, 2020 were 108% and 48%, respectively. The effective tax rates for the three and six months ended June 30, 2019 were 48% and 36%, respectively. The difference between the Company's effective tax rates for the 2020 and 2019 periods and the U.S. statutory tax rate

of 21% related primarily to U.S. taxes on foreign earnings, foreign tax rate differentials, the impacts of foreign currency fluctuations at certain foreign subsidiaries, nondeductible expenses, and valuation allowance.

The impact of foreign currency devaluation in Mexico was approximately $13 million of discrete tax benefit for the six months ended June 30, 2020.

The Company recognized discrete tax expense of approximately $13 million and $21 million as a result of incremental capitalized interest in Chile for the three and six months ended June 30, 2020, respectively. Additionally, the Company recognized discrete tax expense of approximately $25 million as a result of incremental deferred taxes relating to DPL for the three and six months ended June 30, 2020.

18. HELD-FOR-SALE AND DISPOSITIONS

Held-for-Sale

Itabo — In June 2020, the Company entered into an agreement to sell its 43% ownership interest in Itabo, a coal-fired plant and gas turbine in Dominican Republic, for $101 million. The sale is subject to regulatory approval and is expected to close in the fourth quarter of 2020. As of June 30, 2020, Itabo was classified as held-for-sale, but did not meet the criteria to be reported as discontinued operations. On a consolidated basis, the carrying value of the Itabo facility as of June 30, 2020 was $194 million. Itabo is reported in the MCAC SBU reportable segment.

Jordan — In February 2019, the Company entered into an agreement to sell its 36% ownership interest in two generation plants, IPP1 and IPP4, and a solar plant in Jordan. In December 2019, the original sales agreement expired, and in April 2020, one of the potential buyers withdrew from the transaction due to the uncertain economic conditions surrounding the COVID-19 pandemic. The Company continues with an active process to complete the sale of its controlling interest in IPP1 and IPP4 and believes the sale remains probable. However, as of June 30, 2020, the solar plant no longer met the held-for-sale criteria. As such, the solar plant was reclassified as held and used as of June 30, 2020. The generation plants remain classified as held-for-sale, but do not meet the criteria to be reported as discontinued operations. On a consolidated basis, the carrying value of the plants held-for-sale as of June 30, 2020 was $153 million. Jordan is reported in the Eurasia SBU reportable segment.

Pre-tax income attributable to AES of businesses held-for-sale was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
Itabo	$ 8	$ 6	$ 19	$ 14
Jordan	5	5	10	8
Total	$ 13	$ 11	$ 29	$ 22

Dispositions

Kazakhstan Hydroelectric — Affiliates of the Company (the “Affiliates”) previously operated Shulbinsk HPP and Ust-Kamenogorsk HPP (the “HPPs”), two hydroelectric plants in Kazakhstan, under a concession agreement with the Republic of Kazakhstan (“ROK”). In April 2017, the ROK initiated the process to transfer these plants back to the ROK. The ROK indicated that arbitration would be necessary to determine the correct Return Share Transfer Payment ("RST") and, rather than paying the Affiliates, deposited the RST into an escrow account. In exchange, the Affiliates transferred 100% of the shares in the HPPs to the ROK, under protest and with a full reservation of rights. In February 2018, the Affiliates initiated the arbitration process in international court to recover at least $75 million of the RST placed in escrow, based on the September 30, 2017 RST calculation.

In May 2020, the arbitrator issued a final decision in favor of the Affiliates, awarding the Affiliates a net amount of damages of approximately $45 million, which has been collected. AES recorded the remaining $30 million as a loss on sale during the quarter ended June 30, 2020. Prior to their transfer, the Kazakhstan HPPs were reported in the Eurasia SBU reportable segment.

Redondo Beach Land — In March 2020, the Company completed the sale of land held by AES Redondo Beach, a gas-fired generating facility in California. The land’s carrying value was $24 million, resulting in a pre-tax gain on sale of $41 million, reported in *Other income* on the Condensed Consolidated Statement of Operations. AES Redondo Beach will lease back the land from the purchaser for the remainder of the generation facility’s useful life. Redondo Beach is reported in the US and Utilities SBU reportable segment.

Kilroot and Ballylumford — In June 2019, the Company completed the sale of its entire 100% interest in the Kilroot coal and oil-fired plant and energy storage facility and the Ballylumford gas-fired plant in the United Kingdom for $118 million, resulting in a pre-tax loss on sale of $33 million primarily due to the write-off of cumulative translation adjustments and accumulated other comprehensive income balances. The sale did not meet the criteria to be reported as discontinued operations. Prior to the sale, Kilroot and Ballylumford were reported in the Eurasia SBU reportable segment. See Note 16—*Asset Impairment Expense* for further information.

Shady Point — In May 2019, the Company completed the sale of Shady Point, a U.S. coal-fired generating facility, for $29 million. The sale did not meet the criteria to be reported as discontinued operations. Prior to its sale, Shady Point was reported in the US and Utilities SBU reportable segment.

Excluding any impairment charges or gain/loss on sale, pre-tax loss attributable to AES of disposed businesses was as follows:

	Three Months Ended June 30,	Six Months Ended June 30,
(in millions)	2019	2019
Kilroot and Ballylumford	$ (5)	$ (1)
Shady Point	(2)	(3)
Total	$ (7)	$ (4)

19. ACQUISITIONS

Penonome I — In May 2020, AES Panama completed the acquisition of the Penonome I wind farm from Goldwind International for $80 million. The transaction was accounted for as an asset acquisition, therefore the consideration transferred, plus transaction costs, was allocated to the individual assets and liabilities assumed based on their relative fair values. Any differences arising from post-closing adjustments will be allocated accordingly. Penonome I is reported in the MCAC SBU reportable segment.

20. EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive RSUs and stock options. The effect of such potential common stock is computed using the treasury stock method.

The following table is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation for income from continuing operations for the three and six months ended June 30, 2020 and 2019, where income represents the numerator and weighted average shares represent the denominator.

Three Months Ended June 30,	2020			2019		
(in millions, except per share data)	Loss	Shares	$ per Share	Income	Shares	$ per Share
BASIC EARNINGS (LOSS) PER SHARE						
Income (loss) from continuing operations attributable to The AES Corporation common stockholders	$ (86)	665	$ (0.13)	$ 16	664	$ 0.02
EFFECT OF DILUTIVE SECURITIES						
Restricted stock units	—	—	—	—	3	—
DILUTED EARNINGS (LOSS) PER SHARE	$ (86)	665	$ (0.13)	$ 16	667	$ 0.02

Six Months Ended June 30,	2020			2019		
(in millions, except per share data)	Income	Shares	$ per Share	Income	Shares	$ per Share
BASIC EARNINGS PER SHARE						
Income from continuing operations attributable to The AES Corporation common stockholders	$ 58	665	$ 0.09	$ 170	663	$ 0.26
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	1	—	—	1	—
Restricted stock units	—	2	—	—	3	—
DILUTED EARNINGS PER SHARE	$ 58	668	$ 0.09	$ 170	667	$ 0.26

The calculation of diluted earnings per share excluded 2 million outstanding stock awards for the six months ended June 30, 2020, and 1 million outstanding stock awards for the three and six months ended June 30, 2019, which would be anti-dilutive. These stock awards could potentially dilute basic earnings per share in the future.

For the three months ended June 30, 2020, the calculation of diluted earnings per share excluded 5 million outstanding stock awards because their impact would be anti-dilutive given the loss from continuing operations. These stock awards could potentially dilute basic earnings per share in the future. Had the Company generated income, 2 million potential shares of common stock related to the stock awards would have been included in diluted weighted-average shares outstanding.

21. RISKS AND UNCERTAINTIES

COVID-19 Pandemic — The COVID-19 pandemic has severely impacted global economic activity, including electricity and energy consumption, and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures, and restricting travel.

For the three and six months ended June 30, 2020, COVID-19 had a moderate impact on the financial results and operations of the Company, as the economic impact of the pandemic was reflected throughout the second quarter. The magnitude and duration of the COVID-19 pandemic is unknown at this time and may have material and adverse effects on our results of operations, financial condition and cash flows in future periods.

Goodwill — The Company considers a reporting unit at risk of impairment when its fair value does not exceed its carrying amount by more than 10%. During the annual goodwill impairment test performed as of October 1, 2019, the Company determined that the fair value of its Gener reporting unit exceeded its carrying value by 3%. Therefore, Gener's $868 million goodwill balance is considered "at risk", largely due to the Chilean Government's announcement to phase out coal generation by 2040, and a decline in long-term energy prices.

Given the uncertainties in the global market caused by the COVID-19 pandemic, the Company assessed whether current events or circumstances indicated it was more likely than not the fair value of the Gener reporting unit was reduced below its carrying amount in the second quarter of 2020. After assessing the relevant factors, the Company determined there was no triggering event requiring a reassessment of goodwill impairment as of June 30, 2020. While the duration and severity of the impacts of the COVID-19 pandemic remain unknown, further deterioration in the global market could result in changes to assumptions utilized in the goodwill assessment.

The Company monitors its reporting units at risk of impairment for interim impairment indicators, and believes that the estimates and assumptions used in the calculations are reasonable as of June 30, 2020. Should the fair value of any of the Company’s reporting units fall below its carrying amount because of reduced operating performance, market declines, changes in the discount rate, regulatory changes, or other adverse conditions, goodwill impairment charges may be necessary in future periods.

22. SUBSEQUENT EVENTS

Tietê — On July 27, 2020, BNDES accepted AES Holdings Brazil Ltd.’s binding offer to acquire an additional 18.5% ownership in AES Tietê for approximately $250 million, with the majority of funding provided by previously secured non-recourse debt financing from a consortium of Brazilian banks. This transaction closed on August 5, 2020, which increased the Company’s ownership of AES Tietê to 42.9%.

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

The condensed consolidated financial statements included in Item 1.—*Financial Statements* of this Form 10-Q and the discussions contained herein should be read in conjunction with our 2019 Form 10-K.

Forward-Looking Information

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations, including our expectations regarding the impact of the COVID-19 pandemic on our business, that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. These statements include, but are not limited to, statements regarding management's intents, beliefs, and current expectations and typically contain, but are not limited to, the terms "anticipate," "potential," "expect," "forecast," "target," "will," "would," "intend," "believe," "project," "estimate," "plan," and similar words. Forward-looking statements are not intended to be a guarantee of future results, but instead constitute current expectations based on reasonable assumptions. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A.—*Risk Factors* of this Form 10-Q, Item 1A.—*Risk Factors* and Item 7.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2019 Form 10-K and subsequent filings with the SEC.

Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise of the risks and factors that may affect our business.

Overview of Our Business

We are a diversified power generation and utility company organized into the following four market-oriented SBUs: **US and Utilities** (United States, Puerto Rico and El Salvador); **South America** (Chile, Colombia, Argentina and Brazil); **MCAC** (Mexico, Central America and the Caribbean); and **Eurasia** (Europe and Asia). For additional information regarding our business, see Item 1.—*Business* of our 2019 Form 10-K.

We have two lines of business: generation and utilities. Each of our SBUs participates in our first business line, generation, in which we own and/or operate power plants to generate and sell power to customers, such as utilities, industrial users, and other intermediaries. Our US and Utilities SBU participates in our second business line, utilities, in which we own and/or operate utilities to generate or purchase, distribute, transmit and sell electricity to end-user customers in the residential, commercial, industrial, and governmental sectors within a defined service area. In certain circumstances, our utilities also generate and sell electricity on the wholesale market.

Executive Summary

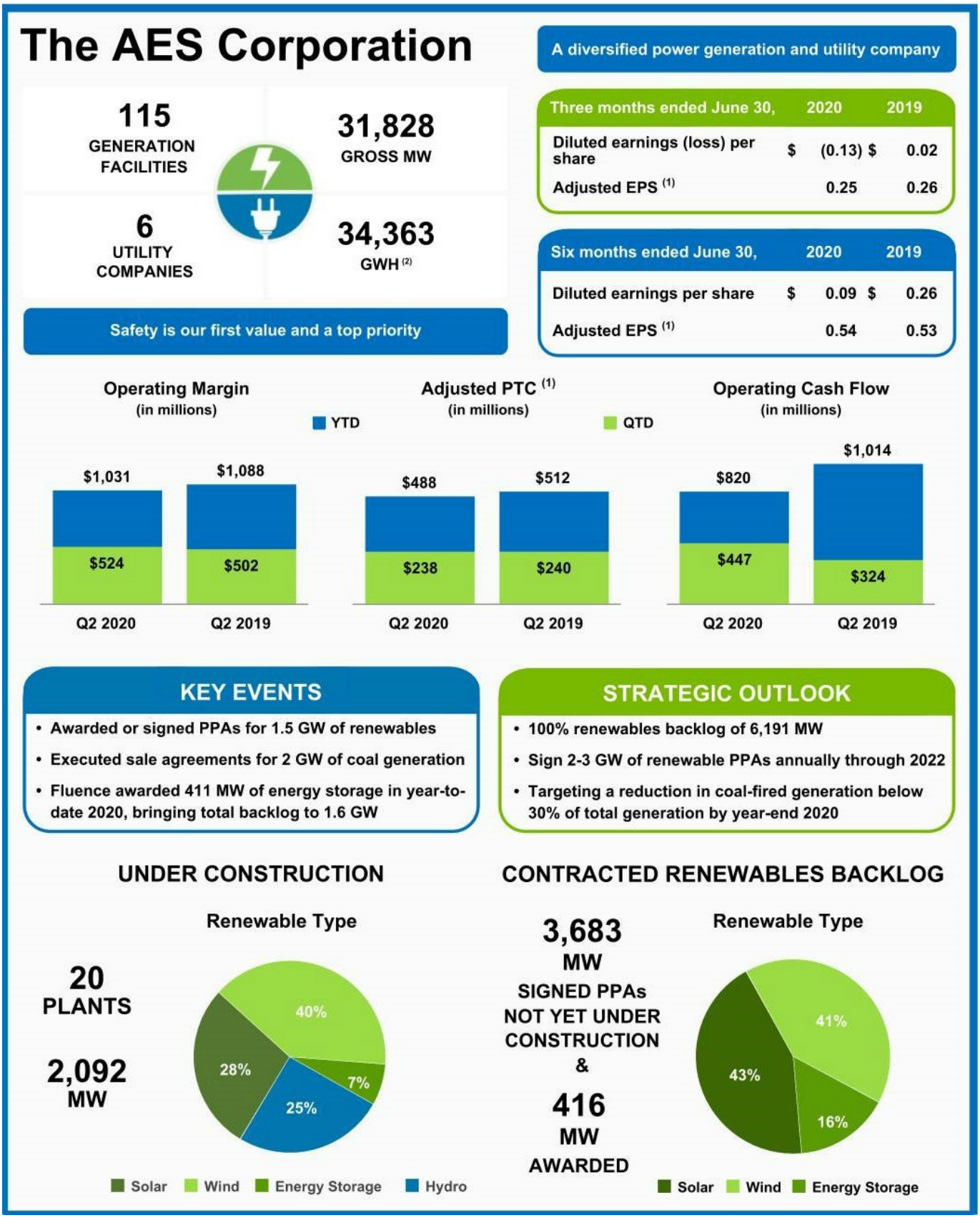
Compared with last year, second quarter diluted earnings per share from continuing operations decreased $0.15 to a loss of $0.13. This decrease reflects higher impairments and losses on sales in the current period, a higher effective tax rate, lower contributions from our US and Utilities SBU primarily driven by the realization of the anticipated impact of COVID-19 on demand and lower regulated rates as a result of the changes in DP&L's ESP, and prior year gains on foreign currency derivatives; partially offset by a positive impact in Chile due to incremental capitalized interest and higher margins at our MCAC SBU largely due to higher availability and improved hydrology in Panama.

Adjusted EPS, a non-GAAP measure, decreased $0.01 to $0.25, mainly due to lower contributions from our US and Utilities SBU primarily driven by the realization of the anticipated impact of COVID-19 on demand and lower regulated rates as a result of the changes in DP&L's ESP, partially offset by a positive impact in Chile due to incremental capitalized interest.

Compared with last year, diluted earnings per share from continuing operations for the six months ended June 30, 2020 decreased $0.17 to $0.09. This decrease reflects higher impairments and losses on sales in the current period, lower contributions from our US and Utilities SBU primarily driven by the realization of the anticipated impact of COVID-19 on demand and lower regulated rates as a result of the changes in DP&L's ESP, and prior year insurance proceeds in the Dominican Republic; partially offset by higher margins at our MCAC SBU largely due to higher availability and improved hydrology in Panama, a gain on sale of land in the U.S., and a positive impact in

Chile due to incremental capitalized interest.

Adjusted EPS, a non-GAAP measure, increased $0.01 to $0.54, mainly due to higher margins at our MCAC SBU largely due to higher availability and improved hydrology in Panama, a gain on sale of land in the U.S., a positive impact in Chile due to incremental capitalized interest, and a lower adjusted tax rate; partially offset by lower contributions from our US and Utilities SBU primarily driven by the realization of the anticipated impact of COVID-19 on demand and lower regulated rates as a result of the changes in DP&L's ESP, and prior year insurance proceeds in the Dominican Republic.



(1) See Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations—SBU Performance Analysis—Non-GAAP Measures* for reconciliation and definition.

(2) GWh sold in 2019.

Overview of Strategic Performance

AES is leading the industry's transition to clean energy by investing in sustainable growth and innovative solutions. The Company is taking advantage of favorable trends in clean power generation, transmission and distribution, and LNG infrastructure to deliver superior results.

Sustainable Growth: Through its presence in key growth markets, AES is well-positioned to benefit from the global transition toward a more sustainable power generation mix.

- In year-to-date 2020, the Company completed construction of 1,437 MW of new projects, including:
  - 1,299 MW Southland repowering project in Southern California;
  - 100 MW Vientos Bonaerenses wind facility in Argentina;
  - 28 MW of solar and solar plus storage in the U.S. at AES Distributed Energy; and
  - 10 MW Alfalfal Virtual Reservoir energy storage facility in Chile.
- In year-to-date 2020, the Company was awarded or signed 1,537 MW of renewables and energy storage under long-term PPAs, including 852 MW in the second quarter of 2020:
  - 589 MW of energy storage, solar and solar plus storage in the U.S.;
  - 581 MW of wind and solar at AES Gener in Chile and Colombia;
  - 187 MW of wind at AES Tietê in Brazil;
  - 109 MW of wind in Mexico; and
  - 71 MW of wind and solar in Panama.
- The Company's backlog of 6,191 MW of renewables now includes:
  - 2,092 MW under construction and expected on-line through 2021;
  - 3,683 MW of renewables signed under long-term PPAs; and
  - 416 MW awarded.
- The Company is on track to reduce its coal-fired generation to below 30% of total generation volume by year-end 2020 (proforma for asset sales announced in 2020) and to less than 10% by year-end 2030.
  - In the second quarter of 2020, the Company signed agreements to sell three coal-fired plants (2,000 MW) in India and the Dominican Republic, which will decrease the Company's generation from coal by 11 percentage points, to approximately 34% of its total generation.
- In August 2020, the Company acquired an additional 18.5% interest in AES Tietê in Brazil, bringing its total interest to 43%.
  - This transaction will strengthen the Company’s renewable portfolio and reinforces the substantial progress the Company is making toward achieving its aggressive decarbonization targets.

Innovative Solutions: The Company is developing and deploying innovative solutions such as battery-based energy storage, digital customer interfaces and energy management.

- Fluence, the Company's joint venture with Siemens, is the global leader in the fast-growing energy storage market, which is expected to increase by 15 to 20 GW annually.
  - Fluence has a total backlog of 1.6 GW.
- In July 2020, the Company acquired a 25% stake in 5B, a prefabricated solar solution provider whose patented technology allows solar projects to be installed up to three times faster, while using half the land to achieve the same solar output.

Superior Results: By investing in sustainable growth and offering innovative solutions to customers, the Company is transforming its business mix to deliver superior results.

- The Company has a resilient and diversified portfolio of electric generation and utilities with credit-worthy offtakers and an average contract life of 14 years.
- As of June 30, 2020, the Company had $3.5 billion of available liquidity. This includes $2.2 billion of cash and cash equivalents, restricted cash and short-term investments, as well as $1.3 billion available under committed credit lines.

Review of Consolidated Results of Operations (unaudited)

(in millions, except per share amounts)	Three Months Ended June 30, 2020	2019	$ change	% change	Six Months Ended June 30, 2020	2019	$ change	% change
Revenue:								
US and Utilities SBU	$ 913	$ 976	$ (63)	-6%	$1,884	$1,995	$ (111)	-6%
South America SBU	711	765	(54)	-7%	1,423	1,610	(187)	-12%
MCAC SBU	381	478	(97)	-20%	813	928	(115)	-12%
Eurasia SBU	214	265	(51)	-19%	439	604	(165)	-27%
Corporate and Other	114	16	98	NM	142	25	117	NM
Eliminations	(116)	(17)	(99)	NM	(146)	(29)	(117)	NM
Total Revenue	2,217	2,483	(266)	-11%	4,555	5,133	(578)	-11%
Operating Margin:								
US and Utilities SBU	136	175	(39)	-22%	256	387	(131)	-34%
South America SBU	193	171	22	13%	370	387	(17)	-4%
MCAC SBU	134	107	27	25%	274	182	92	51%
Eurasia SBU	49	41	8	20%	100	104	(4)	-4%
Corporate and Other	15	9	6	67%	47	29	18	62%
Eliminations	(3)	(1)	(2)	NM	(16)	(1)	(15)	NM
Total Operating Margin	524	502	22	4%	1,031	1,088	(57)	-5%
General and administrative expenses	(40)	(49)	9	-18%	(78)	(95)	17	-18%
Interest expense	(218)	(273)	55	-20%	(451)	(538)	87	-16%
Interest income	64	82	(18)	-22%	134	161	(27)	-17%
Loss on extinguishment of debt	(40)	(51)	11	-22%	(41)	(61)	20	-33%
Other expense	(3)	(14)	11	-79%	(7)	(26)	19	-73%
Other income	9	18	(9)	-50%	54	48	6	13%
Loss on disposal and sale of business interests	(27)	(3)	(24)	NM	(27)	(7)	(20)	NM
Asset impairment expense	—	(116)	116	-100%	(6)	(116)	110	-95%
Foreign currency transaction gains (losses)	(6)	22	(28)	NM	18	18	—	—%
Other non-operating expense	(158)	—	(158)	NM	(202)	—	(202)	NM
Income tax expense	(113)	(57)	(56)	98%	(202)	(172)	(30)	17%
Net equity in earnings (losses) of affiliates	8	5	3	60%	6	(1)	7	NM
INCOME FROM CONTINUING OPERATIONS	—	66	(66)	-100%	229	299	(70)	-23%
Gain from disposal of discontinued businesses	3	1	2	NM	3	1	2	NM
NET INCOME	3	67	(64)	-96%	232	300	(68)	-23%
Less: Net income attributable to noncontrolling interests and redeemable stock of subsidiaries	(86)	(50)	(36)	72%	(171)	(129)	(42)	33%
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (83)	$ 17	$ (100)	NM	$ 61	$ 171	$ (110)	-64%
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:								
Income (loss) from continuing operations, net of tax	$ (86)	$ 16	$ (102)	NM	$ 58	$ 170	$ (112)	-66%
Income from discontinued operations, net of tax	3	1	2	NM	3	1	2	NM
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (83)	$ 17	$ (100)	NM	$ 61	$ 171	$ (110)	-64%
Net cash provided by operating activities	$ 447	$ 324	$ 123	38%	$ 820	$1,014	$ (194)	-19%

Components of Revenue, Cost of Sales, and Operating Margin — Revenue includes revenue earned from the sale of energy from our utilities and the production and sale of energy from our generation plants, which are classified as regulated and non-regulated, respectively, on the Condensed Consolidated Statements of Operations. Revenue also includes the gains or losses on derivatives associated with the sale of electricity.

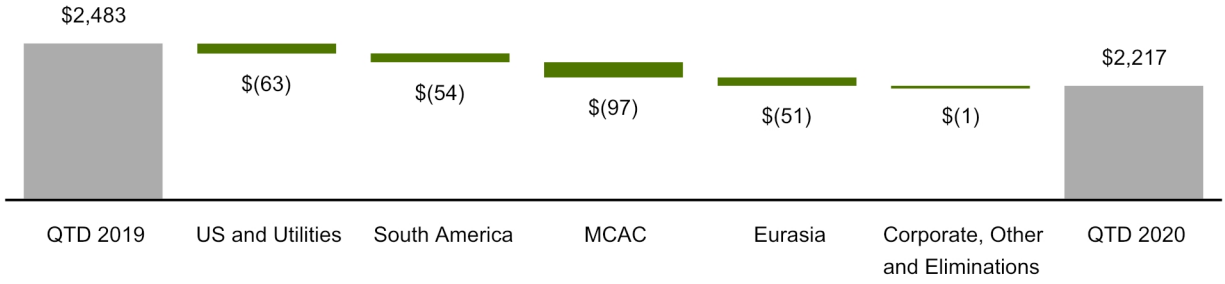
Cost of sales includes costs incurred directly by the businesses in the ordinary course of business. Examples include electricity and fuel purchases, operations and maintenance costs, depreciation and amortization expenses, bad debt expense and recoveries, and general administrative and support costs (including employee-related costs directly associated with the operations of the business). Cost of sales also includes the gains or losses on derivatives (including embedded derivatives other than foreign currency embedded derivatives) associated with the purchase of electricity or fuel.

Operating margin is defined as revenue less cost of sales.

Consolidated Revenue and Operating Margin

Three Months Ended June 30, 2020

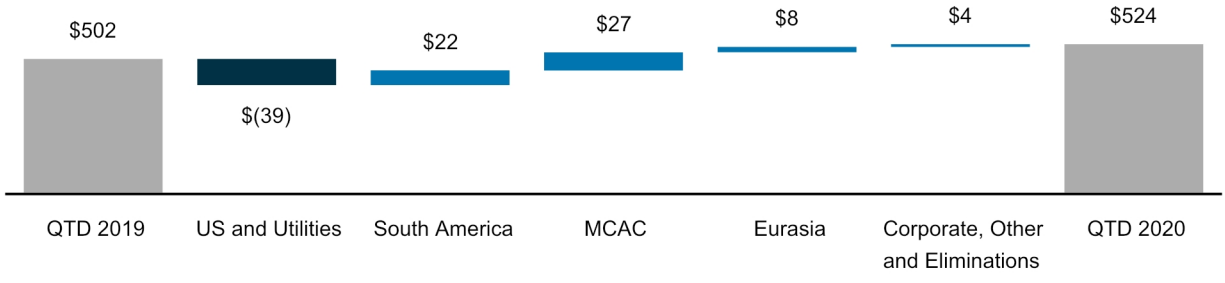
Revenue
(in millions)



Consolidated Revenue — Revenue decreased $266 million, or 11%, for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. Excluding the unfavorable FX impact of $62 million, primarily in South America, this decrease was driven by:

- $85 million in MCAC mainly driven by lower pass-through fuel prices in Mexico, lower contract and spot sales in the Dominican Republic, and lower contract prices driven by lower LNG index prices at the Colon combined cycle facility in Panama;
- $63 million in US and Utilities mainly driven by a decrease in energy pass-through rates and lower demand due to the COVID-19 pandemic in El Salvador, lower regulated rates as a result of the changes in DP&L's ESP, lower fuel revenues and lower retail sales demand at IPL mostly as a result of the COVID-19 pandemic, and at Southland driven by lower capacity sales due to the retirement of units, and a decrease in spot sales driven by lower demand. These decreases were partially offset by increased capacity sales at Southland Energy due to commencement of the PPAs; and
- $49 million in Eurasia mainly driven by the sale of the Northern Ireland businesses in June 2019.

Operating Margin
(in millions)



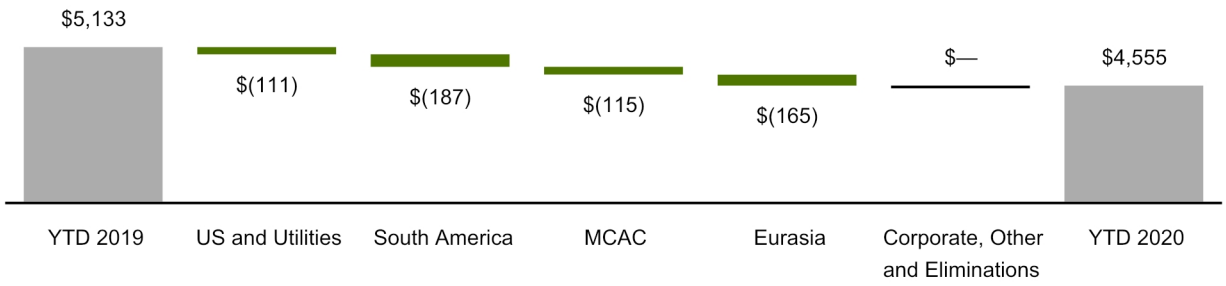
Consolidated Operating Margin — Operating margin increased $22 million, or 4%, for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. Excluding the unfavorable FX impact of $15 million, this increase was driven by:

- $39 million in South America mainly driven by an expected recovery of previously expensed payments from customers in Chile, partially offset by lower margin in Colombia due to drier hydrology; and
- $25 million in MCAC mainly in Panama driven by improved hydrology resulting in lower spot market purchases at lower prices, and higher availability due to the outage in 2019 related to Changuinola's tunnel lining upgrade.

These favorable impacts were partially offset by a decrease of $39 million in US & Utilities mainly driven by lower regulated rates as a result of the changes in DP&L's ESP, lower capacity sales due to the retirement of units at Southland, and lower demand due to the COVID-19 pandemic in El Salvador.

Six Months Ended June 30, 2020

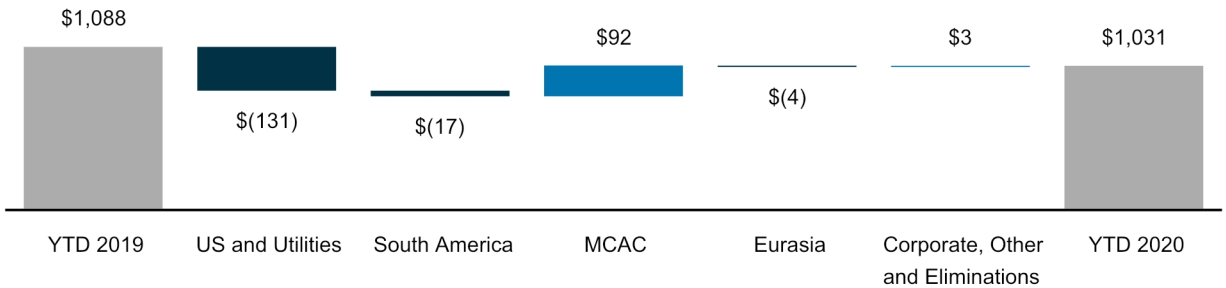
Revenue
(in millions)



Consolidated Revenue — Revenue decreased $578 million, or 11%, for the six months ended June 30, 2020, compared to the six months ended June 30, 2019. Excluding the unfavorable FX impact of $97 million, primarily in South America, this decrease was driven by:

- $160 million in Eurasia mainly driven by the sale of the Northern Ireland businesses in June 2019;
- $111 million in US and Utilities mainly driven by lower regulated rates as a result of the changes in DP&L's ESP, lower fuel revenues at IPL, lower retail sales demand at both IPL and DPL primarily due to milder weather and COVID-19 pandemic impacts, and a decrease in energy pass-through rates in El Salvador. These decreases were partially offset by increased capacity sales due to the commencement of the PPAs and unrealized gains on derivatives at Southland Energy;
- $109 million in South America mainly driven by drier hydrology and lower generation in Colombia due to a life extension project being performed at the Chivor hydro plant, lower pass-through coal prices in Chile, and lower energy and capacity prices (Resolution 31/2020) in Argentina, partially offset by an expected recovery of previously expensed payments from customers in Chile; and
- $101 million in MCAC mainly driven by lower generation and volume pass-through fuel revenue in Mexico, lower market prices, spot sales and demand in the Dominican Republic, and lower PPA prices driven by lower LNG index prices at the Colon combined cycle facility in Panama.

Operating Margin
(in millions)



Consolidated Operating Margin — Operating margin decreased $57 million, or 5%, for the six months ended June 30, 2020, compared to the six months ended June 30, 2019. Excluding the unfavorable FX impact of $23 million, primarily in South America, this decrease was driven by:

- $131 million in US and Utilities mostly due to lower regulated rates as a result of the changes in DP&L's

ESP and lower retail sales demand primarily due to milder weather, lower capacity sales due to the retirement of units at Southland, a favorable revision to the ARO at DPL in 2019, lower demand due to the COVID-19 pandemic in El Salvador, and increased rock ash disposal at Puerto Rico.

These unfavorable impacts were partially offset by an increase of $91 million in MCAC mostly in Panama due to the outage in 2019 related to Changuinola's tunnel lining upgrade, improved hydrology, and higher availability at the Colon combined cycle facility, and in the Dominican Republic due to higher availability.

See Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations—SBU Performance Analysis* of this Form 10-Q for additional discussion and analysis of operating results for each SBU.

Consolidated Results of Operations — Other

General and administrative expenses

General and administrative expenses decreased $9 million, or 18%, to $40 million for the three months ended June 30, 2020, compared to $49 million for the three months ended June 30, 2019, primarily due to a higher reallocation of information technology costs to the SBUs as cost of sales.

General and administrative expenses decreased $17 million, or 18%, to $78 million for the six months ended June 30, 2020, compared to $95 million for the six months ended June 30, 2019, primarily due to a higher reallocation of information technology costs to the SBUs as cost of sales and reduced people costs.

Interest expense

Interest expense decreased $55 million, or 20%, to $218 million for the three months ended June 30, 2020, compared to $273 million for the three months ended June 30, 2019 and decreased $87 million, or 16%, to $451 million for the six months ended June 30, 2020, compared to $538 million for the six months ended June 30, 2019. This decrease is primarily due to incremental capitalized interest in Chile and lower interest rates due to refinancing at the Parent Company and Tietê, partially offset by lower capitalized interest due to the commencement of operations at the Alamitos and Huntington Beach facilities in February 2020.

Interest income

Interest income decreased $18 million, or 22%, to $64 million for the three months ended June 30, 2020, compared to $82 million for the three months ended June 30, 2019 and decreased $27 million, or 17%, to $134 million for the six months ended June 30, 2020, compared to $161 million for the six months ended June 30, 2019. This decrease is primarily due to the decrease of the CAMMESA interest rate on receivables in Argentina, a lower loan receivable balance at Mong Duong, and a decreased accounts receivable balance in the Dominican Republic.

Loss on extinguishment of debt

Loss on extinguishment of debt decreased $11 million, or 22%, to $40 million for the three months ended June 30, 2020, compared to $51 million for the three months ended June 30, 2019. This decrease was primarily due to losses of $43 million at DPL in 2019 resulting from the redemption of senior notes, partially offset by a loss of $37 million at the Parent Company resulting from the redemption of senior notes in 2020.

Loss on extinguishment of debt decreased $20 million, or 33%, to $41 million for the six months ended June 30, 2020, compared to $61 million for the six months ended June 30, 2019. This decrease was primarily due to losses of $43 million at DPL in 2019 resulting from the redemption of senior notes and $11 million at Gener in 2019, partially offset by a loss of $37 million at the Parent Company resulting from the redemption of senior notes in 2020.

See Note 8—*Debt* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Other income and expense

Other income decreased $9 million, or 50%, to $9 million for the three months ended June 30, 2020, compared to $18 million for the three months ended June 30, 2019 primarily due to the prior year gain on insurance recoveries associated with property damage at the Andres facility.

Other income increased $6 million, or 13%, to $54 million for the six months ended June 30, 2020, compared to $48 million for the six months ended June 30, 2019. This increase was primarily due to the gain on sale of Redondo Beach land at Southland, partially offset by the prior year gain on insurance recoveries associated with property damage at the Andres facility.

Other expense decreased $11 million, or 79%, to $3 million for the three months ended June 30, 2020, compared to $14 million for the three months ended June 30, 2019 and decreased $19 million, or 73%, to $7 million for the six months ended June 30, 2020, compared to $26 million for the six months ended June 30, 2019, primarily due to the disposal of tunnel lining at Changuinola in 2019.

See Note 15—*Other Income and Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Loss on disposal and sale of business interests

Loss on disposal and sale of business interests was $27 million for the three and six months ended June 30, 2020, primarily due to the settlement of arbitration related to the sale of the Kazakhstan HPPs.

Loss on disposal and sale of business interests was $3 million for the three months ended June 30, 2019 and $7 million for the six months ended June 30, 2019, primarily due to the loss on sale of Kilroot and Ballylumford, partially offset by the gain on sale of a portion of our interest in sPower's operating assets.

See Note 18—*Held-for-Sale and Dispositions* and Note 7—*Investments in and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Asset impairment expense

There was no asset impairment expense during the three months ended June 30, 2020. Asset impairment expense was $116 million for the three months ended June 30, 2019, primarily due to a prior year impairment of $115 million as a result of Kilroot and Ballylumford being classified as held-for-sale.

Asset impairment expense decreased $110 million, or 95%, to $6 million for the six months ended June 30, 2020, compared to $116 million for the six months ended June 30, 2019, primarily due to a prior year impairment of $115 million as a result of Kilroot and Ballylumford being classified as held-for-sale. This decrease was partially offset by the current year abandonment of certain development projects no longer being pursued in Chile.

See Note 16—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Foreign currency transaction gains (losses)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2020	2019	2020	2019
Chile	$ (12)	$ (1)	$ 10	$ 1
Dominican Republic	7	(1)	9	(1)
Corporate	3	9	4	1
Argentina	(10)	11	(7)	14
Other	6	4	2	3
Total [1]	$ (6)	$ 22	$ 18	$ 18

[1] Includes losses of $21 million and gains of $13 million on foreign currency derivative contracts for the three months ended June 30, 2020 and 2019, respectively, and gains of $18 million and $17 million on foreign currency derivative contracts for the six months ended June 30, 2020 and 2019, respectively.

The Company recognized net foreign currency transaction losses of $6 million for the three months ended June 30, 2020, primarily due to unrealized losses on foreign currency derivatives in South America due to the appreciating Colombian peso and losses on foreign currency derivatives in Argentina, partially offset by gains in the Dominican Republic due to the depreciating Dominican peso.

The Company recognized net foreign currency transaction gains of $18 million for the six months ended June 30, 2020, primarily due to realized gains on foreign currency derivatives in South America due to the depreciating Colombian peso and gains in the Dominican Republic due to the depreciating Dominican peso, partially offset by losses on foreign currency derivatives in Argentina.

The Company recognized net foreign currency transaction gains of $22 million for the three months ended June 30, 2019, primarily driven by realized gains on foreign currency derivatives related to government receivables in Argentina and gains at the Parent Company resulting from the appreciation of intercompany receivables denominated in Euro.

The Company recognized net foreign currency transaction gains of $18 million for the six months ended June 30, 2019, primarily driven by realized gains on foreign currency derivatives related to government receivables in Argentina.

Other non-operating expense

Other non-operating expense was $158 million and $202 million for the three and six months ended June 30, 2020, respectively. In March 2020, the Company recognized a $43 million other-than-temporary impairment of the OPGC equity method investment due to the current economic slowdown. In June 2020, the Company agreed to sell its entire stake in the OPGC investment, resulting in an additional other-than-temporary impairment of $158 million. There were no other non-operating expenses during the three and six months ended June 30, 2019.

See Note 7—*Investments in and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Income tax expense

Income tax expense increased $56 million, or 98%, to $113 million for the three months ended June 30, 2020, compared to $57 million for the three months ended June 30, 2019. The Company's effective tax rates were 108% and 48% for the three months ended June 30, 2020 and 2019, respectively. This net increase in the effective tax rate was primarily due to the impact of the additional other-than-temporary impairment of the OPGC equity method investment, as well as incremental deferred taxes relating to DPL, both recorded in the second quarter of 2020.

Income tax expense increased $30 million, or 17%, to $202 million for the six months ended June 30, 2020, compared to $172 million for the six months ended June 30, 2019. The Company's effective tax rates were 48% and 36% for the six months ended June 30, 2020 and 2019, respectively. This net increase in the effective tax rate was primarily due to the impact of both the aforementioned other-than-temporary impairment of the OPGC equity method investment and the incremental deferred taxes relating to DPL. These impacts were partially offset by the recognition of tax benefit related to a depreciating Peso in certain of our Mexican subsidiaries.

See Note 7—*Investments In and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for details of the impairment.

Our effective tax rate reflects the tax effect of significant operations outside the U.S., which are generally taxed at rates different than the U.S. statutory rate of 21%. Furthermore, our foreign earnings may be subjected to incremental U.S. taxation under the GILTI rules. A future proportionate change in the composition of income before income taxes from foreign and domestic tax jurisdictions could impact our periodic effective tax rate.

Net equity in earnings (losses) of affiliates

Net equity in earnings of affiliates increased $3 million, or 60%, to $8 million for the three months ended June 30, 2020, compared to $5 million for the three months ended June 30, 2019. This increase was primarily due to a $17 million increase in earnings at Guacolda as a result of lower depreciation expense due to the long-lived asset impairment recognized in October 2019, partially offset by a $13 million decrease in earnings at sPower due to the impairment of certain development projects.

Net equity in earnings of affiliates increased $7 million to earnings of $6 million for the six months ended June 30, 2020, compared to losses of $1 million for the six months ended June 30, 2019. This increase in earnings was primarily due to a $21 million increase in earnings at Guacolda as a result of lower depreciation expense and a $7 million increase in earnings on the Eólica Mesa La Paz project, which achieved commercial operations in December 2019, partially offset by a $17 million decrease in earnings at sPower due to the impairment of certain development projects.

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased $36 million, or 72%, to $86 million for the three months ended June 30, 2020, compared to $50 million for the three months ended June 30, 2019. This increase was primarily due to:

- Higher earnings in Chile mainly driven by lower interest expense due to incremental capitalized interest;
- Lower interest expense due to lower interest rates at Tietê; and
- Higher earnings in Panama primarily due to the prior year outage at Changuinola as a result of upgrading the tunnel lining, improved hydrology in 2020, and higher availability, higher energy sales margin and lower fixed costs at Colon.

These increases were partially offset by:

- Lower earnings in Colombia due to drier hydrology at the Chivor hydroelectric plant; and

- Prior year gains on foreign currency derivatives in South America.

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased $42 million, or 33%, to $171 million for the six months ended June 30, 2020, compared to $129 million for the six months ended June 30, 2019. This increase was primarily due to:

- Higher earnings in Chile mainly driven by lower interest expense due to incremental capitalized interest and higher equity earnings at our Guacolda equity affiliate; and
- Higher earnings in Panama primarily due to the prior year outage at Changuinola as a result of upgrading the tunnel lining, improved hydrology in 2020, and higher availability, higher energy sales margin and lower fixed costs at Colon.

These increases were partially offset by:

- Lower earnings in Colombia due to drier hydrology and a life extension project at the Chivor hydroelectric plant; and
- HLBV allocation of losses to noncontrolling interests at Distributed Energy.

Net income (loss) attributable to The AES Corporation

Net income attributable to The AES Corporation decreased $100 million to a loss of $83 million for the three months ended June 30, 2020, compared to income of $17 million for the three months ended June 30, 2019. This decrease was primarily due to:

- Other-than-temporary impairment of OPGC;
- Lower margins at our US and Utilities SBU;
- Loss on extinguishment of debt at the Parent Company;
- Loss on sale of the Kazakhstan HPPs as a result of the final arbitration decision;
- Prior year realized foreign exchange gains primarily due to the settlement of a tax liability in Argentina; and
- Higher income tax expense.

These decreases were partially offset by:

- Prior year impairments of Kilroot and Ballylumford;
- Prior year loss on extinguishment of debt at DPL;
- Lower interest expense due to incremental capitalized interest in Chile; and
- Higher margins at our MCAC SBU and South America SBUs.

Net income attributable to The AES Corporation decreased $110 million, or 64%, to $61 million for the six months ended June 30, 2020, compared to $171 million for the six months ended June 30, 2019. This decrease was primarily due to:

- Other-than-temporary impairment of OPGC;
- Lower margins at our US and Utilities SBU;
- Loss on extinguishment of debt at the Parent Company;
- Prior period gains on insurance proceeds associated with the lightning incident at the Andres facility in 2018; and
- Loss on sale of the Kazakhstan HPPs as a result of the final arbitration decision.

These decreases were partially offset by:

- Prior year impairments of Kilroot and Ballylumford;
- Higher margins at our MCAC SBU;
- Prior year losses on extinguishment of debt at DPL and Gener;
- Lower interest expense due to incremental capitalized interest in Chile;
- Gain on sale of land held by AES Redondo Beach at Southland; and

- Prior year loss on disposal of assets at Changuinola associated with upgrading the tunnel lining.

SBU Performance Analysis

Non-GAAP Measures

Adjusted Operating Margin, Adjusted PTC and Adjusted EPS are non-GAAP supplemental measures that are used by management and external users of our condensed consolidated financial statements such as investors, industry analysts and lenders.

During the year ended December 31, 2019, the Company changed the definitions of Adjusted PTC and Adjusted EPS to exclude gains and losses recognized at commencement of sales-type leases. We believe these transactions are economically similar to sales of business interests and excluding these gains or losses better reflects the underlying business performance of the Company.

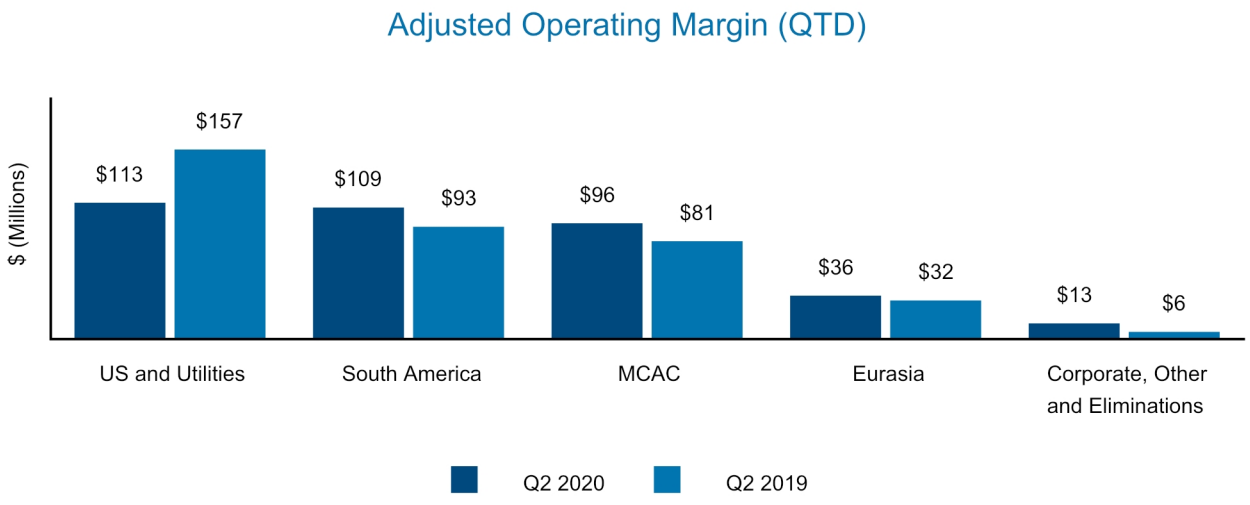
Adjusted Operating Margin

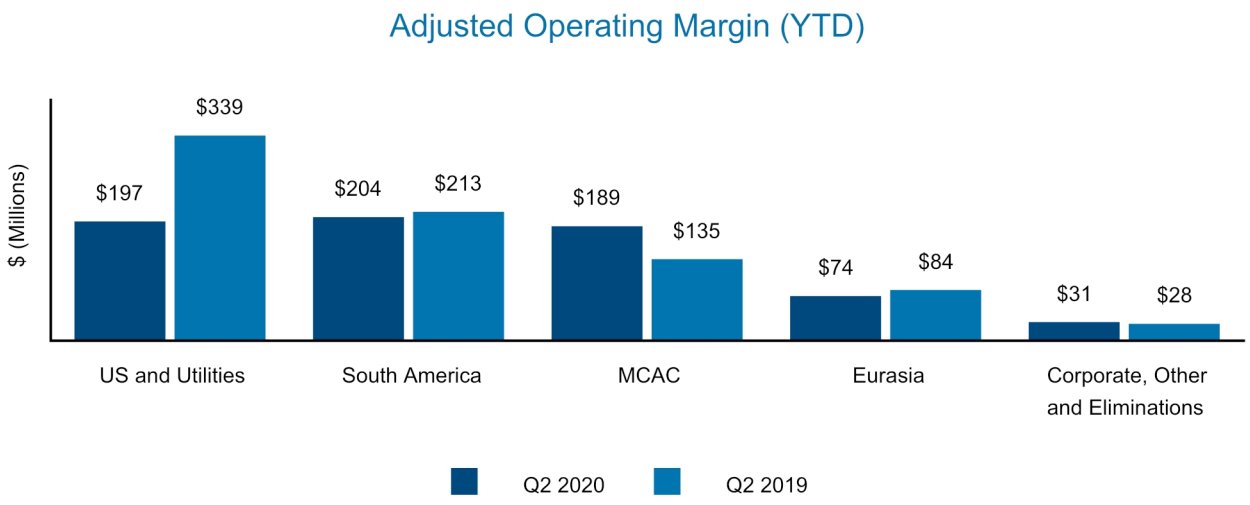
We define Adjusted Operating Margin as Operating Margin, adjusted for the impact of NCI, excluding (a) unrealized gains or losses related to derivative transactions; (b) benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures; and (c) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation. The allocation of HLBV earnings to noncontrolling interests is not adjusted out of Adjusted Operating Margin. See *Review of Consolidated Results of Operations* for the definition of Operating Margin.

The GAAP measure most comparable to Adjusted Operating Margin is *Operating Margin*. We believe that Adjusted Operating Margin better reflects the underlying business performance of the Company. Factors in this determination include the impact of NCI, where AES consolidates the results of a subsidiary that is not wholly owned by the Company, as well as the variability due to unrealized gains or losses related to derivative transactions and strategic decisions to dispose of or acquire business interests. Adjusted Operating Margin should not be construed as an alternative to *Operating Margin*, which is determined in accordance with GAAP.

Reconciliation of Adjusted Operating Margin (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating Margin	$ 524	$ 502	$ 1,031	$ 1,088
Noncontrolling interests adjustment [1]	(154)	(136)	(323)	(297)
Unrealized derivative gains	(5)	(2)	(17)	(2)
Disposition/acquisition losses	2	5	4	10
Total Adjusted Operating Margin	$ 367	$ 369	$ 695	$ 799

[1] The allocation of HLBV earnings to noncontrolling interests is not adjusted out of Adjusted Operating Margin.





Adjusted PTC

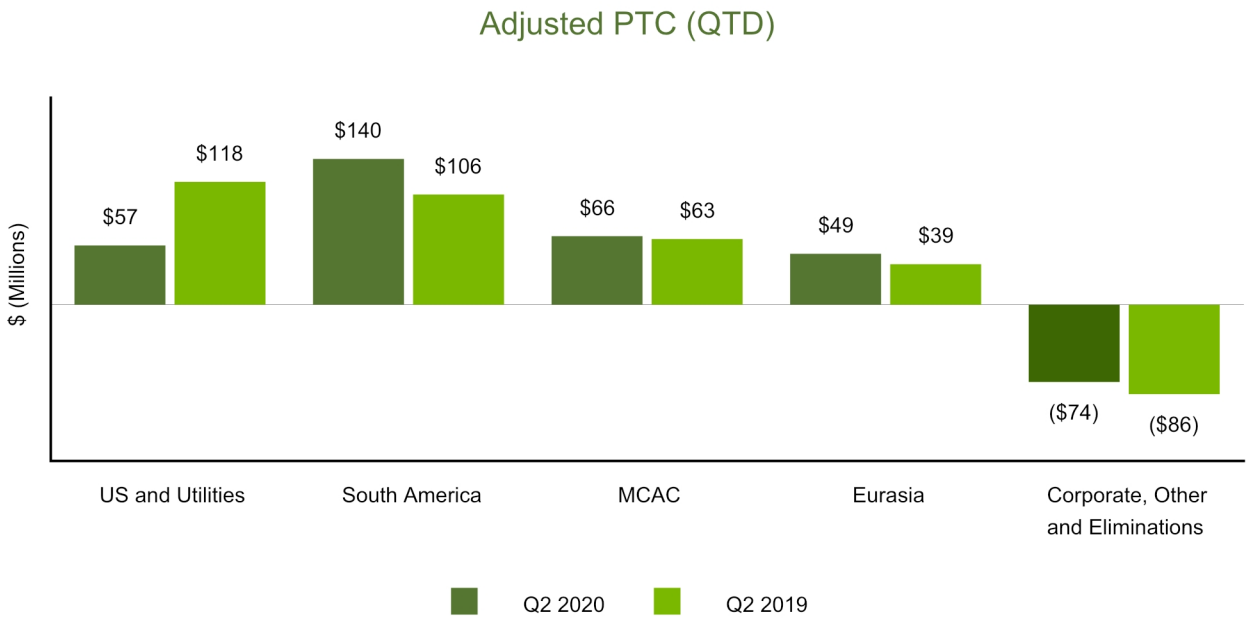
We define Adjusted PTC as pre-tax income from continuing operations attributable to The AES Corporation excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses related to derivative transactions and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; and (f) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation. Adjusted PTC also includes net equity in earnings of affiliates on an after-tax basis adjusted for the same gains or losses excluded from consolidated entities.

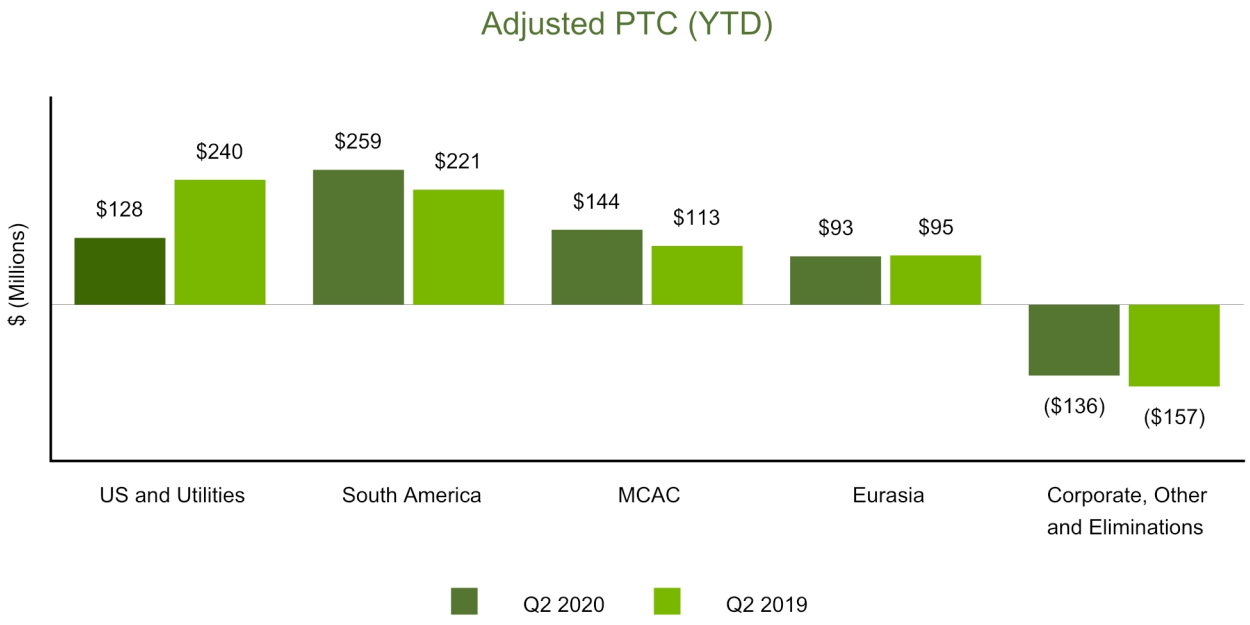
Adjusted PTC reflects the impact of NCI and excludes the items specified in the definition above. In addition to the revenue and cost of sales reflected in Operating Margin, Adjusted PTC includes the other components of our income statement, such as *general and administrative expenses* in the Corporate segment, as well as business development costs, *interest expense* and *interest income, other expense* and *other income, realized foreign currency transaction gains and losses,* and *net equity in earnings of affiliates*.

The GAAP measure most comparable to Adjusted PTC is *income from continuing operations attributable to The AES Corporation*. We believe that Adjusted PTC better reflects the underlying business performance of the Company and is the most relevant measure considered in the Company's internal evaluation of the financial performance of its segments. Factors in this determination include the variability due to unrealized gains or losses related to derivative transactions or equity securities remeasurement, unrealized foreign currency gains or losses, losses due to impairments and strategic decisions to dispose of or acquire business interests, retire debt or implement restructuring initiatives, which affect results in a given period or periods. In addition, earnings before tax represents the business performance of the Company before the application of statutory income tax rates and tax adjustments, including the effects of tax planning, corresponding to the various jurisdictions in which the Company operates. Given its large number of businesses and complexity, the Company concluded that Adjusted PTC is a more transparent measure that better assists investors in determining which businesses have the greatest impact on the Company's results.

Adjusted PTC should not be construed as an alternative to *income from continuing operations attributable to The AES Corporation*, which is determined in accordance with GAAP.

Reconciliation of Adjusted PTC (in millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Income (loss) from continuing operations, net of tax, attributable to The AES Corporation	$ (86)	$ 16	$ 58	$ 170
Income tax expense from continuing operations attributable to The AES Corporation	81	36	136	121
Pre-tax contribution	(5)	52	194	291
Unrealized derivative and equity securities losses (gains)	14	6	(2)	9
Unrealized foreign currency losses (gains)	(12)	7	(3)	18
Disposition/acquisition losses	29	5	30	14
Impairment expense	168	121	221	123
Loss on extinguishment of debt	44	49	48	57
Total Adjusted PTC	$ 238	$ 240	$ 488	$ 512





Adjusted EPS

We define Adjusted EPS as diluted earnings per share from continuing operations excluding gains or losses of both consolidated entities and entities accounted for under the equity method due to (a) unrealized gains or losses related to derivative transactions and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and the tax impact from the repatriation of sales proceeds, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; (f) costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation; and (g) tax benefit or expense related to the enactment effects of 2017 U.S. tax law reform and related regulations and any subsequent period adjustments related to enactment effects.

The GAAP measure most comparable to Adjusted EPS is *diluted earnings per share from continuing operations*. We believe that Adjusted EPS better reflects the underlying business performance of the Company and is considered in the Company's internal evaluation of financial performance. Factors in this determination include the variability due to unrealized gains or losses related to derivative transactions or equity securities remeasurement, unrealized foreign currency gains or losses, losses due to impairments and strategic decisions to dispose of or acquire business interests, retire debt or implement restructuring activities, which affect results in a given period or periods.

Adjusted EPS should not be construed as an alternative to *diluted earnings per share from continuing operations*, which is determined in accordance with GAAP.

	Three Months Ended June 30,		Six Months Ended June 30,	
Reconciliation of Adjusted EPS	**2020**	**2019**	**2020**	**2019**
Diluted earnings (loss) per share from continuing operations	$ (0.13)	$ 0.02	$ 0.09	$ 0.26
Unrealized derivative and equity securities losses	0.02	0.01	—	0.01
Unrealized foreign currency losses (gains)	(0.01) [1]	0.02 [2]	— [1]	0.02 [2]
Disposition/acquisition losses	0.04 [3]	0.01 [4]	0.04 [5]	0.02 [4]
Impairment expense	0.25 [6]	0.18 [7]	0.33 [6]	0.18 [7]
Loss on extinguishment of debt	0.07 [8]	0.07	0.07 [8]	0.09
U.S. Tax Law Reform Impact	0.02 [9]	— [10]	0.02 [9]	0.01 [10]
Less: Net income tax benefit	(0.01)	(0.05)	(0.01)	(0.06)
Adjusted EPS	$ 0.25	$ 0.26	$ 0.54	$ 0.53

(1) Amount primarily relates to loss on sale of the Kazakhstan HPPs of $30 million, or $0.05 per share, as result of the final arbitration decision.

(2) Amount primarily relates to loss on sale of Kilroot and Ballylumford of $31 million, or $0.05 per share, partially offset by gain on sale of a portion of our interest in sPower's operating assets of $28 million, or $0.04 per share.

(3) Amount primarily relates to other-than-temporary impairment of OPGC of $158 million, or $0.24 per share, and impairments at our sPower equity affiliate, impacting equity earnings by $10 million, or $0.01 per share.

(4) Amount primarily relates to asset impairments at Kilroot and Ballylumford of $115 million, or $0.17 per share.

(5) Amount primarily relates to other-than-temporary impairment of OPGC of $201 million, or $0.30 per share, and impairments at our sPower equity affiliate, impacting equity earnings by $15 million, or $0.02 per share.

(6) Amount primarily relates to loss on early retirement of debt at the Parent Company of $37 million, or $0.06 per share.

(7) Amount primarily relates to loss on early retirement of debt at DPL of $45 million, or $0.07 per share.

(8) Amount represents adjustment to tax law reform remeasurement due to incremental deferred taxes related to DPL of $16 million, or $0.02 per share.

(9) Amount primarily relates to income tax benefits associated with the loss on early retirement of debt at the Parent Company of $11 million, or $0.02 per share.

(10) Amount primarily relates to income tax benefits associated with the impairments at Kilroot and Ballylumford of $23 million, or $0.03 per share, and income tax benefits associated with the loss on early retirement of debt at DPL of $11 million, or $0.02 per share.

US and Utilities SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Operating Margin	$ 136	$ 175	$ (39)	-22%	$ 256	$ 387	$ (131)	-34%
Adjusted Operating Margin [1]	113	157	(44)	-28%	197	339	(142)	-42%
Adjusted PTC [1]	57	118	(61)	-52%	128	240	(112)	-47%

(1) A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2019 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2020 decreased $39 million, or 22%, which was driven primarily by the following (in millions):

Decrease at DPL due to lower regulated retail margin primarily due to changes to DP&L's ESP	$ (22)
Decrease at Southland driven by lower capacity sales due to unit retirements and a decrease in spot sales primarily due to weather impact, partially offset by lower depreciation expense	(21)
Decrease in El Salvador mainly driven by lower demand due to the impact of COVID-19	(16)
Increase at Southland Energy due to the commencement of the PPA periods during Q2	10
Increase at IPL primarily due to lower maintenance expense driven by fewer planned outages, partially offset by lower retail margin driven by lower demand mainly due to the impact of COVID-19	6
Other	4
Total US and Utilities SBU Operating Margin Decrease	$ (39)

Adjusted Operating Margin decreased $44 million primarily due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives and costs associated with dispositions of business interests.

Adjusted PTC decreased $61 million, primarily driven by the decrease in Adjusted Operating Margin described above and increased interest expense at Southland Energy due to lower capitalized interest following completion of the CCGT units.

Operating Margin for the six months ended June 30, 2020 decreased $131 million, or 34%, which was driven primarily by the following (in millions):

Decrease at DPL due to lower regulated retail margin primarily due to changes to DP&L's ESP and lower volumes mainly due to milder weather in Q1	$ (43)
Decrease at Southland driven by lower capacity sales due to unit retirements and a decrease in spot sales primarily due to weather impact, partially offset by lower depreciation expense	(25)
Decrease at DPL due to a credit to depreciation expense in 2019 as a result of a reduction in the ARO liability at DPL's closed plants, Stuart and Killen	(23)
Decrease in El Salvador mainly driven by lower demand due to the impact of COVID-19	(14)
Decrease at DPL due to lower PJM capacity prices on remaining generation capacity contracts and the end of certain capacity contracts in May 2020	(10)
Decrease in Puerto Rico mainly driven by an increase of rock ash disposal	(7)
Decrease at IPL due to lower retail margin driven by lower volumes from milder weather in Q1 and lower demand due to the impact of COVID-19 in Q2, partially offset by lower maintenance expense driven by fewer planned outages	(5)
Other	(4)
Total US and Utilities SBU Operating Margin Decrease	$ (131)

Adjusted Operating Margin decreased $142 million primarily due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives and costs associated with dispositions of business interests.

Adjusted PTC decreased $112 million, primarily driven by the decrease in Adjusted Operating Margin described above and increased interest expense at Southland Energy due to lower capitalized interest following completion of the CCGT units, partially offset by a gain on sale of land held by AES Redondo Beach at Southland, an increase at Distributed Energy due to the HLBV allocation of noncontrolling interest earnings, and lower interest expenses due to refinancing.

South America SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Operating Margin	$ 193	$ 171	$ 22	13%	$ 370	$ 387	$ (17)	-4%
Adjusted Operating Margin [(1)]	109	93	16	17%	204	213	(9)	-4%
Adjusted PTC [(1)]	140	106	34	32%	259	221	38	17%

(1) A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2019 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2020 increased $22 million, or 13%, which was driven primarily by the following (in millions):

Expected recovery of previously expensed payments from customers in Chile	$ 49
Drier hydrology in Colombia partially offset by higher spot prices	(21)
Lower energy and capacity prices (Resolution 31/2020) in Argentina partially offset by margin from new wind assets	(9)
Other	3
Total South America SBU Operating Margin Increase	$ 22

Adjusted Operating Margin increased $16 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased $34 million, mainly driven by the increase in Adjusted Operating Margin described above and a decrease in interest expense due to incremental capitalized interest at Alto Maipo, partially offset by realized FX in Argentina.

Operating Margin for the six months ended June 30, 2020 decreased $17 million, or 4%, which was driven primarily by the following (in millions):

Lower reservoir levels as a result of the life extension project at Chivor during Q1 2020 and drier hydrology in Colombia	$ (64)
Expected recovery of previously expensed payments from customers in Chile	49
Other	(2)
Total South America SBU Operating Margin Decrease	$ (17)

Adjusted Operating Margin decreased $9 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased $38 million, mainly driven by a decrease in interest expense due to incremental capitalized interest at Alto Maipo and higher equity earnings from Guacolda mostly related to better operating results. These positive impacts were partially offset by realized FX in Argentina, lower interest income primarily driven by lower interest rates on CAMMESA receivables, and the decrease in Adjusted Operating Margin described above.

MCAC SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Operating Margin	$ 134	$ 107	$ 27	25%	$ 274	$ 182	$ 92	51%
Adjusted Operating Margin [(1)]	96	81	15	19%	189	135	54	40%
Adjusted PTC [(1)]	66	63	3	5%	144	113	31	27%

(1) A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2019 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2020 increased $27 million, or 25%, which was driven primarily by the following (in millions):

Increase in Panama driven by improved hydrology resulting in lower spot market purchases at lower spot prices	$ 14
Higher availability in Panama mainly due to the outage in 2019 related to Changuinola's tunnel lining upgrade	13
Total MCAC SBU Operating Margin Increase	$ 27

Adjusted Operating Margin increased $15 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased $3 million, mainly driven by the increase in Adjusted Operating Margin described above and Changuinola's tunnel disposal in 2019, partially offset by insurance recoveries associated with property damage at Andres in 2019, lower interest capitalization for Andres and Changuinola's tunnel projects, and lower interest income in Dominican Republic.

Operating Margin for the six months ended June 30, 2020 increased $92 million, or 51%, which was driven primarily by the following (in millions):

Higher availability in Panama mainly due to the outage in 2019 related to Changuinola's tunnel lining upgrade	$ 28
Increase in Panama driven by improved hydrology resulting in lower spot market purchases at lower spot prices	27
Increase in Panama driven by higher availability, higher energy sales margin and lower fixed costs at the Colon combined cycle plant	21
Increase in the Dominican Republic driven by higher availability mainly at Itabo, gas sales margin and capacity offset by higher depreciation and insurance costs	13
Other	3
Total MCAC SBU Operating Margin Increase	$ 92

Adjusted Operating Margin increased $54 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased $31 million, mainly driven by the increase in Adjusted Operating Margin described above and Changuinola's tunnel disposal in 2019 partially offset by insurance recoveries associated with property damage at Andres in 2019, lower interest capitalization for Andres and Changuinola's tunnel projects, and lower interest income in Dominican Republic.

Eurasia SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Operating Margin	$ 49	$ 41	$ 8	20%	$ 100	$ 104	$ (4)	-4%
Adjusted Operating Margin [1]	36	32	4	13%	74	84	(10)	-12%
Adjusted PTC [1]	49	39	10	26%	93	95	(2)	-2%

[1] A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2019 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2020 increased $8 million, or 20%, which was driven primarily by the following (in millions):

Impact of the sale of Kilroot and Ballylumford businesses in June 2019	$ 5
Improved operational performance in Vietnam	4
Other	(1)
Total Eurasia SBU Operating Margin Increase	$ 8

Adjusted Operating Margin increased $4 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased $10 million, mainly driven by the increase in Adjusted Operating Margin described above, lower interest expense as a result of debt repayments in Bulgaria, and higher equity earnings at OPGC.

Operating Margin for the six months ended June 30, 2020 decreased $4 million, or 4%, which was driven primarily by the following (in millions):

Impact of the sale of Kilroot and Ballylumford businesses in June 2019	$ (6)
Other	2
Total Eurasia SBU Operating Margin Decrease	$ (4)

Adjusted Operating Margin decreased $10 million due to the drivers above, adjusted for NCI.

Adjusted PTC decreased $2 million, mainly driven by the decrease in the Adjusted Operating Margin described above, offset by lower interest expense due to regular debt repayment.

Key Trends and Uncertainties

During the remainder of 2020 and beyond, we expect to face the following challenges at certain of our businesses. Management expects that improved operating performance at certain businesses, growth from new businesses and global cost reduction initiatives may lessen or offset their impact. If these favorable effects do not occur, or if the challenges described below and elsewhere in this section impact us more significantly than we currently anticipate, or if volatile foreign currencies and commodities move more unfavorably, then these adverse factors (or other adverse factors unknown to us) may have a material impact on our operating margin, net income attributable to The AES Corporation, and cash flows. We continue to monitor our operations and address challenges as they arise. For the risk factors related to our business, see Item 1.—*Business* and Item 1A.—*Risk Factors* of our 2019 Form 10-K.

COVID-19 Pandemic

Since December 2019, the COVID-19 pandemic has impacted over 150 countries, including every state in the United States. The outbreak of COVID-19 has severely impacted global economic activity, including electricity and energy consumption, and caused significant volatility and negative pressure in financial markets. The global impact of the pandemic has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures, and restricting travel.

For the quarter ending June 30, 2020, the economic impact of the pandemic was reflected throughout the quarter and impacted the financial results and operations of the Company. We expect to continue to experience impacts from the pandemic in the second half of 2020. The following discussion highlights our assessment of the impacts of the pandemic on our current financial and operating status, and our financial and operational outlook based on information known as of this filing. Also see Part II, Item 1A—*Risk Factors* of this Form 10-Q.

Business Continuity — As the COVID-19 pandemic progresses, we are taking a variety of measures to ensure our ability to generate, transmit, distribute and sell electric energy, to ensure the health and safety of our employees, contractors, customers and communities and to provide essential services to the communities in which we operate. We continue to respond to this global crisis through comprehensive measures to protect our employees while fulfilling our vital role in providing our customers with electric energy. While there have been stay-at-home restrictions in place in most of the locations where we operate, our operations are considered essential and have been running without significant disruption. Stay-at-home restrictions have been lifted in some of our areas of operation and non-essential employees are beginning to return to work at our locations in stages. Most of our management and administrative personnel are able to work remotely, and we have not experienced significant issues affecting our operations or ability to maintain effective internal controls and produce reliable financial information.

Demand — We derive approximately 85% of our total revenues from our regulated utilities and long-term sales and supply contracts or PPAs at our generation businesses, which contributes to a relatively stable revenue and cost structure at most of our businesses. The impact of the COVID-19 pandemic on the energy market materialized in our operational locations in the second quarter and has been generally better than our revised expectations for the quarter. Our utilities businesses experienced a mid-single digit percentage decline in the second quarter. Internationally, demand has decreased 4 to 15% in our key markets, with improvements in most of our markets in June. However, our business model in those markets is primarily based on take-or-pay contracts or tolling agreements, with limited exposure to demand. Additionally, the uncontracted portion of our generation business is exposed to increased price risk resulting from materially lower demand associated with the pandemic. We are also experiencing a decline in electricity spot prices in some of our markets due to lower system demand. While we cannot predict the length and magnitude of the pandemic or how it could impact global economic conditions, continuous and/or further declines in future demand have the potential to adversely impact our financial results for 2020.

Liquidity — Our liquidity position remains strong. As of June 30, 2020 we had $2.1 billion in cash and restricted cash deposits and $422 million in short-term investments. Total Parent Company Liquidity was $609 million at June 30, 2020, with a limited amount of recourse debt due for repayment prior to 2025.

In the second quarter, AES accessed the capital markets to issue $900 million in principal amount of 3.30% senior secured notes due in 2025 and $700 million in principal amount of 3.95% senior secured notes due in 2030, the proceeds of which were used to repay a substantial portion of recourse debt due prior to 2025. Additionally, IPALCO issued $475 million of 4.25%, ten-year notes, and DPL issued $415 million of 4.125% notes due 2025. To date, we have repaid approximately 75% of the debt due to mature at our subsidiaries in 2020. In addition, we utilized cash from operations to repay approximately $350 million of Q1 2020 drawings on our Parent Company revolver in the second quarter.

Further, we have secured financing for most of our significant construction projects that are planned for completion in 2020. We have made all required payments, including payments for salaries and wages owed to our employees. Our subsidiaries have continued to remit dividends to the Parent Company as expected. We have paid all declared dividends on AES stock and have made no changes to our dividend expectations. Also see Part I, Item 2—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity* of this Form 10-Q.

Credit Exposures — We continue to monitor and manage our credit exposures in a prudent manner. Our credit exposures have continued in-line with historical levels with some modest deterioration in days sales outstanding from utility customers, primarily in El Salvador in the second quarter of 2020 and, to a lesser extent, in the U.S. These impacts are expected to be partially offset by recoveries through U.S. regulatory rate-making mechanisms and a securitization of the El Salvador customer payment moratorium receivables. We have not experienced any material credit-related impacts from our PPA offtakers in the first half of 2020; however, we may be exposed to heightened credit-related risks that develop over the remainder of 2020 if some of our offtakers experience further challenges from COVID-19 impacts. We expect significant economic disruptions from the COVID-19 pandemic to continue for the remainder of 2020. If these disruptions continue beyond 2020, further deterioration in our credit exposures and customer collections could result.

Supply Chain and Development— Our supply chain management has remained robust during this challenging time and we continue to closely manage and monitor developments. We currently have an adequate supply of solar panels and lithium-ion batteries in our inventory to fulfill the majority of our current project needs for 2020. We have experienced certain minor delays in some of our development projects, primarily in permitting processes and the implementation of interconnections, due to governments and other authorities having limited capacity to perform their functions.

CARES Act — The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed by the U.S. Congress and signed into law on March 27, 2020. While we currently expect a limited impact from this legislation on our business, certain elements such as changes in the deductibility of interest may provide some cash benefits in the near term.

Income Taxes — Our interpretation of the 2017 Tax Cuts and Jobs Act ("TCJA") may change as the U.S. Treasury and the Internal Revenue Service issue additional guidance. For example, the Company is currently reviewing final regulations related to the GILTI high-tax exception published in the Federal Register on July 23, 2020. The Company is also currently reviewing final and proposed regulations on business interest expense deductions that were released on July 28, 2020. These regulations may materially impact our 2020 and future year effective tax rates and future cash tax obligations. The Company also continues to monitor the potential COVID-19 impact on our financial results and operations, which may result in the need to record a valuation allowance against deferred tax assets in the jurisdictions where we operate.

Macroeconomic and Political

During the past few years, some countries where our subsidiaries conduct business have experienced macroeconomic and political changes. In the event these trends continue, there could be an adverse impact on our businesses.

Argentina — In the run up to the 2019 Presidential elections, the Argentine peso devalued significantly and the government of Argentina imposed capital controls and announced a restructuring of Argentina's debt payments. Restrictions on the flow of capital have limited the availability of international credit, and economic conditions in Argentina have further deteriorated, triggering additional devaluation of the Argentine peso and a deterioration of the country's risk profile.

On October 27, 2019, Alberto Fernández was elected president. The new administration has been evaluating solutions to the Argentine economic crisis. On February 27, 2020, the Secretariat of Energy passed Resolution No. 31/2020 that includes the denomination of tariffs in local currency indexed by local inflation (currently delayed due to the COVID-19 pandemic), and reductions in capacity payments received by generators. These regulatory changes are expected to have a negative impact on our financial results.

On April 17, 2020, the government of Argentina presented a debt restructuring proposal to international creditors. On May 22, 2020, Argentina did not make a scheduled interest payment on its public debt, triggering a sovereign debt default. On August 4, 2020, Argentina reached an agreement with three groups of its major foreign private creditors to restructure this debt and extended the acceptance period for the exchange offer of the new bonds until August 24, 2020.

Although the situation remains unresolved, it has not had a material impact on our current exposures to date, and payments on the long-term receivables for the FONINVEMEM Agreements are current. For further information, see Note 7—*Financing Receivables* in Item 8—*Financial Statements and Supplementary Data* of the 2019 Form 10-K.

Chile — In October 2019, Chile saw significant protests associated with economic conditions resulting in the declaration of a state of emergency in several major cities.

In November 2019, the Chilean government enacted Law 21,185 that establishes a Stabilization Fund for regulated energy prices. Historically, the government updated the prices for regulated energy contracts every six months to reflect the indexation the contracts have to exchange rates and commodities prices. The new law freezes regulated prices and does not allow the pass-through of these contractual indexation updates to customers beyond the pricing in effect at July 1, 2019, until new lower-cost renewable contracts are incorporated into pricing in 2023. Consequently, costs incurred in excess of the July 1, 2019 price will be accumulated and borne by generators. AES Gener has deferred collection of $74 million of revenue as of June 30, 2020. It is expected such amounts deferred will be fully repaid to generators prior to December 31, 2027.

Other initiatives to address the concerns of the protesters, including potential constitutional amendments, are under consideration by Congress and could result in regulatory changes that may affect our results of operations in Chile.

Puerto Rico — As discussed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2019 Form 10-K, our subsidiaries in Puerto Rico have a long-term PPA with state-owned PREPA, which has been facing economic challenges that could result in a material adverse effect on our business in Puerto Rico.

AES Puerto Rico and AES Ilumina's non-recourse debt of $268 million and $32 million, respectively, continue to be in technical default and are classified as current as of June 30, 2020 as a result of PREPA's bankruptcy filing in July 2017. The Company is in compliance with its debt payment obligations as of June 30, 2020.

The Company's receivable balances in Puerto Rico as of June 30, 2020 totaled $71 million, of which $20 million was overdue. Despite the Title III protection, PREPA has been making substantially all of its payments to the generators in line with historical payment patterns.

Considering the information available as of the filing date, management believes the carrying amount of our long-lived assets in Puerto Rico of $539 million is recoverable as of June 30, 2020.

Reference Rate Reform — As discussed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2019 Form 10-K, in July 2017, the UK Financial Conduct Authority announced that it intends to phase out LIBOR by the end of 2021. In the U.S., the Alternative Reference Rate Committee at the Federal Reserve identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for LIBOR; alternative reference rates in other key markets are under development. AES holds a substantial amount of debt and derivative contracts referencing LIBOR as an interest rate benchmark. Although the full impact of the reform remains unknown, we have begun to engage with AES counterparties to discuss specific action items to be undertaken in order to prepare for amendments when they become due.

Decarbonization Initiatives

Several initiatives have been announced by regulators and offtakers in recent years, with the intention of reducing GHG emissions generated by the energy industry. Our strategy of shifting towards clean energy platforms, including renewable energy, energy storage, LNG and modernized grids is designed to position us for continued growth while reducing our carbon intensity. The shift to renewables has caused certain customers to migrate to other low-carbon energy solutions and this trend may continue. Certain of our contracts contain clauses designed to compensate for early contract terminations, but we cannot guarantee full recovery. Although the Company cannot currently estimate the financial impact of these decarbonization initiatives, new legislative or regulatory programs further restricting carbon emissions could require material capital expenditures, result in a reduction of the estimated useful life of certain coal facilities, or have other material adverse effects on our financial results. For further discussion of our strategy of shifting towards clean energy platforms see *Overview of Strategic Performance.*

Chilean Decarbonization Plan — The Chilean government has announced an initiative to phase out coal power plants by 2040 and achieve carbon neutrality by 2050. On June 4, 2019, AES Gener signed an agreement with the Chilean government to cease the operation of two coal units for a total of 322 MW as part of the phase-out. Under the agreement, Ventanas 1 (114 MW) will cease operation in November 2022 and Ventanas 2 (208 MW) in May 2024. These units will remain connected to the grid as "strategic operating reserve" for up to five years after ceasing operations, will receive a reduced capacity payment and will be dispatched, if necessary, to ensure the electric system's reliability. Considering the information available as of the filing date, management believes the carrying amount of our coal-fired long-lived assets in Chile of $2.7 billion is recoverable as of June 30, 2020.

Puerto Rico Energy Public Policy Act — On April 11, 2019, the Governor of Puerto Rico signed the Puerto Rico Energy Public Policy Act ("the Act") establishing guidelines for grid efficiency and eliminating coal as a source for electricity generation by January 1, 2028. The Act supports the accelerated deployment of renewables through the Renewable Portfolio Standard and the conversion of coal generating facilities to other fuel sources, with compliance targets of 40% by 2025, 60% by 2040, and 100% by 2050. AES Puerto Rico's long-term PPA with PREPA expires November 30, 2027. Unless the Act is amended or a waiver from its provisions is obtained, AES Puerto Rico will need to convert fuel sources to continue operating. PREPA and AES Puerto Rico have begun discussing conversion options, but any plan would be subject to lender and regulatory approval, including that of the Oversight Board that filed for bankruptcy on behalf of PREPA.

For further information about the risks associated with decarbonization initiatives, see Item 1A.—Risk Factors —*Concerns about GHG emissions and the potential risks associated with climate change have led to increased regulation and other actions that could impact our businesses* included in the 2019 Form 10-K.

Regulatory

DP&L Rate Case — Ohio law requires utilities to file either an ESP or MRO plan to establish SSO rates. From November 1, 2017 through December 18, 2019, DP&L operated pursuant to an approved ESP plan, which was initially filed on March 13, 2017 ("ESP 3"). On November 21, 2019, the PUCO issued a supplemental

order modifying ESP 3, and as a result DP&L filed a Notice of Withdrawal of its ESP 3 Application and requested to revert to the ESP rates that were in effect prior to ESP 3 ("ESP 1 Rates"). The Notice of Withdrawal was approved by the PUCO on December 18, 2019. The PUCO order required, among other things, DP&L to conduct both an ESP v. MRO Test to validate that the ESP is more favorable in the aggregate than what would be experienced under an MRO, and a prospective SEET, both of which were filed with the PUCO on April 1, 2020. DP&L is also subject to an annual retrospective SEET. The ultimate outcome of the ESP v. MRO and SEET proceedings could have a material adverse effect on DP&L's results of operations, financial condition and cash flows.

On January 23, 2020, DP&L filed with the PUCO requesting approval to defer its decoupling costs consistent with the methodology approved in its Distribution Rate Case. If approved, deferral would be effective December 18, 2019 and going forward would reduce impacts of weather, energy efficiency programs, and economic changes in customer demand.

TDSIC — On March 4, 2020, the IURC issued an order approving projects under IPL's TDSIC Plan, which is a seven-year plan for eligible transmission, distribution and storage system improvements totaling $1.2 billion from 2020 through 2027. There will be no revenues and/or cost recovery until approval of the TDSIC rider, which is not expected to occur until later in 2020.

U.S. Executive Order Regarding Power Equipment — On May 1, 2020, President Trump issued an executive order banning transactions involving the acquisition, importation, transfer, or installation of certain equipment to be used in connection with the operation of the U.S. interconnected transmission network and electric generation facilities needed to maintain transmission reliability. The ban would apply if such equipment is designed, manufactured or supplied by any company that is subject to, or controlled by, the jurisdiction of a country considered by the U.S. to be a foreign adversary and such transaction would pose an unacceptable risk to the national security of the U.S. (the "Executive Order"). We are reviewing the Executive Order and will consider the rules and regulations to be issued pursuant to this Executive Order when they become available, including rules and regulations that may define foreign adversaries, such as China, under the Executive Order or identify equipment or vendors that are exempt from any restrictions under the Executive Order. At this time, the impact of this Executive Order on our U.S. utilities, renewables or other businesses is uncertain.

Foreign Exchange Rates

We operate in multiple countries and as such are subject to volatility in exchange rates at varying degrees at the subsidiary level and between our functional currency, the USD, and currencies of the countries in which we operate. For additional information, refer to Item 3.—*Quantitative and Qualitative Disclosures About Market Risk*.

Impairments

Long-lived Assets and Equity Affiliates — During the six months ended June 30, 2020, the Company recognized asset and other-than-temporary impairment expenses of $207 million. See Note 7—*Investments In and Advances To Affiliates* and Note 16—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for further information. After recognizing these impairment expenses, the carrying value of long-lived assets that were assessed for impairment totaled $185 million at June 30, 2020.

Goodwill — The Company considers a reporting unit at risk of impairment when its fair value does not exceed its carrying amount by 10%. In 2019, the Company determined that the fair value of its Gener reporting unit exceeded its carrying value by 3% at the October 1st measurement date. Therefore, the goodwill at Gener is considered "at risk" largely due to the Chilean government's announcement to phase out coal generation by 2040, and a decline in long-term energy prices.

Given the uncertainties in the global market caused by the COVID-19 pandemic, the Company assessed whether current events or circumstances indicated it was more likely than not the fair value of the Gener reporting unit was reduced below its carrying amount during the second quarter of 2020. After assessing the relevant factors, the Company determined there was no triggering event requiring a reassessment of goodwill impairment as of June 30, 2020. While the duration and severity of the impacts of the COVID-19 pandemic remain unknown, further deterioration in the global market could result in changes to assumptions utilized in the goodwill assessment.

The Gener goodwill balance was $868 million as of June 30, 2020. Sustained downward pressure on long-term power prices in Chile could also potentially be an indicator of other-than-temporary impairment of certain equity method investments in future periods. Impairments would negatively impact our consolidated results of operations and net worth. See Item 1A.—*Risk Factors* of the 2019 Form 10-K for further information.

Events or changes in circumstances that may necessitate recoverability tests and potential impairments of long-lived assets or goodwill may include, but are not limited to, adverse changes in the regulatory environment, unfavorable changes in power prices or fuel costs, increased competition due to additional capacity in the grid, technological advancements, declining trends in demand, evolving industry expectations to transition away from fossil fuel sources for generation, or an expectation it is more likely than not the asset will be disposed of before the end of its estimated useful life.

Environmental

The Company is subject to numerous environmental laws and regulations in the jurisdictions in which it operates. The Company faces certain risks and uncertainties related to these environmental laws and regulations, including existing and potential GHG legislation or regulations, and actual or potential laws and regulations pertaining to water discharges, waste management (including disposal of coal combustion residuals) and certain air emissions, such as SO_2, NO_x, particulate matter, mercury and other hazardous air pollutants. Such risks and uncertainties could result in increased capital expenditures or other compliance costs which could have a material adverse effect on certain of our U.S. or international subsidiaries and our consolidated results of operations. For further information about these risks, see Item 1A.—*Risk Factors—Our operations are subject to significant government regulation and our business and results of operations could be adversely affected by changes in the law or regulatory schemes; Several of our businesses are subject to potentially significant remediation expenses, enforcement initiatives, private party lawsuits and reputational risk associated with CCR; Our businesses are subject to stringent environmental laws, rules and regulations;* and *Concerns about GHG emissions and the potential risks associated with climate change have led to increased regulation and other actions that could impact our businesses* included in the 2019 Form 10-K.

Climate Change Regulation — On July 8, 2019, the EPA published the final Affordable Clean Energy ("ACE") Rule, along with associated revisions to implementing regulations, in addition to final revocation of the Clean Power Plan. The ACE Rule determines that heat rate improvement measures are the Best System of Emissions Reductions for existing coal-fired electric generating units. The final rule requires states with existing coal-fired electric generating units to develop state plans to establish CO_2 emission limits for designated facilities. IPL Petersburg and AES Warrior Run have coal-fired electric generating units that may be impacted by this regulation. On February 19, 2020, Indiana published a First Notice for the Indiana ACE Rule indicating that IDEM intends to determine the best system of emissions reductions and CO_2 standards for affected units. However, the impact remains largely uncertain because state plans have not yet been developed.

Waste Management — On October 19, 2015, an EPA rule regulating CCR under the Resource Conservation and Recovery Act as nonhazardous solid waste became effective. The rule established nationally applicable minimum criteria for the disposal of CCR in new and currently operating landfills and surface impoundments, including location restrictions, design and operating criteria, groundwater monitoring, corrective action and closure requirements and post-closure care. The primary enforcement mechanisms under this regulation would be actions commenced by the states and private lawsuits. On December 16, 2016, the Water Infrastructure Improvements for the Nation Act ("WIN Act") was signed into law. This includes provisions to implement the CCR rule through a state permitting program, or if the state chooses not to participate, a possible federal permit program. The EPA has indicated that it will implement a phased approach to amending the CCR Rule. On August 14, 2019, the EPA published proposed amendments to the CCR rule relating to the CCR rule's criteria for determining beneficial use and the regulation of CCR piles, among other revisions. On December 2, 2019, the EPA published additional amendments to the CCR Rule titled "A Holistic Approach To Closure Part A: Deadline To Initiate Closure." On March 3, 2020, the EPA published proposed amendments to the CCR rule titled "A Holistic Approach to Closure Part B" which would address the beneficial use of CCR for closure of ash ponds subject to forced closure per the CCR Rule. This could impact IPL Petersburg's ability to use CCR for closure of ash ponds. The CCR rule, current or proposed amendments to the CCR rule, the results of groundwater monitoring data or the outcome of CCR-related litigation could have a material impact on our business, financial condition and results of operations.

Water Discharges — On November 3, 2015, the EPA published its final ELG rule to reduce toxic pollutants discharged into waters of the U.S. by power plants. These effluent limitations for existing and new sources include dry handling of fly ash, closed-loop or dry handling of bottom ash and more stringent effluent limitations for flue gas de-sulfurization wastewater. The required compliance time lines for existing sources was to be established between November 1, 2018 and December 31, 2023. On September 18, 2017, the EPA published a final rule delaying certain compliance dates of the ELG rule for two years while it administratively reconsiders the rule. On April 12, 2019, the U.S. Court of Appeals for the Fifth Circuit vacated and remanded portions of EPA's 2015 ELG Rule related to legacy wastewaters and combustion residual leachate. On November 4, 2019, the EPA signed proposed

revisions to the 2015 ELG rule. It is too early to determine whether this proposal or future revisions to the ELG rule will have a material impact on our business or results of operations.

On April 23, 2020, the U.S. Supreme Court issued a decision in the *Hawaii Wildlife Fund v. County of Maui* case related to whether a Clean Water Act permit is required when pollutants originate from a point source but are conveyed to navigable waters through a nonpoint source such as groundwater. The Court held that discharges to groundwater require a permit if the addition of the pollutants through groundwater is the functional equivalent of a direct discharge from the point source into navigable waters. We are reviewing this decision and it is too early to determine whether this decision may have a material impact on our business, financial condition or results of operations.

Capital Resources and Liquidity

Overview

As of June 30, 2020, the Company had unrestricted cash and cash equivalents of $1.4 billion, of which $91 million was held at the Parent Company and qualified holding companies. The Company also had $422 million in short-term investments, held primarily at subsidiaries, and restricted cash and debt service reserves of $690 million. The Company also had non-recourse and recourse aggregate principal amounts of debt outstanding of $17.7 billion and $3.7 billion, respectively. Of the approximately $2.0 billion of our current non-recourse debt, $1.7 billion was presented as such because it is due in the next twelve months and $306 million relates to debt considered in default due to covenant violations. None of the defaults are payment defaults but are instead technical defaults triggered by failure to comply with covenants or other requirements contained in the non-recourse debt documents, of which $300 million is due to the bankruptcy of the offtaker.

We expect current maturities of non-recourse debt to be repaid from net cash provided by operating activities of the subsidiary to which the debt relates, through opportunistic refinancing activity, or some combination thereof. We have no recourse debt which matures within the next twelve months. From time to time, we may elect to repurchase our outstanding debt through cash purchases, privately negotiated transactions or otherwise when management believes that such securities are attractively priced. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and other factors. The amounts involved in any such repurchases may be material.

We rely mainly on long-term debt obligations to fund our construction activities. We have, to the extent available at acceptable terms, utilized non-recourse debt to fund a significant portion of the capital expenditures and investments required to construct and acquire our electric power plants, distribution companies and related assets. Our non-recourse financing is designed to limit cross-default risk to the Parent Company or other subsidiaries and affiliates. Our non-recourse long-term debt is a combination of fixed and variable interest rate instruments. Debt is typically denominated in the currency that matches the currency of the revenue expected to be generated from the benefiting project, thereby reducing currency risk. In certain cases, the currency is matched through the use of derivative instruments. The majority of our non-recourse debt is funded by international commercial banks, with debt capacity supplemented by multilaterals and local regional banks.

Given our long-term debt obligations, the Company is subject to interest rate risk on debt balances that accrue interest at variable rates. When possible, the Company will borrow funds at fixed interest rates or hedge its variable rate debt to fix its interest costs on such obligations. In addition, the Company has historically tried to maintain at least 70% of its consolidated long-term obligations at fixed interest rates, including fixing the interest rate through the use of interest rate swaps. These efforts apply to the notional amount of the swaps compared to the amount of related underlying debt. Presently, the Parent Company's only material unhedged exposure to variable interest rate debt relates to drawings of $455 million under its senior secured credit facility. On a consolidated basis, of the Company's $21.7 billion of total gross debt outstanding as of June 30, 2020, approximately $4.9 billion bore interest at variable rates that were not subject to a derivative instrument which fixed the interest rate. Brazil holds $775 million of our floating rate non-recourse exposure as we have no ability to fix local debt interest rates efficiently.

In addition to utilizing non-recourse debt at a subsidiary level when available, the Parent Company provides a portion, or in certain instances all, of the remaining long-term financing or credit required to fund development, construction or acquisition of a particular project. These investments have generally taken the form of equity investments or intercompany loans, which are subordinated to the project's non-recourse loans. We generally obtain the funds for these investments from our cash flows from operations, proceeds from the sales of assets and/or the proceeds from our issuances of debt, common stock and other securities. Similarly, in certain of our businesses, the Parent Company may provide financial guarantees or other credit support for the benefit of counterparties who have entered into contracts for the purchase or sale of electricity, equipment, or other services

with our subsidiaries or lenders. In such circumstances, if a business defaults on its payment or supply obligation, the Parent Company will be responsible for the business' obligations up to the amount provided for in the relevant guarantee or other credit support. At June 30, 2020, the Parent Company had provided outstanding financial and performance-related guarantees or other credit support commitments to or for the benefit of our businesses, which were limited by the terms of the agreements, of approximately $1.2 billion in aggregate (excluding those collateralized by letters of credit and other obligations discussed below).

As a result of the Parent Company's split rating, some counterparties may be unwilling to accept our general unsecured commitments to provide credit support. Accordingly, with respect to both new and existing commitments, the Parent Company may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace our credit support. The Parent Company may not be able to provide adequate assurances to such counterparties. To the extent we are required and able to provide letters of credit or other collateral to such counterparties, this will reduce the amount of credit available to us to meet our other liquidity needs. At June 30, 2020, we had $238 million in letters of credit outstanding provided under our unsecured credit facility and $27 million in letters of credit outstanding provided under our senior secured credit facility. These letters of credit operate to guarantee performance relating to certain project development and construction activities and business operations. During the quarter ended June 30, 2020, the Company paid letter of credit fees ranging from 1% to 3% per annum on the outstanding amounts.

We expect to continue to seek, where possible, non-recourse debt financing in connection with the assets or businesses that we or our affiliates may develop, construct or acquire. However, depending on local and global market conditions and the unique characteristics of individual businesses, non-recourse debt may not be available on economically attractive terms or at all. If we decide not to provide any additional funding or credit support to a subsidiary project that is under construction or has near-term debt payment obligations and that subsidiary is unable to obtain additional non-recourse debt, such subsidiary may become insolvent, and we may lose our investment in that subsidiary. Additionally, if any of our subsidiaries lose a significant customer, the subsidiary may need to withdraw from a project or restructure the non-recourse debt financing. If we or the subsidiary choose not to proceed with a project or are unable to successfully complete a restructuring of the non-recourse debt, we may lose our investment in that subsidiary.

Many of our subsidiaries depend on timely and continued access to capital markets to manage their liquidity needs. The inability to raise capital on favorable terms, to refinance existing indebtedness or to fund operations and other commitments during times of political or economic uncertainty may have material adverse effects on the financial condition and results of operations of those subsidiaries. In addition, changes in the timing of tariff increases or delays in the regulatory determinations under the relevant concessions could affect the cash flows and results of operations of our businesses.

Long-Term Receivables

As of June 30, 2020, the Company had approximately $175 million of gross accounts receivable classified as *Other noncurrent assets*. These noncurrent receivables mostly consist of accounts receivable in Chile and Argentina that, pursuant to amended agreements or government resolutions, have collection periods that extend beyond June 30, 2021, or one year from the latest balance sheet date. Noncurrent receivables in Chile pertain primarily to revenues recognized on regulated energy contracts that were impacted by the Stabilization Fund created by the Chilean government. A portion relates to the extension of existing PPAs with the addition of renewable energy. The majority of Argentine receivables have been converted into long-term financing for the construction of power plants. See Note 6—*Financing Receivables* in Item 1.—*Financial Statements* and *Key Trends and Uncertainties—Macroeconomic and Political—Chile* in Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operation* of this Form 10-Q and Item 1.—*Business—South America SBU—Argentina—Regulatory Framework and Market Structure* included in our 2019 Form 10-K for further information.

As of June 30, 2020, the Company had approximately $1.3 billion of gross loans receivable primarily related to a facility constructed under a build, operate, and transfer contract in Vietnam. This loan receivable represents contract consideration related to the construction of the facility, which was substantially completed in 2015, and will be collected over the 25 year term of the plant's PPA. See Note 14—*Revenue* in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Cash Sources and Uses

The primary sources of cash for the Company in the six months ended June 30, 2020 were debt financings, cash flow from operating activities, and sales of short-term investments. The primary uses of cash in the six months ended June 30, 2020 were repayments of debt, capital expenditures, and purchases of short-term investments.

The primary sources of cash for the Company in the six months ended June 30, 2019 were debt financings, cash flow from operating activities, and sales of short-term investments. The primary uses of cash in the six months ended June 30, 2019 were repayments of debt, capital expenditures, and purchases of short-term investments.

A summary of cash-based activities are as follows (in millions):

	Six Months Ended June 30,	
Cash Sources:	**2020**	**2019**
Issuance of non-recourse debt	$ 1,913	$ 2,581
Issuance of recourse debt	1,597	—
Borrowings under the revolving credit facilities	1,318	897
Net cash provided by operating activities	820	1,014
Sale of short-term investments	341	330
Proceeds from the sale of business interests, net of cash and restricted cash sold	44	229
Other	38	33
Total Cash Sources	$ 6,071	$ 5,084
Cash Uses:		
Repayments of recourse debt	$ (1,596)	$ (3)
Capital expenditures	(962)	(1,070)
Repayments under the revolving credit facilities	(958)	(598)
Repayments of non-recourse debt	(763)	(2,281)
Purchase of short-term investments	(463)	(424)
Dividends paid on AES common stock	(190)	(181)
Contributions and loans to equity affiliates	(178)	(173)
Distributions to noncontrolling interests	(99)	(146)
Acquisitions of business interests, net of cash and restricted cash acquired	(84)	—
Payments for financed capital expenditures	(39)	(110)
Other	(204)	(148)
Total Cash Uses	$ (5,536)	$ (5,134)
Net increase (decrease) in Cash, Cash Equivalents, and Restricted Cash	$ 535	$ (50)

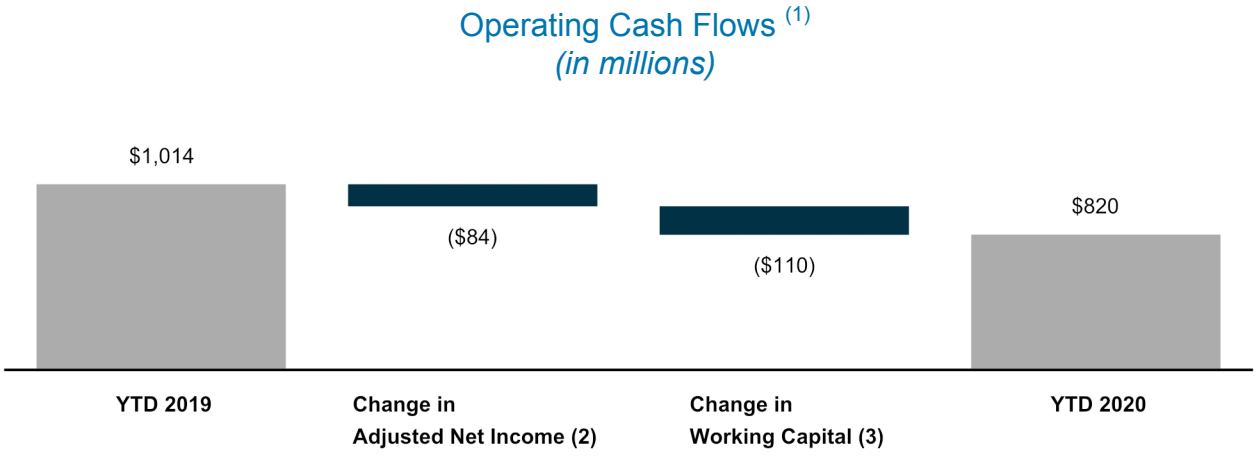
Consolidated Cash Flows

The following table reflects the changes in operating, investing, and financing cash flows for the comparative six month period (in millions):

	Six Months Ended June 30,		
Cash flows provided by (used in):	**2020**	**2019**	**$ Change**
Operating activities	$ 820	$ 1,014	$ (194)
Investing activities	(1,361)	(1,113)	(248)
Financing activities	1,158	108	1,050

Operating Activities

Net cash provided by operating activities decreased $194 million for the six months ended June 30, 2020, compared to the six months ended June 30, 2019.



(1) Amounts included in the chart above include the results of discontinued operations, where applicable.

(2) The change in adjusted net income is defined as the variance in *net income*, net of the total *adjustments to net income* as shown on the Condensed Consolidated Statements of Cash Flows in Item 1—*Financial Statements* of this Form 10-Q.

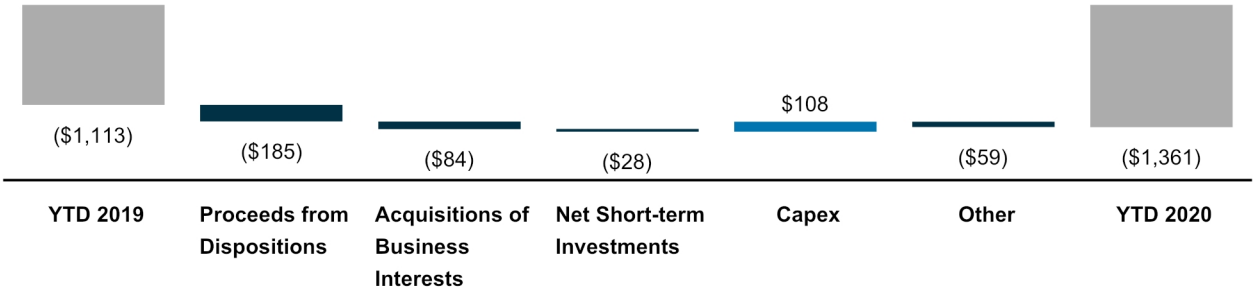
(3) The change in working capital is defined as the variance in total c*hanges in operating assets and liabilities* as shown on the Condensed Consolidated Statements of Cash Flows in Item 1—*Financial Statements* of this Form 10-Q.

- Adjusted net income decreased $84 million primarily due to lower margins at our US and Utilities and South America SBUs, and prior year gains on insurance proceeds associated with the lightning incident at the Andres facility in 2018. These impacts were partially offset by higher margins at our MCAC SBU.
- Working capital requirements increased $110 million, primarily due to the timing of collections from customers at Gener, and an increase in inventory purchases at IPALCO, Gener, and Puerto Rico. These impacts were partially offset by an increase in income tax liabilities at Gener and Panama.

Investing Activities

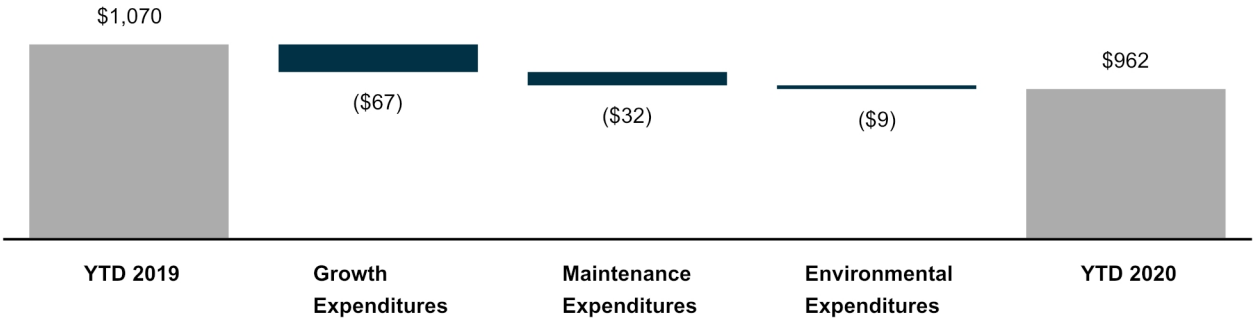
Net cash used in investing activities increased $248 million for the six months ended June 30, 2020, compared to the six months ended June 30, 2019.

Investing Cash Flows
(in millions)



- Proceeds from dispositions decreased $185 million, primarily due to the sales of the Kilroot and Ballylumford plants in the United Kingdom and the sale of a portion of our interest in a portfolio of sPower's operating assets in 2019, partially offset by proceeds received in 2020 for the transfer of the Kazakhstan HPPs upon the final arbitration decision.
- Payments for the acquisitions of business interests increased $84 million, primarily due to the acquisition of the Penonome I wind farm in Panama in 2020.
- Cash used for short-term investing activities increased $28 million, primarily at Tietê as a result of higher net short-term investment purchases in 2020.
- Capital expenditures decreased $108 million, discussed further below.

Capital Expenditures
(in millions)

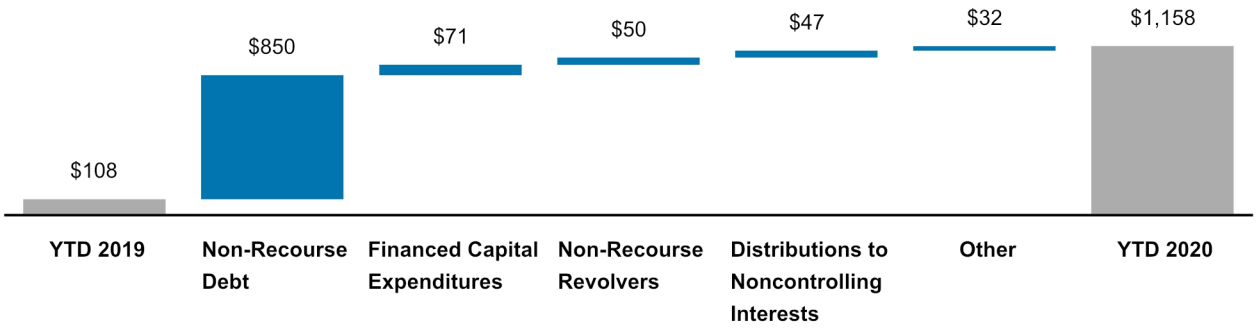


- Growth expenditures decreased $67 million, primarily driven by the timing of payments for the Southland repowering project and the completion of solar projects at Tietê. This impact was partially offset by higher investments in solar projects at Distributed Energy and Gener, and renewable energy projects in Argentina.
- Maintenance expenditures decreased $32 million, primarily at Andres as a result of the steam turbine lightning damage in the prior year, and due to the timing of payments in the prior year at Panama, Jordan, and IPALCO.
- Environmental expenditures decreased $9 million, primarily due to the timing of payments in the prior year related to projects at Gener and IPALCO.

Financing Activities

Net cash provided by financing activities increased $1.1 billion for the six months ended June 30, 2020, compared to the six months ended June 30, 2019.

Financing Cash Flows
(in millions)



See Note 8—*Debt* in Item 1—*Financial Statements* of this Form 10-Q for more information regarding significant debt transactions.

- The $850 million impact from non-recourse debt transactions is primarily due to higher net borrowings at DPL, Vietnam, Panama, and Tietê, partially offset by prior year net borrowings at Gener.
- The $71 million impact from financed capital expenditures is primarily due to higher prior year project spending at Colon and Southland.
- The $50 million impact from non-recourse revolver transactions is primarily due to prior year repayments at Gener and increased borrowings at Andres, Los Mina and IPALCO, partially offset by higher repayments at DPL.
- The $47 million impact from distributions to noncontrolling interests is primarily due to higher distributions to minority interests at Gener, Jordan, and Panama in the prior year.

Parent Company Liquidity

The following discussion is included as a useful measure of the liquidity available to The AES Corporation, or the Parent Company, given the non-recourse nature of most of our indebtedness. Parent Company Liquidity, as outlined below, is a non-GAAP measure and should not be construed as an alternative to *cash and cash equivalents,* which is determined in accordance with GAAP. Parent Company Liquidity may differ from similarly titled measures used by other companies. The principal sources of liquidity at the Parent Company level are dividends and other distributions from our subsidiaries, including refinancing proceeds, proceeds from debt and equity financings at the Parent Company level, including availability under our credit facility, and proceeds from asset sales. Cash requirements at the Parent Company level are primarily to fund interest and principal repayments of debt, construction commitments, other equity commitments, common stock repurchases, acquisitions, taxes, Parent Company overhead and development costs, and dividends on common stock.

The Company defines Parent Company Liquidity as cash available to the Parent Company, including cash at qualified holding companies, plus available borrowings under our existing credit facility. The cash held at qualified holding companies represents cash sent to subsidiaries of the Company domiciled outside of the U.S. Such subsidiaries have no contractual restrictions on their ability to send cash to the Parent Company. Parent Company Liquidity is reconciled to its most directly comparable GAAP financial measure, *cash and cash equivalents*, at the periods indicated as follows (in millions):

	June 30, 2020	December 31, 2019
Consolidated cash and cash equivalents	$ 1,417	$ 1,029
Less: Cash and cash equivalents at subsidiaries	(1,326)	(1,016)
Parent Company and qualified holding companies' cash and cash equivalents	91	13
Commitments under the Parent Company credit facility	1,000	1,000
Less: Letters of credit under the credit facility	(27)	(19)
Less: Borrowings under the credit facility	(455)	(180)
Borrowings available under the Parent Company credit facility	518	801
Total Parent Company Liquidity	$ 609	$ 814

The Company utilizes its Parent Company credit facility for short term cash needs to bridge the timing of distributions from its subsidiaries throughout the year. We expect that the Parent Company credit facilities' borrowings will be repaid by the end of year.

The Parent Company paid dividends of $0.1433 per outstanding share to its common stockholders during the first and second quarters of 2020 for dividends declared in December 2019 and February 2020, respectively. While we intend to continue payment of dividends, and believe we will have sufficient liquidity to do so, we can provide no assurance that we will continue to pay dividends, or if continued, the amount of such dividends.

Recourse Debt

Our total recourse debt was $3.7 billion and $3.4 billion as of June 30, 2020 and December 31, 2019, respectively. See Note 8—*Debt* in Item 1.—*Financial Statements* of this Form 10-Q and Note 11—*Debt* in Item 8.—*Financial Statements and Supplementary Data* of our 2019 Form 10-K for additional detail.

We believe that our sources of liquidity will be adequate to meet our needs for the foreseeable future. This belief is based on a number of material assumptions, including, without limitation, assumptions about our ability to access the capital markets, the operating and financial performance of our subsidiaries, currency exchange rates, power market pool prices, and the ability of our subsidiaries to pay dividends. In addition, our subsidiaries' ability to declare and pay cash dividends to us (at the Parent Company level) is subject to certain limitations contained in loans, governmental provisions and other agreements. We can provide no assurance that these sources will be available when needed or that the actual cash requirements will not be greater than anticipated. We have met our interim needs for shorter-term and working capital financing at the Parent Company level with our senior secured credit facility. See Item 1A.—*Risk Factors—The AES Corporation is a holding company and its ability to make payments on its outstanding indebtedness is dependent upon the receipt of funds from its subsidiaries by way of dividends, fees, interest, loans or otherwise* of the Company's 2019 Form 10-K for additional information.

Various debt instruments at the Parent Company level, including our senior secured credit facility, contain certain restrictive covenants. The covenants provide for, among other items, limitations on other indebtedness, liens, investments and guarantees; limitations on dividends, stock repurchases and other equity transactions; restrictions and limitations on mergers and acquisitions, sales of assets, leases, transactions with affiliates and off-balance sheet and derivative arrangements; maintenance of certain financial ratios; and financial and other reporting requirements. As of June 30, 2020, we were in compliance with these covenants at the Parent Company level.

Non-Recourse Debt

While the lenders under our non-recourse debt financings generally do not have direct recourse to the Parent Company, defaults thereunder can still have important consequences for our results of operations and liquidity, including, without limitation:

- reducing our cash flows as the subsidiary will typically be prohibited from distributing cash to the Parent Company during the time period of any default;
- triggering our obligation to make payments under any financial guarantee, letter of credit or other credit support we have provided to or on behalf of such subsidiary;
- causing us to record a loss in the event the lender forecloses on the assets; and
- triggering defaults in our outstanding debt at the Parent Company.

For example, our senior secured credit facility and outstanding debt securities at the Parent Company include events of default for certain bankruptcy-related events involving material subsidiaries. In addition, our revolving credit agreement at the Parent Company includes events of default related to payment defaults and accelerations of outstanding debt of material subsidiaries.

Some of our subsidiaries are currently in default with respect to all or a portion of their outstanding indebtedness. The total non-recourse debt classified as current in the accompanying Condensed Consolidated Balance Sheets amounts to $2 billion. The portion of current debt related to such defaults was $306 million at June 30, 2020, all of which was non-recourse debt related to three subsidiaries — AES Puerto Rico, AES Ilumina, and AES Jordan Solar. None of the defaults are payment defaults, but are instead technical defaults triggered by failure to comply with other covenants or other conditions contained in the non-recourse debt documents, of which $300 million is due to the bankruptcy of the offtaker. See Note 8—*Debt* in Item 1.—*Financial Statements* of this Form 10-Q for additional detail.

None of the subsidiaries that are currently in default are subsidiaries that met the applicable definition of materiality under the Parent Company's debt agreements as of June 30, 2020, in order for such defaults to trigger an event of default or permit acceleration under the Parent Company's indebtedness. However, 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 of the individual subsidiary, it is possible that one or more of these subsidiaries could fall within the definition of a "material subsidiary" and thereby trigger an event of default and possible acceleration of the indebtedness under the Parent Company's outstanding debt securities. A material subsidiary is defined in the Parent Company's senior secured credit facility as any business that contributed 20% or more of the Parent Company's total cash distributions from businesses for the four most recently ended fiscal quarters. As of June 30, 2020, none of the defaults listed above, individually or in the aggregate, results in or is at risk of triggering a cross-default under the recourse debt of the Parent Company.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements of AES are prepared in conformity with U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented.

The Company's significant accounting policies are described in Note 1 — *General and Summary of Significant Accounting Policies* of our 2019 Form 10-K. The Company's critical accounting estimates are described in Item 7.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2019 Form 10-K. An accounting estimate is considered critical if the estimate requires management to make an assumption about matters that were highly uncertain at the time the estimate was made, different estimates reasonably could have been used, or if changes in the estimate that would have a material impact on the Company's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The Company has reviewed and determined that these remain as critical accounting policies as of and for the six months ended June 30, 2020.

On January 1, 2020, the Company adopted ASC 326 *Financial Instruments — Credit Losses* and its subsequent corresponding updates ("ASC 326"). The new standard updates the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities are required to use a new

forward-looking "expected loss" model that generally results in the earlier recognition of an allowance for credit losses. For available-for-sale debt securities with unrealized losses, entities measure credit losses as it was done under previous GAAP, except that unrealized losses due to credit-related factors are now recognized as an allowance on the balance sheet with a corresponding adjustment to earnings in the income statement.

The Company applied the modified retrospective method of adoption for ASC 326. Under this transition method, the Company applied the transition provisions starting at the date of adoption. Refer to Note 1 in Item 1—*Financial Statements* of this Form 10-Q for further information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview Regarding Market Risks

Our businesses are exposed to and proactively manage market risk. Our primary market risk exposure is to the price of commodities, particularly electricity, oil, natural gas, coal and environmental credits. In addition, our businesses are exposed to lower electricity prices due to increased competition, including from renewable sources such as wind and solar, as a result of lower costs of entry and lower variable costs. We operate in multiple countries and as such, are subject to volatility in exchange rates at varying degrees at the subsidiary level and between our functional currency, the USD, and currencies of the countries in which we operate. We are also exposed to interest rate fluctuations due to our issuance of debt and related financial instruments.

The disclosures presented in this Item 3 are based upon a number of assumptions; actual effects may differ. The safe harbor provided in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act shall apply to the disclosures contained in this Item 3. For further information regarding market risk, see Item 1A.—*Risk Factors*, *Our financial position and results of operations may fluctuate significantly due to fluctuations in currency exchange rates experienced at our foreign operations; Wholesale power prices are declining in many markets and this could have a material adverse effect on our operations and opportunities for future growth; We may not be adequately hedged against our exposure to changes in commodity prices or interest rates;* and *Certain of our businesses are sensitive to variations in weather and hydrology* of the 2019 Form 10-K.

Commodity Price Risk

Although we prefer to hedge our exposure to the impact of market fluctuations in the price of electricity, fuels and environmental credits, some of our generation businesses operate under short-term sales or under contract sales that leave an unhedged exposure on some of our capacity or through imperfect fuel pass-throughs. These businesses subject our operational results to the volatility of prices for electricity, fuels and environmental credits in competitive markets. We employ risk management strategies to hedge our financial performance against the effects of fluctuations in energy commodity prices. The implementation of these strategies can involve the use of physical and financial commodity contracts, futures, swaps and options.

The portion of our sales and purchases that are not subject to such agreements or contracted businesses where indexation is not perfectly matched to business drivers will be exposed to commodity price risk. When hedging the output of our generation assets, we utilize contract sales that lock in the spread per MWh between variable costs and the price at which the electricity can be sold.

AES businesses will see changes in variable margin performance as global commodity prices shift. For 2020, we project pre-tax earnings exposure on a 10% move in commodity prices would be $5 million for power, $(5) million for natural gas, less than $(5) million for coal, and less than $5 million for oil. Our estimates exclude correlation of oil with coal or natural gas. For example, a decline in oil or natural gas prices can be accompanied by a decline in coal price if commodity prices are correlated. In aggregate, the Company’s downside exposure occurs with lower power, lower oil, higher natural gas, and higher coal prices. Exposures at individual businesses will change as new contracts or financial hedges are executed, and our sensitivity to changes in commodity prices generally increases in later years with reduced hedge levels at some of our businesses.

Commodity prices affect our businesses differently depending on the local market characteristics and risk management strategies. Spot power prices, contract indexation provisions and generation costs can be directly or indirectly affected by movements in the price of natural gas, oil and coal. We have some natural offsets across our businesses such that low commodity prices may benefit certain businesses and be a cost to others. Exposures are not perfectly linear or symmetric. The sensitivities are affected by a number of local or indirect market factors. Examples of these factors include hydrology, local energy market supply/demand balances, regional fuel supply issues, regional competition, bidding strategies and regulatory interventions such as price caps. Operational flexibility changes the shape of our sensitivities. For instance, certain power plants may limit downside exposure by reducing dispatch in low market environments. Volume variation also affects our commodity exposure. The volume

sold under contracts or retail concessions can vary based on weather and economic conditions, resulting in a higher or lower volume of sales in spot markets. Thermal unit availability and hydrology can affect the generation output available for sale and can affect the marginal unit setting power prices.

In the US and Utilities SBU, the generation businesses are largely contracted, but may have residual risk to the extent contracts are not perfectly indexed to the business drivers. At Southland, the contracts for our existing once-through cooling generation units ("Legacy Assets") are in capacity and have seen incremental location value in energy revenues; this will continue through 2020 when our combined-cycle Southland Repowering Assets contract begins. In addition, our Legacy Assets have been requested to continue operating beyond their current retirement date and are waiting on approval of an extended permit for between one and three years.

In the South America SBU, our business in Chile owns assets in the central and northern regions of the country and has a portfolio of contract sales in both. The majority of our PPAs include mechanisms of indexation that adjust the price of energy based on fluctuations in the price of coal, with the specific indices and timing varying by contract, in order to mitigate changes in the price of fuel. For the portion of our contracts not indexed to the price of coal, we have implemented a hedging strategy based on international coal financial instruments for up to 3 years. In Colombia, we operate under a shorter-term sales strategy with spot market exposure for uncontracted volumes. Because we own hydroelectric assets there, contracts are not indexed to fuel. Additionally, in Brazil, the hydroelectric generating facility is covered by contract sales. Under normal hydrological volatility, spot price risk is mitigated through a regulated sharing mechanism across all hydroelectric generators in the country. Under drier conditions, the sharing mechanism may not be sufficient to cover the business' contract position, and therefore it may have to purchase power at spot prices driven by the cost of thermal generation.

In the MCAC SBU, our businesses have commodity exposure on unhedged volumes. Panama is highly contracted under financial and load-following PPA type structures, exposing the business to hydrology-based variance. To the extent hydrological inflows are greater than or less than the contract volumes, the business will be sensitive to changes in spot power prices which may be driven by oil and natural gas prices in some time periods. In the Dominican Republic, we own natural gas- and coal-fired assets contracted under a portfolio of contract sales, and both contract and spot prices may move with commodity prices. Additionally, the contract levels do not always match our generation availability and our assets may be sellers of spot prices in excess of contract levels or a net buyer in the spot market to satisfy contract obligations.

In the Eurasia SBU, our assets operating in Vietnam and Bulgaria have minimal exposure to commodity price risk as it has no or minor merchant exposure and fuel is subject to a pass-through mechanism.

Foreign Exchange Rate Risk

In the normal course of business, we are exposed to foreign currency risk and other foreign operations risks that arise from investments in foreign subsidiaries and affiliates. A key component of these risks stems from the fact that some of our foreign subsidiaries and affiliates utilize currencies other than our consolidated reporting currency, the USD. Additionally, certain of our foreign subsidiaries and affiliates have entered into monetary obligations in USD or currencies other than their own functional currencies. Certain of our foreign subsidiaries calculate and pay taxes in currencies other than their own functional currency. We have varying degrees of exposure to changes in the exchange rate between the USD and the following currencies: Argentine peso, Brazilian real, Chilean peso, Colombian peso, Dominican peso, Euro, Indian rupee, and Mexican peso. These subsidiaries and affiliates have attempted to limit potential foreign exchange exposure by entering into revenue contracts that adjust to changes in foreign exchange rates. We also use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations.

AES enters into foreign currency hedges to protect economic value of the business and minimize the impact of foreign exchange rate fluctuations to AES' portfolio. While protecting cash flows, the hedging strategy is also designed to reduce forward looking earnings foreign exchange volatility. Due to variation of timing and amount between cash distributions and earnings exposure, the hedge impact may not fully cover the earnings exposure on a realized basis, which could result in greater volatility in earnings. The largest foreign exchange risks over the remaining period of 2020 stem from the following currencies: Argentine peso, Brazilian real, Colombian peso, Euro, and Indian rupee. As of June 30, 2020, assuming a 10% USD appreciation, cash distributions attributable to foreign subsidiaries exposed to movement in the exchange rate of the Brazilian real, Colombian peso, Euro, and Indian rupee each are projected to be impacted by less than $5 million. These numbers have been produced by applying a one-time 10% USD appreciation to forecasted exposed cash distributions for 2020 coming from the respective subsidiaries exposed to the currencies listed above, net of the impact of outstanding hedges and holding all other variables constant. The numbers presented above are net of any transactional gains/losses. These sensitivities may change in the future as new hedges are executed or existing hedges are unwound. Additionally, updates to the

forecasted cash distributions exposed to foreign exchange risk may result in further modification. The sensitivities presented do not capture the impacts of any administrative market restrictions or currency inconvertibility.

Interest Rate Risks

We are exposed to risk resulting from changes in interest rates as a result of our issuance of variable and fixed-rate debt, as well as interest rate swap, cap, floor and option agreements.

Decisions on the fixed-floating debt mix are made to be consistent with the risk factors faced by individual businesses or plants. Depending on whether a plant's capacity payments or revenue stream is fixed or varies with inflation, we partially hedge against interest rate fluctuations by arranging fixed-rate or variable-rate financing. In certain cases, particularly for non-recourse financing, we execute interest rate swap, cap and floor agreements to effectively fix or limit the interest rate exposure on the underlying financing. Most of our interest rate risk is related to non-recourse financings at our businesses.

As of June 30, 2020, the portfolio's pre-tax earnings exposure for 2020 to a one-time 100-basis-point increase in interest rates for our Argentine peso, Brazilian real, Chilean peso, Colombian peso, Euro, and USD denominated debt would be approximately $15 million on interest expense for the debt denominated in these currencies. These amounts do not take into account the historical correlation between these interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of its "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of June 30, 2020, to ensure that information required to be disclosed by the Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company has accrued 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 believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company's condensed consolidated financial statements. It is reasonably possible, however, 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 cannot be estimated as of June 30, 2020.

In December 2001, Grid Corporation of Odisha ("GRIDCO") served a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 on the Company, AES Orissa Distribution Private Limited ("AES ODPL"), and Jyoti Structures ("Jyoti") pursuant to the terms of the shareholders agreement between GRIDCO, the Company, AES ODPL, Jyoti and the Central Electricity Supply Company of Orissa Ltd. ("CESCO"), an affiliate of the Company. In the arbitration, GRIDCO asserted that a comfort letter issued by the Company in connection with the Company's indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO's financial obligations to GRIDCO. GRIDCO appeared to be seeking approximately $189 million in damages, plus undisclosed penalties and interest, but a detailed alleged damage analysis was not filed by GRIDCO. The Company counterclaimed against GRIDCO for damages. In June 2007, a 2-to-1 majority of the arbitral tribunal rendered its award rejecting GRIDCO's claims and holding that none of the respondents, the Company, AES ODPL, or Jyoti, had any liability to GRIDCO. The respondents' counterclaims were also rejected. A majority of the tribunal later awarded the respondents, including the Company, some of their costs relating to the arbitration. GRIDCO filed challenges of the tribunal's awards with the local Indian court. GRIDCO's challenge of the costs award has been dismissed by the court, but its challenge of the liability award remains pending. A hearing on the liability award has not taken place to date. The Company believes that it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

Pursuant to their environmental audit, AES Sul and AES Florestal discovered 200 barrels of solid creosote waste and other contaminants at a pole factory that AES Florestal had been operating. The conclusion of the audit was that a prior operator of the pole factory, Companhia Estadual de Energia ("CEEE"), had been using those contaminants to treat the poles that were manufactured at the factory. On their initiative, AES Sul and AES Florestal communicated with Brazilian authorities and CEEE about the adoption of containment and remediation measures. In March 2008, the State Attorney of the state of Rio Grande do Sul, Brazil filed a public civil action against AES Sul, AES Florestal and CEEE seeking an order requiring the companies to mitigate the contaminated area located on the grounds of the pole factory and an indemnity payment of approximately R$6 million ($1 million). In October 2011, the State Attorney filed a request for an injunction ordering the defendant companies to contain and remove the contamination immediately. The court granted injunctive relief on October 18, 2011, but determined that only CEEE was required to perform the removal work. In May 2012, CEEE began the removal work in compliance with the injunction. The case is now awaiting judgment. The removal and remediation costs are estimated to be approximately R$10 million to R$41 million ($2 million to $7 million), and there could be additional costs which cannot be estimated at this time. In June 2016, the Company sold AES Sul to CPFL Energia S.A. and as part of the sale, AES Guaiba, a holding company of AES Sul, retained the potential liability relating to this matter. The Company believes that there are meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In January 2015, DPL received NOVs from the EPA alleging violations of opacity at Stuart and Killen Stations, and in October 2015, IPL received a similar NOV alleging violations at Petersburg Station. In February 2017, the EPA issued a second NOV for DPL Stuart Station, alleging violations of opacity in 2016. On May 31, 2018, Stuart and Killen Stations were retired, and on December 20, 2019, they were transferred to an unaffiliated third-party purchaser, along with the associated environmental liabilities. In October 2015, IPL received a similar NOV alleging violations at Petersburg Station. In addition, in February 2016, IPL received an NOV from the EPA alleging violations of NSR and other CAA regulations, the Indiana SIP, and the Title V operating permit at Petersburg Station. It is too early to determine whether the NOVs could have a material impact on our business, financial condition or results of our operations. IPL would seek recovery of any operating or capital expenditures, but not fines or penalties, related to air pollution control technology to reduce regulated air emissions; however, there can be no assurances that IPL would be successful in this regard.

In September 2015, AES Southland Development, LLC and AES Redondo Beach, LLC filed a lawsuit against the California Coastal Commission (the “CCC”) over the CCC's determination that the site of AES Redondo Beach included approximately 5.93 acres of CCC-jurisdictional wetlands. The CCC has asserted that AES Redondo Beach has improperly installed and operated water pumps affecting the alleged wetlands in violation of the California Coastal Act and Redondo Beach Local Coastal Program. Potential outcomes of the CCC determination could include an order requiring AES Redondo Beach to perform a restoration and/or pay fines or penalties. AES Redondo Beach believes that it has meritorious arguments concerning the underlying CCC determination, but there can be no assurances that it will be successful. On March 27, 2020, AES Redondo Beach, LLC sold the site to an unaffiliated third-party purchaser that assumed the obligations contained within these proceedings. On May 26, 2020, CCC staff sent AES a Notice of Violation (NOV) directing AES to submit a Coastal Development Permit (CDP) application for the removal of the water pumps within the alleged wetlands. AES has submitted the CDP to the permitting authority with respect to AES’s plans to disable or remove the pumps. The NOV also directed AES to submit technical analysis regarding additional water pumps located within onsite electrical vaults and a CDP application for their continued operation. AES has responded to the CCC, providing the requested analysis and seeking further discussion with the agency regarding the CDP.

In October 2015, Ganadera Guerra, S.A. (“GG”) and Constructora Tymsa, S.A. (“CT”) filed separate lawsuits against AES Panama in the local courts of Panama. The claimants alleged that AES Panama profited from a hydropower facility (La Estrella) being partially located on land owned initially by GG and currently by CT, and that AES Panama must pay compensation for its use of the land. The damages sought from AES Panama were approximately $685 million (GG) and $100 million (CT). In October 2016, the court dismissed GG's claim because of GG's failure to comply with a court order requiring GG to disclose certain information. GG refiled its lawsuit. Also, there were ongoing administrative proceedings concerning whether AES Panama is entitled to acquire an easement over the land and whether AES Panama could continue to occupy the land. In August 2020, the parties signed a settlement agreement and filed it with the court for acceptance. If the settlement agreement is accepted by the court, among other things, the relevant land will be transferred to AES Panama and the lawsuits will be dismissed.

In January 2017, the Superintendencia del Medio Ambiente (“SMA”) issued a Formulation of Charges asserting that Alto Maipo is in violation of certain conditions of the Environmental Approval Resolution (“RCA”) governing the construction of Alto Maipo’s hydropower project, for, among other things, operating vehicles at unauthorized times and failing to mitigate the impact of water infiltration during tunnel construction (“Infiltration Water”). In February 2017, Alto Maipo submitted a compliance plan (“Compliance Plan”) to the SMA which, if approved by the agency, would resolve the matter without materially impacting construction of the project. In April 2018, the SMA approved the Compliance Plan (“April 2018 Approval”). Among other things, the Compliance Plan as approved by the SMA requires Alto Maipo to obtain from the Environmental Evaluation Service (“SEA”) a definitive interpretation of the RCA’s provisions concerning the authorized times to operate certain vehicles. In addition, Alto Maipo must obtain the SEA’s final approval concerning the control, discharge, and treatment of Infiltration Water. Alto Maipo continues to seek the relevant final approvals from the SEA. A number of lawsuits have been filed in relation to the April 2018 Approval, some of which are still pending. To date, none of the lawsuits has negatively impacted the April 2018 Approval or the construction of the project. If Alto Maipo complies with the requirements of the Compliance Plan, and if the above-referenced lawsuits are dismissed, the Formulation of Charges will be discharged without penalty. Otherwise, Alto Maipo could be subject to penalties, and the construction of the project could be negatively impacted. Alto Maipo will pursue its interests vigorously in these matters; however, there can be no assurances that it will be successful in its efforts.

In June 2017, Alto Maipo terminated one of its contractors, Constructora Nuevo Maipo S.A. (“CNM”), given CNM’s stoppage of tunneling works, its failure to produce a completion plan, and its other breaches of contract. Also, Alto Maipo drew $73 million under letters of credit (“LC Funds”) in connection with its termination of CNM. Alto Maipo is pursuing arbitration against CNM to recover excess completion costs and other damages totaling at least $236 million (net of the LC Funds) relating to CNM’s breaches (“First Arbitration”). CNM denies liability and seeks a declaration that its termination was wrongful, damages that it alleges result from that termination, and other relief. CNM alleges that it is entitled to damages ranging from $70 million to $170 million (which include the LC Funds) plus interest and costs, based on various scenarios. Alto Maipo has contested these submissions. The evidentiary hearing in the First Arbitration took place May 20-31, 2019, and closing arguments were heard June 9-10, 2020. The parties are now awaiting the Tribunal’s decision in the First Arbitration. Also, in August 2018, CNM purported to initiate a separate arbitration against AES Gener and the Company (“Second Arbitration”). In the Second Arbitration, CNM seeks to pierce Alto Maipo’s corporate veil and appears to seek an award holding AES Gener and the Company jointly and severally liable to pay any alleged net amounts that are found to be due to CNM in the First Arbitration or otherwise. The Second Arbitration has been consolidated into the First Arbitration. The arbitral tribunal has bifurcated the Second Arbitration to determine in the first instance the jurisdictional objections raised by AES

Gener and the Company to CNM's piercing claims. The hearing on the jurisdictional objections is scheduled for October 5-9, 2020. Each of Alto Maipo, AES Gener, and the Company believes it has meritorious claims and/or defenses and will pursue its interests vigorously; however, there can be no assurances that each will be successful in its efforts.

In October 2017, the Maritime Prosecution Office from Valparaíso issued a ruling alleging responsibility by AES Gener for the presence of coal waste on Ventanas beach, and proposed a fine before the Maritime Governor, of approximately $380,000. AES Gener submitted its statement of defense, denying the allegations. An evidentiary stage was concluded and then re-opened by order of the Maritime Governor on February 5, 2019 to allow AES Gener a six-month period to present reports and other evidence to challenge the grounds of the ruling. In September 2019, this period was extended for an additional six months, in order to allow the execution of a field test in the bay of Ventanas and was further extended in March 2020 to present additional evidence. AES Gener has completed its presentation of evidence and awaits the Maritime Prosecution Office's decision of the case. AES Gener believes that it has meritorious defenses to the allegations; however, there are no assurances that it will be successful in defending this action.

In February 2018, Tau Power B.V. and Altai Power LLP (collectively, "AES Claimants") initiated arbitration against the Republic of Kazakhstan ("ROK") for the ROK's failure to pay approximately $75 million ("Return Transfer Payment") for the return of two hydropower plants ("HPPs") pursuant to a concession agreement. The ROK responded by denying liability and asserting purported counterclaims concerning the annual payment provisions in the concession agreement, a bonus allegedly due for the 1997 takeover of the HPPs, and dividends paid by the HPPs. The ROK sought to recover the Return Transfer Payment (which was in an escrow account maintained by a third party) and was seeking over $500 million on its counterclaims. The AES Claimants contested the ROK's submissions. An arbitrator was appointed to decide the case. The final evidentiary hearing took place July 22-26, 2019. In May 2020, the arbitrator issued a final decision in favor of the AES Claimants, awarding the AES Claimants a net amount of damages of approximately $45 million, which has been collected.

In December 2018, a lawsuit was filed in Dominican Republic civil court against the Company, AES Puerto Rico, and three other AES affiliates. The lawsuit purports to be brought on behalf of over 100 Dominican claimants, living and deceased, and appears to seek relief relating to CCRs that were delivered to the Dominican Republic in 2004. The lawsuit generally alleges that the CCRs caused personal injuries and deaths and demands $476 million in alleged damages. The lawsuit does not identify, or provide any supporting information concerning, the alleged injuries of the claimants individually. Nor does the lawsuit provide any information supporting the demand for damages or explaining how the quantum was derived. The relevant AES companies believe that they have meritorious defenses to the claims asserted against them and will defend themselves vigorously in this proceeding; however, there can be no assurances that they will be successful in their efforts.

In February 2019, a separate lawsuit was filed in Dominican Republic civil court against the Company, AES Puerto Rico, two other AES affiliates, and an unaffiliated company and its principal. The lawsuit purports to be brought on behalf of over 200 Dominican claimants, living and deceased, and appears to seek relief relating to CCRs that were delivered to the Dominican Republic in 2003 and 2004. The lawsuit generally alleges that the CCRs caused personal injuries and deaths and demands $900 million in alleged damages. The lawsuit does not identify, or provide any supporting information concerning, the alleged injuries of the claimants individually. Nor does the lawsuit provide any information supporting the demand for damages or explaining how the quantum was derived. The relevant AES companies believe that they have meritorious defenses to the claims asserted against them and will defend themselves vigorously in this proceeding; however, there can be no assurances that they will be successful in their efforts.

In March 2019, the Puerto Rico Department of Natural and Environmental Resources ("DNER") issued an Administrative Order, which later amended (collectively, the "DNER Order"), alleging that AES Puerto Rico, LP ("AES Puerto Rico") failed to comply with certain DNER requests for documents and information, that AES Puerto Rico has contaminated groundwater in excess of certain state water quality standards, and requesting AES Puerto Rico to submit a corrective/remedial action plan for DNER's review and approval, among others. The DNER Order also proposes an administrative fine of $160,000. In April 2019, AES Puerto Rico timely filed its response to the DNER Order contesting the alleged violations and the proposed fine and also moved to dismiss the case. The Hearing Examiner assigned to the case denied AES Puerto Rico's request for dismissal. In October 2019, the Hearing Examiner granted DNER's request to postpone the filing of the prehearing report and scheduling of the prehearing conference. The parties are currently discussing a potential resolution of the Order. AES Puerto Rico believes that it has meritorious defenses, but there are no assurances that it will be successful in defending this action should it proceed to a hearing.

In October 2019, the Superintendency of the Environment (the "SMA") notified AES Gener of certain alleged breaches associated with the environmental permit of the Ventanas Complex, initiating a sanctioning process through Exempt Resolution N° 1 / ROL D-129-2019. The alleged charges include exceeding generation limits, failing to reduce emissions during episodes of poor air quality, exceeding limits on discharges to the sea, and exceeding noise limits. As the charges are currently classified, the maximum fine is approximately $6.5 million. On October 14, 2019, the SMA notified AES Gener of other alleged breaches at the Guacolda Complex under Exempt Resolution N° 1 / ROL D-146-2019. These allegations include failure to comply with all measures to mitigate atmospheric emissions, failure to comply with mitigation measures to avoid solid fuel discharges to the sea, failure to perform temperature monitoring in intake and water discharge at Unit 3, and a one-day exceedance of the seawater discharge limits. As the Guacolda charges are currently classified, the maximum fine is approximately $4 million. For each complex, additional fines are possible if the SMA determines that non-compliance resulted in an economic benefit. AES Gener has submitted proposed "Compliance Programs" to the SMA for the Ventanas Complex and the Guacolda Complex, respectively. If these submissions are approved by the SMA and satisfactorily fulfilled by AES Gener, the process would be concluded without sanctions and not generate further action.

In March 2020, Mexico's Comisión Federal de Electricidad ("CFE") served an arbitration demand upon AES Mérida III. CFE alleges that AES Mérida III is in breach of its obligations under a power and capacity purchase agreement between the two parties and claims more than $180 million in alleged damages, relating to CFE's own failure to provide fuel within the specifications of the contract. In May 2020, AES Mérida filed an answer denying liability to CFE and asserting a counterclaim for damages due to CFE's breach of its obligations. AES Mérida III believes that it has meritorious defenses and intends to assert them vigorously in the arbitration; however, there can be no assurances that it will be successful in its efforts.

ITEM 1A. RISK FACTORS

You should consider carefully the following risk factor, along with the risk factors disclosed in Item 1A.—*Risk Factors* of our 2019 Form 10-K and other information contained in or incorporated by reference in this Form 10-Q. Additional risks and uncertainties also may adversely affect our business and operations, including those discussed in Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Form 10-Q. In addition to our discussion in Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* and other sections of this report to address effects of the COVID-19 pandemic, we have provided an additional risk factor regarding the COVID-19 pandemic below. As discussed below, the impact of the COVID-19 pandemic can also exacerbate other risks discussed in Item 1A.—*Risk Factors* of our 2019 Form 10-K and this report. The Risk Factors section in our 2019 Form 10-K otherwise remains current in all material respects. If any of the following events actually occur, our business, financial results and financial condition could be materially adversely affected. We routinely encounter and address risks, some of which may cause our future results to be materially different than we presently anticipate.

The COVID-19 pandemic, or the future outbreak of any other highly infectious or contagious diseases, could materially and adversely affect the operations, financial condition, and cash flows of our generation facilities, transmission and distribution systems and other businesses. Further, the COVID-19 pandemic has caused severe disruptions in the global economy and financial markets and could potentially create widespread business continuity issues of an as yet unknown magnitude and duration.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China. COVID-19 has since spread to over 150 countries, including every state in the United States.

The COVID-19 pandemic has severely impacted global economic activity, including electricity and energy consumption, and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including those in our key markets, have reacted by instituting quarantines, mandating business and school closures and restricting travel. Most of the countries in which AES operates have been and continue to be impacted by such restrictions. Many experts predict that the outbreak will trigger a period of global economic slowdown or a global recession. COVID-19 or another pandemic could have material and adverse effects on our results of operations, financial condition and cash flows due to, among other factors:

- further decline in customer demand as a result of general decline in business activity;
- further destabilization of the markets and decline in business activity negatively impacting customers' ability to pay for our services when due or at all, including downstream impacts, whereby the utilities' customers are unable to pay monthly bills or receiving a moratorium from payment obligations, resulting in inability on the part of utilities to make payments for power supplied by our generation companies;

- decline in business activity causing our commercial and industrial customers to experience declining revenues and liquidity difficulties that impede their ability to pay for power supplied by our generation companies;
- government moratoriums or other regulatory or legislative actions that limit changes in pricing, delay or suspend customers' payment obligations or permit extended payment terms applicable to customers of our utilities or to our offtakers under power purchase agreements, in particular, to the extent that such measures are not mitigated by associated government subsidies or other support to address any shortfall or deficiencies in payments;
- claims by our PPA counterparties for delay or relief from payment obligations or other adjustments, including claims based on force majeure or other legal grounds;
- further decline in spot electricity prices;
- the destabilization of the markets and decline in business activity negatively impacting our customer growth in our service territories at our utilities;
- negative impacts on the health of our essential personnel, especially if a significant number of them are affected by COVID-19, and on our operations as a result of implementing stay-at-home, quarantine, curfew and other social distancing measures;
- delays or inability to access, transport and deliver fuel to our generation facilities due to restrictions on business operations or other factors affecting us and our third-party suppliers;
- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;
- a deterioration in our ability to ensure business continuity, including increased cybersecurity attacks related to the work-from-home environment;
- further delays to our construction projects, including at our renewables projects, and the timing of the completion of renewables projects;
- delay or inability to receive the necessary permits for our development projects due to delays or shutdowns of government operations;
- delays in achieving our financial goals, strategy and digital transformation;
- deterioration of the credit profile of The AES Corporation and/or its subsidiaries and difficulty accessing the capital and credit markets on favorable terms, or at all, and a severe disruption and instability in the global financial markets, or deteriorations in credit and financing conditions, which could affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis;
- delays or inability to complete asset sales on anticipated terms or redeploy capital as set forth in our capital allocation plans;
- increased volatility in foreign exchange and commodity markets;
- deterioration of economic conditions, demand and other related factors resulting in impairments to goodwill or long-lived assets;
- delay or inability in obtaining regulatory actions and outcomes that could be material to our business, including for recovery of COVID-19 related losses and the review and approval of our rates at our U.S. regulated utilities; and
- delays in the implementation of expected rules and regulations, including with respect to the TCJA.

We will continue to review and modify our plans as conditions change. Despite our efforts to manage and remedy these impacts to the Company, their ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of this outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects.

The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19. Nevertheless, COVID-19 presents material uncertainty that could adversely affect our generation facilities, transmission and distribution systems, development projects, energy storage sales by Fluence, and results of operations, financial condition and cash flows.

COVID-19 may also have the effect of heightening many of the other risks described in this ‘‘Risk Factors’’ section, such as those relating to our significant level of indebtedness, potential and existing defaults by

subsidiaries, our need to generate sufficient cash flows to service our indebtedness, and our ability to raise sufficient capital to fund development projects, our ability to comply with the covenants contained in the agreements that govern our indebtedness, and the impact of the impairment of goodwill or long-lived assets on our consolidated results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Board has authorized the Company to repurchase stock through a variety of methods, including open market repurchases, purchases by contract (including, without limitation, accelerated stock repurchase programs or 10b5-1 plans) 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 can be modified or terminated by the Board of Directors at any time. As of June 30, 2020, $264 million remained available for repurchase under the Program. No repurchases were made by The AES Corporation of its common stock during the second quarter of 2020.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Rule13a-14(a)/15d-14(a) Certification of Andrés Gluski (filed herewith).
31.2	Rule 13a-14(a)/15d-14(a) Certification of Gustavo Pimenta (filed herewith).
32.1	Section 1350 Certification of Andrés Gluski (filed herewith).
32.2	Section 1350 Certification of Gustavo Pimenta (filed herewith).
101	The AES Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Cover Page, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Operations, (iv) Condensed Consolidated Statements of Comprehensive Income (Loss), (v) Condensed Consolidated Statements of Changes in Equity, (vi) Condensed Consolidated Statements of Cash Flows, and (vii) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE AES CORPORATION
(Registrant)

Date: August 5, 2020

By: /s/ GUSTAVO PIMENTA

Name: Gustavo Pimenta

Title: *Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

By: /s/ SHERRY L. KOHAN

Name: Sherry L. Kohan

Title: *Vice President and Controller (Principal Accounting Officer)*