AES CORP
Form 10-Q
May 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2012

or

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

Commission file number 1-12291

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(703) 522-1315

Registrant s telephone number, including area code:

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

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
		(Do not check if a smaller reporting company)	

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

The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, on April 26, 2012 was 767,489,830.

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THE AES CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION

Condensed Consolidated Balance Sheets

(Unaudited)

	March 31, 2012	December 31, 2011
	(in millions, except share and per share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,688	$ 1,704
Restricted cash	448	478
Short-term investments	1,740	1,356
Accounts receivable, net of allowance for doubtful accounts of $300 and $273, respectively	2,735	2,534
Inventory	799	785
Deferred income taxes	480	454
Prepaid expenses	238	157
Other current assets	1,394	1,569
Current assets of discontinued and held for sale businesses	37	191
Total current assets	9,559	9,228
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	1,113	1,090
Electric generation, distribution assets and other	31,774	31,143
Accumulated depreciation	(9,290)	(8,944)
Construction in progress	1,992	1,833
Property, plant and equipment, net	25,589	25,122
Other Assets:		
Investments in and advances to affiliates	1,430	1,422
Debt service reserves and other deposits	880	876
Goodwill	3,732	3,733
Other intangible assets, net of accumulated amortization of $201 and $164, respectively	550	566
Deferred income taxes	736	715
Other	2,273	2,331
Noncurrent assets of discontinued and held for sale businesses	682	1,340
Total other assets	10,283	10,983
TOTAL ASSETS	$ 45,431	$ 45,333
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,014	$ 2,014
Accrued interest	433	327
Accrued and other liabilities	3,114	3,398
Non-recourse debt, including $296 and $259, respectively, related to variable interest entities	2,194	2,123

Recourse debt	21	305
Current liabilities of discontinued and held for sale businesses	202	279
Total current liabilities	7,978	8,446
NONCURRENT LIABILITIES		
Non-recourse debt, including $1,173 and $1,156, respectively, related to variable interest entities	13,841	13,412
Recourse debt	6,179	6,180
Deferred income taxes	1,445	1,328
Pension and other post-retirement liabilities	1,755	1,729
Other noncurrent liabilities	3,132	3,083
Noncurrent liabilities of discontinued and held for sale businesses	552	1,348
Total noncurrent liabilities	26,904	27,080
Contingencies and Commitments (see Note 8)		
Cumulative preferred stock of subsidiaries	78	78
EQUITY		
THE AES CORPORATION STOCKHOLDERS EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 809,082,637 issued and 767,434,120 outstanding at March 31, 2012 and 807,573,277 issued and 765,186,316 outstanding at December 31, 2011	8	8
Additional paid-in capital	8,516	8,507
Retained earnings	1,019	678
Accumulated other comprehensive loss	(2,575)	(2,758)
Treasury stock, at cost (41,648,517 shares at March 31, 2012 and 42,386,961 shares at December 31, 2011, respectively)	(479)	(489)
Total AES Corporation stockholders equity	6,489	5,946
NONCONTROLLING INTERESTS	3,982	3,783
Total equity	10,471	9,729
TOTAL LIABILITIES AND EQUITY	$ 45,431	$ 45,333

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(in millions, except per share amounts)	
Revenue:		
Regulated	$ 2,620	$ 2,349
Non-Regulated	2,120	1,807
Total revenue	4,740	4,156
Cost of Sales:		
Regulated	(2,182)	(1,773)
Non-Regulated	(1,480)	(1,390)
Total cost of sales	(3,662)	(3,163)
Gross margin	1,078	993
General and administrative expenses	(87)	(95)
Interest expense	(416)	(338)
Interest income	91	95
Other expense	(29)	(15)
Other income	18	16
Gain on sale of investments	179	6
Asset impairment expense	(11)	-
Foreign currency transaction gains (losses)	(1)	33
Other non-operating expense	(49)	-
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	773	695
Income tax expense	(267)	(215)
Net equity in earnings of affiliates	13	10
INCOME FROM CONTINUING OPERATIONS	519	490
Income (loss) from operations of discontinued businesses, net of income tax (benefit) expense of $2 and $(3), respectively	1	(7)
Net gain (loss) from disposal and impairments of discontinued businesses, net of income tax expense of $0 and $0, respectively	(5)	-
NET INCOME	515	483
Noncontrolling interests:		
Less: Income from continuing operations attributable to noncontrolling interests	(174)	(253)
Less: Income from discontinued operations attributable to noncontrolling interests	-	(6)
Total net income attributable to noncontrolling interests	(174)	(259)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	$ 341	$ 224
BASIC EARNINGS PER SHARE:		
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ 0.45	$ 0.30
Discontinued operations attributable to The AES Corporation common stockholders, net of tax	-	(0.02)

NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$	0.45	$	0.28
DILUTED EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$	0.44	$	0.30
Discontinued operations attributable to The AES Corporation common stockholders, net of tax		-		(0.02)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$	0.44	$	0.28
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income from continuing operations, net of tax	$	345	$	237
Discontinued operations, net of tax		(4)		(13)
Net income	$	341	$	224

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
NET INCOME	$ 515	$ 483
Available-for-sale securities activity:		
Change in fair value of available-for-sale securities, net of income tax (expense) benefit of $0 and $1, respectively	-	-
Reclassification to earnings, net of income tax (expense) benefit of $0 and $0, respectively	-	(1)
Total change in fair value of available-for-sale securities	-	(1)
Foreign currency translation activity:		
Foreign currency translation adjustments, net of income tax (expense) of $(1) and $(4), respectively	142	131
Reclassification to earnings, net of income tax (expense) benefit of $0 and $0, respectively	(1)	(3)
Total foreign currency translation adjustments	141	128
Derivative activity:		
Change in derivative fair value, net of income tax (expense) of $(4) and $(9), respectively	21	41
Reclassification to earnings, net of income tax (expense) of $(28) and $(8), respectively	86	30
Total change in fair value of derivatives	107	71
Pension activity:		
Reclassification to earnings, due to amortization of prior service cost and net gains (losses), net of income tax (expense) of $(3) and $(2), respectively	6	3
Total pension adjustments	6	3
OTHER COMPREHENSIVE INCOME	254	201
COMPREHENSIVE INCOME	769	684
Less: Comprehensive income attributable to noncontrolling interests	(245)	(325)
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE AES CORPORATION	$ 524	$ 359

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$ 515	$ 483
Adjustments to net income:		
Depreciation and amortization	360	305
(Gain) loss from sale of investments and impairment expense	(92)	3
Provision for deferred taxes	101	17
Contingencies	17	22
Other	(40)	(84)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(189)	(112)
(Increase) decrease in inventory	(11)	(69)
(Increase) decrease in prepaid expenses and other current assets	(117)	13
(Increase) decrease in other assets	(156)	11
Increase (decrease) in accounts payable and other current liabilities	266	(41)
Increase (decrease) in income taxes and other income tax payables, net	(161)	(105)
Increase (decrease) in other liabilities	41	59
Net cash provided by operating activities	534	502
INVESTING ACTIVITIES:		
Capital expenditures	(579)	(479)
Acquisitions net of cash acquired	-	(138)
Proceeds from the sale of businesses, net of cash sold	63	8
Proceeds from the sale of assets	4	4
Sale of short-term investments	1,505	1,241
Purchase of short-term investments	(1,855)	(1,181)
Decrease in restricted cash	28	11
(Increase) decrease in debt service reserves and other assets	20	(7)
Affiliate advances and equity investments	-	(40)
Proceeds from government grants for asset construction	85	1
Other investing	4	(21)
Net cash used in investing activities	(725)	(601)
FINANCING ACTIVITIES:		
(Repayments) borrowings under the revolving credit facilities, net	(281)	24
Issuance of non-recourse debt	503	115
Repayments of recourse debt	(3)	(268)
Repayments of non-recourse debt	(151)	(201)
Payments for financing fees	(12)	(5)
Distributions to noncontrolling interests	(19)	(43)
Contributions from noncontrolling interests	5	-
Financed capital expenditures	(6)	(17)
Purchase of treasury stock	-	(63)
Other financing	1	(5)

Net cash provided by (used in) financing activities	37	(463)
Effect of exchange rate changes on cash	25	15
Decrease in cash of discontinued and held for sale businesses	113	7
Total decrease in cash and cash equivalents	(16)	(540)
Cash and cash equivalents, beginning	1,704	2,522
Cash and cash equivalents, ending	$ 1,688	$ 1,982
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 291	$ 229
Cash payments for income taxes, net of refunds	$ 325	$ 304

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2012 and 2011

1. FINANCIAL STATEMENT PRESENTATION

The prior period condensed consolidated financial statements in this Quarterly Report on Form 10-Q (Form 10-Q) have been reclassified to reflect the businesses held for sale and discontinued operations as discussed in Note 15 *Discontinued Operations and Held for Sale Businesses*.

Consolidation

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

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), as contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification, for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in equity and cash flows. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of results that may be expected for the year ending December 31, 2012. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2011 audited consolidated financial statements and notes thereto, which are included in the 2011 Form 10-K filed with the SEC on February 24, 2012 (the 2011 Form 10-K).

New Accounting Policies Adopted

ASU No. 2011-4, Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued ASU No. 2011-4, which among other requirements, prohibits the use of the block discount factor for all fair value level hierarchies; permits an entity to measure the fair value of its financial instruments on a net basis when the related market risks are managed on a net basis; states the highest and best use concept is no longer relevant in the measurement of financial assets and liabilities; clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in Level 3 measurements and that the application of premiums and discounts is related to the unit of account for the asset or liability being measured at fair value; and requires expanded disclosures to describe the valuation process used for Level 3 measurements and the sensitivity of Level 3 measurements to changes in unobservable inputs. In addition, entities are required to disclose the hierarchy level for items which are not measured at fair value in the statement of financial position, but for which fair value is required to be disclosed. AES adopted ASU No. 2011-4 on January 1, 2012. The adoption did not have a material impact on the Company s financial position, results of operations or cash flows.

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

2. INVENTORY

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

	March 31, 2012	December 31, 2011
	(in millions)	
Coal, fuel oil and other raw materials	$ 432	$ 444
Spare parts and supplies	367	341
Total	$ 799	$ 785

3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximate their reported carrying amounts. The fair value of non-recourse debt is estimated differently based upon the type of loan. In general, the carrying amount of variable rate debt is a close approximation of its fair value. For fixed rate loans, the fair value is estimated using quoted market prices or discounted cash flow analyses. See Note 7 *Debt* for additional information on the fair value and carrying value of debt. The fair value of interest rate swap, cap and floor agreements, foreign currency forwards, swaps and options, and energy derivatives is the estimated net amount that the Company would receive or pay to sell or transfer the agreements as of the balance sheet date.

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

Valuation Techniques

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

to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the determination of the fair value of the assets and liabilities and their placement within the fair value hierarchy levels.

Investments

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

Derivatives

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

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

For each derivative, with the exception of those classified as Level 1, the income approach is used to estimate the cash flows over the remaining term of the contract. Those cash flows are then discounted using the relevant spot benchmark interest rate (such as LIBOR or EURIBOR) plus a spread that reflects the credit or nonperformance risk. This risk is estimated by the Company using credit spreads and risk premiums that are observable in the market, whenever possible, or estimated borrowing costs based on bank quotes, industry

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publications and/or information on financing closed on similar projects. To the extent that management can estimate the fair value of these assets or liabilities without the use of significant unobservable inputs, the fair value of these derivatives are classified as Level 2.

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

The following table summarizes the significant unobservable inputs used for the Level 3 derivative assets (liabilities) at March 31, 2012:

		Fair Value (in millions)	Unobservable Input	Amount or Range (Weighted Average)
Interest rate		$ (124)	Own credit risk	3.3% - 4.1% (3.5%)
Foreign currency:				
Embedded derivative	Argentine Peso	48	Argentine Peso to U.S. Dollar currency exchange rate after 2 years	6.13
Other		-		
Commodity & other:				
Embedded derivative	Aluminum	(54)	Market price of power for customer in Cameroon (per KWh)	$0.06 - $0.18 ($0.13)
Embedded derivative	Philippine Peso	10	U.S. Producer Price Index after 5 years (where base year of 2005 = 100)	143 - 174 (157)
Other		(2)		
Total		$ (122)		

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

The only Level 1 derivative instruments as of March 31, 2012 are exchange-traded commodity futures for which the pricing is observable in active markets, and as such, these are not expected to transfer to other levels. There have been no transfers between Level 1 and Level 2.

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Nonfinancial Assets and Liabilities

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

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

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

Fair Value Considerations

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

Sources of market assumptions

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

Market liquidity

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

Nonperformance risk

Nonperformance risk refers to the risk that an obligation will not be fulfilled and affects the value at which a liability is transferred or an asset is sold. Nonperformance risk includes, but may not be limited to, the Company

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or its counterparty s credit and settlement risk. Nonperformance risk adjustments are dependent on credit spreads, letters of credit, collateral, other arrangements available and the nature of master netting arrangements. The Company and its subsidiaries are parties to various interest rate swaps and options; foreign currency options and forwards; and derivatives and embedded derivatives, which subject the Company to nonperformance risk. The financial and physical instruments held at the subsidiary level are generally non-recourse to the Parent Company.

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

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

Recurring Measurements

The following table sets forth, by level within the fair value hierarchy, the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

		Fair Value		
	Total	Level 1	Level 2	Level 3
		(in millions)		
March 31, 2012				
Assets				
Available-for-sale securities	$ 1,717	$ 2	$ 1,715	$ -
Trading securities	12	12	-	-
Derivatives	109	2	41	66
Total assets	$ 1,838	$ 16	$ 1,756	$ 66
Liabilities				
Derivatives	$ 648	$ -	$ 460	$ 188
Total liabilities	$ 648	$ -	$ 460	$ 188
December 31, 2011				
Assets				
Available-for-sale securities	$ 1,340	$ 1	$ 1,339	$ -
Trading securities	12	12	-	-
Derivatives	120	2	52	66
Total assets	$ 1,472	$ 15	$ 1,391	$ 66
Liabilities				
Derivatives	$ 690	$ -	$ 476	$ 214
Total liabilities	$ 690	$ -	$ 476	$ 214

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The following tables present a reconciliation of net derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012 and 2011 (presented net by type of derivative):

	Three Months Ended March 31, 2012				
	Interest Rate	Cross Currency	Foreign Currency (in millions)	Commodity and Other	Total
Balance at January 1	$ (128)	$ (18)	$ 51	$ (53)	$ (148)
Total gains (losses) (realized and unrealized):					
Included in earnings[(1)]	(1)	-	(2)	8	5
Included in other comprehensive income	1	14	-	-	15
Included in regulatory (assets) liabilities	-	-	-	-	-
Settlements	6	4	(1)	(1)	8
Transfers of assets (liabilities) into Level 3[(2)]	(28)	-	-	-	(28)
Transfers of (assets) liabilities out of Level 3[(2)]	26	-	-	-	26
Balance at March 31	$ (124)	$ -	$ 48	$ (46)	$ (122)
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/(losses) relating to assets and liabilities held at the end of the period	$ -	$ -	$ (3)	$ 9	$ 6

	Three Months Ended March 31, 2011				
	Interest Rate	Cross Currency	Foreign Currency (in millions)	Commodity and Other	Total
Balance at January 1	$ (1)	$ 10	$ 22	$ 18	$ 49
Total gains (losses) (realized and unrealized):					
Included in earnings[(1)]	-	2	1	8	11
Included in other comprehensive income	(4)	(8)	-	-	(12)
Included in regulatory (assets) liabilities	-	-	-	(1)	(1)
Settlements	-	1	1	-	2
Transfers of assets (liabilities) into Level 3[(2)]	(2)	-	(1)	(1)	(4)
Balance at March 31	$ (7)	$ 5	$ 23	$ 24	$ 45
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	$ -	$ 8	$ 10

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

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

The following table presents a reconciliation of available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Balance at beginning of period	$ -	$ 42
Settlements	-	(2)
Balance at March 31	$ -	$ 40
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets held at the end of the period	$ -	$ -

Nonrecurring Measurements

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

March 31, 2012	Carrying Amount	Level 1	Fair Value Level 2 in million	Level 3	Gross Loss
Assets					
Long-lived assets held and used:[1]	$ 22	$ -	$ -	$ 17	$ 5
Kelanitissa					
Equity method investments:[2]	204	-	155	-	49

[1] See Note 13 *Asset Impairment Expense* for further information.
[2] See Note 14 *Other Non-Operating Expense* for further information.
There were no nonrecurring measurements in the three months ended March 31, 2011.

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

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

		Fair Value			
March 31, 2012	**Carrying Amount**	**Total**	**Level 1 (in millions)**	**Level 2**	**Level 3**
Assets					
Trade receivables	$ 408	$ 454	$ -	$ -	$ 454
Liabilities					
Non-recourse debt	16,035	16,369	-	15,339	1,030
Recourse debt	6,200	6,809	-	6,809	
December 31, 2011					
Assets					
Trade receivables	$ 386	$ 401			
Liabilities					
Non-recourse debt	15,535	15,862			
Recourse debt	6,485	6,640			

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4. INVESTMENTS IN MARKETABLE SECURITIES

The following table sets forth the Company s investments in marketable debt and equity securities as of March 31, 2012 and December 31, 2011 by security class and by level within the fair value hierarchy. The security classes are determined based on the nature and risk of a security and are consistent with how the Company manages, monitors and measures its marketable securities.

	March 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(in millions)				
AVAILABLE-FOR-SALE:[1]								
Debt securities:								
Unsecured debentures[2]	$ -	$ 975	$ -	$ 975	$ -	$ 665	$ -	$ 665
Certificates of deposit[2]	-	645	-	645	-	576	-	576
Government debt securities	-	28	-	28	-	31	-	31
Subtotal	-	1,648	-	1,648	-	1,272	-	1,272
Equity securities:								
Mutual funds	1	67	-	68	-	67	-	67
Common stock	1	-	-	1	1	-	-	1
Subtotal	2	67	-	69	1	67	-	68
Total available-for-sale	2	1,715	-	1,717	1	1,339	-	$ 1,340
TRADING:								
Equity securities:								
Mutual funds	12	-	-	12	12	-	-	12
Total trading	12	-	-	12	12	-	-	12
TOTAL	$ 14	$ 1,715	$ -	$ 1,729	$ 13	$ 1,339	$ -	$ 1,352
Held-to-maturity securities				11				4
Total marketable securities				$ 1,740				$ 1,356

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

(2) Unsecured debentures are instruments similar to certificates of deposit that are held primarily by our subsidiaries in Brazil. The unsecured debentures and certificates of deposit included here do not qualify as cash equivalents and meet the definition of a security under the relevant guidance and are therefore classified as available-for-sale securities.

As of March 31, 2012, all available-for-sale debt securities had stated maturities within one year.

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The following table summarizes the pre-tax gains and losses related to available-for-sale and trading securities for the three months ended March 31, 2012 and 2011. Gains and losses on the sale of investments are determined using the specific identification method. For the three months ended March 31, 2012 and 2011, there were no realized losses on the sale of available-for-sale securities and no other-than-temporary impairment of marketable securities recognized in earnings or other comprehensive income.

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Gains included in earnings that relate to trading securities held at the reporting date	$ -	$ 1
Unrealized gains (losses) on available-for-sale securities included in other comprehensive income	-	(2)
Proceeds from sales of available-for-sale securities	1,523	1,237
Gross realized gains on sales	1	1

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives

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

Interest Rate Risk

AES and its subsidiaries utilize variable rate debt financing for construction projects and operations, resulting in an exposure to interest rate risk. Interest rate swap, cap and floor agreements are entered into to manage interest rate risk by effectively fixing or limiting the interest rate exposure on the underlying financing. These interest rate contracts range in maturity through 2030, and are typically designated as cash flow hedges. The following table sets forth, by underlying type of interest rate index, the Company s current and maximum outstanding notional under its interest rate derivative instruments, the weighted average remaining term and the percentage of variable-rate debt hedged that is based on the related index as of March 31, 2012 regardless of whether the derivative instruments are in qualifying cash flow hedging relationships:

	March 31, 2012					
	Current		Maximum[1]			
Interest Rate Derivatives	Derivative Notional	Derivative Notional Translated to USD	Derivative Notional	Derivative Notional Translated to USD	Weighted Average Remaining Term[1]	% of Debt Currently Hedged by Index[2]
		(in millions)			(in years)	
Libor (U.S. Dollar)	3,657	$ 3,657	4,668	$ 4,668	10	71%
Euribor (Euro)	668	891	668	891	10	65%
Libor (British Pound Sterling)	67	107	83	132	13	92%

(1) The Company s interest rate derivative instruments primarily include accreting and amortizing notionals. The maximum derivative notional represents the largest notional at any point between March 31, 2012 and the maturity of the derivative instrument, which includes forward starting derivative instruments. The weighted average remaining term represents the remaining tenor of our interest rate derivatives weighted by the corresponding maximum notional.

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

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Cross currency swaps are utilized in certain instances to manage the risk related to fluctuations in both interest rates and certain foreign currencies. These cross currency contracts range in maturity through 2028. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional amount under its cross currency derivative instruments as of March 31, 2012, which are all in qualifying cash flow hedge relationships. These swaps are amortizing and therefore the notional amount represents the maximum outstanding notional amount as of March 31, 2012:

	March 31, 2012			
Cross Currency Swaps	**Notional**	**Notional Translated to USD (in millions)**	**Weighted Average Remaining Term[1] (in years)**	**% of Debt Currently Hedged by Index[2]**
Chilean Unidad de Fomento (CLF)	6	$ 253	14	85%

[1] Represents the remaining tenor of our cross currency swaps weighted by the corresponding notional.
[2] Represents the proportion of foreign currency denominated debt hedged by the same foreign currency denominated notional of the cross currency swap.

Foreign Currency Risk

We are exposed to foreign currency risk as a result of our investments in foreign subsidiaries and affiliates. AES operates businesses in many foreign countries and such operations may be impacted by significant fluctuations in foreign currency exchange rates. Foreign currency options and forwards are utilized, where deemed appropriate, to manage the risk related to fluctuations in certain foreign currencies. These foreign currency contracts range in maturity through 2015. The following tables set forth, by type of foreign currency denomination, the Company s outstanding notional amounts over the remaining terms of its foreign currency derivative instruments as of March 31, 2012 regardless of whether the derivative instruments are in qualifying hedging relationships:

	March 31, 2012			
Foreign Currency Options	**Notional**	**Notional Translated to USD[1] (in millions)**	**Probability Adjusted Notional[2]**	**Weighted Average Remaining Term[3] (in years)**
Euro (EUR)	62	$ 83	$ 44	<1
Brazilian Real (BRL)	110	63	53	<1
Philippine Peso (PHP)	1,285	30	18	<1
Argentine Peso (ARS)	18	4	-	<1
British Pound (GBP)	1	2	2	<1

[1] Represents contractual notionals at inception of trade.
[2] Represents the gross notional amounts times the probability of exercising the option, which is based on the relationship of changes in the option value with respect to changes in the price of the underlying currency.
[3] Represents the remaining tenor of our foreign currency options weighted by the corresponding notional.

	March 31, 2012		
Foreign Currency Forwards	**Notional**	**Notional Translated to USD (in millions)**	**Weighted Average Remaining Term[1] (in years)**
Chilean Peso (CLP)	84,974	$ 169	<1
Euro (EUR)	95	133	2
Colombian Peso (COP)	137,722	77	<1
British Pound (GBP)	18	29	<1
Argentine Peso (ARS)	31	7	<1
Hungarian Forint (HUF)	402	1	<1

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

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In addition, certain of our subsidiaries have entered into contracts which contain embedded derivatives that require separate valuation and accounting due to the fact that the item that is being purchased or sold is denominated in a currency other than the functional currency of the subsidiary or the currency of the item. These contracts range in maturity through 2026. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional over the remaining terms of its foreign currency embedded derivative instruments as of March 31, 2012:

	March 31, 2012		
Embedded Foreign Currency Derivatives	**Notional**	**Notional Translated to USD (in millions)**	**Weighted Average Remaining Term[1] (in years)**
Philippine Peso (PHP)[2]	53,591	$ 1,247	11
Argentine Peso (ARS)	943	215	11
Kazakhstani Tenge (KZT)	29,023	196	9
Euro (EUR)	2	3	9

(1) Represents the remaining tenor of our foreign currency embedded derivatives weighted by the corresponding notional.
(2) Notional also relates to an embedded derivative related to inflation.

Commodity Price Risk

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

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

Nonetheless, certain of the PPAs and fuel supply agreements entered into by certain of the Company s subsidiaries are derivatives or contain embedded derivatives requiring separate valuation and accounting. These contracts range in maturity through 2024. The following table sets forth, by type of commodity, the Company s outstanding notionals for the remaining term of its commodity derivatives and embedded derivative instruments as of March 31, 2012:

	March 31, 2012	
Commodity Derivatives	**Notional (in millions)**	**Weighted Average Remaining Term[1] (in years)**
Natural gas (MMBTU)	31	11
Aluminum (MWh)	15[2]	8
Petcoke (Metric tons)	12	12
Coal (Metric tons)	3	1
Heating Oil (Gallons)	2	<1

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

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

Accounting and Reporting

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

	March 31, 2012 (in millions)				December 31, 2011 (in millions)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Current assets:								
Foreign currency derivatives	$ -	$ 11	$ 4	$ 15	$ -	$ 24	$ 4	$ 28
Commodity and other derivatives	2	16	2	20	2	16	3	21
Total current assets	2	27	6	35	2	40	7	49
Noncurrent assets:								
Cross currency derivatives	-	5	-	5	-	-	1	1
Foreign currency derivatives	-	4	51	55	-	3	58	61
Commodity and other derivatives	-	5	9	14	-	9	-	9
Total noncurrent assets	-	14	60	74	-	12	59	71
Total assets	$ 2	$ 41	$ 66	$ 109	$ 2	$ 52	$ 66	$ 120
Liabilities								
Current liabilities:								
Interest rate derivatives	$ -	$ 96	$ 17	$ 113	$ -	$ 97	$ 22	$ 119
Cross currency derivatives	-	4	-	4	-	-	5	5
Foreign currency derivatives	-	8	1	9	-	5	1	6
Commodity and other derivatives	-	27	4	31	-	17	6	23
Total current liabilities	-	135	22	157	-	119	34	153
Noncurrent liabilities:								
Interest rate derivatives	-	284	107	391	-	334	106	440
Cross currency derivatives	-	1	-	1	-	-	14	14
Foreign currency derivatives	-	27	7	34	-	10	10	20
Commodity and other derivatives	-	13	52	65	-	13	50	63
Total noncurrent liabilities	-	325	166	491	-	357	180	537
Total liabilities	$ -	$ 460	$ 188	$ 648	$ -	$ 476	$ 214	$ 690

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

	March 31, 2012			December 31, 2011		
	Designated as Hedging Instruments	Not Designated as Hedging Instruments	Total	Designated as Hedging Instruments	Not Designated as Hedging Instruments	Total
	(in millions)			(in millions)		
Assets						
Current assets:						
Foreign currency derivatives	$ 5	$ 10	$ 15	$ 10	$ 18	$ 28
Commodity and other derivatives	1	19	20	2	19	21
Total current assets	6	29	35	12	37	49
Noncurrent assets:						
Cross currency derivatives	5	-	5	1	-	1
Foreign currency derivatives	4	51	55	3	58	61
Commodity and other derivatives	-	14	14	-	9	9
Total noncurrent assets	9	65	74	4	67	71
Total assets	$ 15	$ 94	$ 109	$ 16	$ 104	$ 120
Liabilities						
Current liabilities:						
Interest rate derivatives	$ 105	$ 8	$ 113	$ 110	$ 9	$ 119
Cross currency derivatives	4	-	4	5	-	5
Foreign currency derivatives	5	4	9	1	5	6
Commodity and other derivatives	1	30	31	-	23	23
Total current liabilities	115	42	157	116	37	153
Noncurrent liabilities:						
Interest rate derivatives	376	15	391	425	15	440
Cross currency derivatives	1	-	1	14	-	14
Foreign currency derivatives	-	34	34	-	20	20
Commodity and other derivatives	5	60	65	3	60	63
Total noncurrent liabilities	382	109	491	442	95	537
Total liabilities	$ 497	$ 151	$ 648	$ 558	$ 132	$ 690

The Company has elected not to offset derivative positions in the financial statements. Accordingly, the Company does not offset such derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements. At March 31, 2012 and December 31, 2011, we held $2 million and $3 million, respectively, of cash collateral that we received from counterparties to our derivative positions. Beyond the cash collateral held by us, our derivative assets are exposed to the credit risk of the respective counterparty and, due to this credit risk, the fair value of our derivative assets (as shown in the above two tables) have been reduced by a credit valuation adjustment. Also, at March 31, 2012 and December 31, 2011, there was $26 million and $16 million, respectively, of cash collateral posted with (held by) counterparties to our derivative positions.

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The table below sets forth the pre-tax accumulated other comprehensive income (loss) expected to be recognized as an increase (decrease) to income from continuing operations before income taxes (in millions) over the next twelve months as of March 31, 2012 for the following types of derivative instruments:

Interest rate derivatives	$ (99)
Cross currency derivatives	$ 9
Foreign currency derivatives	$ (2)
Commodity and other derivatives	$ (1)

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

The following tables set forth the gains (losses) recognized in accumulated other comprehensive loss (AOCL) and earnings related to the effective portion of derivative instruments in qualifying cash flow hedging relationships, as defined in the accounting standards for derivatives and hedging, for the three months ended March 31, 2012 and 2011:

	Gains (Losses) Recognized in AOCL		Classification in Condensed Consolidated Statements of Operations	Gains (Losses) Reclassified from AOCL into Earnings	
	2012	2011		2012	2011
	(in millions)			(in millions)	
Interest rate derivatives					
	$ 11	$ 52	Interest expense	$ (32)[1]	$ (26)[1]
			Non-regulated cost of sales	(2)[1]	(1)[1]
			Net equity in earnings of affiliates	(1)	(1)
			Gain on sale of investments	(92)	-
Cross currency derivatives	14	(8)	Interest expense	(3)	(5)
			Foreign currency transaction gains (losses)	18	(5)
Foreign currency derivatives	6	5	Foreign currency transaction gains (losses)	-	(2)
Commodity and other derivatives	(6)	1	Non-regulated revenue	(2)	-
Total	$ 25	$ 50		$ (114)	$ (40)

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

The following table sets forth the pre-tax gains (losses) recognized in earnings related to the ineffective portion of derivative instruments in qualifying cash flow hedging relationships, as defined in the accounting standards for derivatives and hedging, for the three months ended March 31, 2012 and 2011:

Classification in Condensed Consolidated	Gains (Losses) Recognized in Earnings	
	2012	2011

	Statements of Operations				
			(in millions)		
Interest rate derivatives	Interest expense	$	(1)	$	(7)
	Net equity in earnings of affiliates		-[1]		-[1]
Cross currency derivatives	Interest expense		-[1]		-[1]
Foreign currency derivatives	Foreign currency transaction gains (losses)		-[1]		-[1]
Total		$	(1)	$	(7)

[1] De minimis amount.

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The following table sets forth the gains (losses) recognized in earnings related to derivative instruments not designated as hedging instruments under the accounting standards for derivatives and hedging, for the three months ended March 31, 2012 and 2011:

	Classification in Condensed Consolidated Statements of Operations	Gains (Losses) Recognized in Earnings 2012	2011
		(in millions)	
Interest rate derivatives	Interest expense	$ (2)	$ -
Foreign exchange derivatives	Foreign currency transaction gains	(38)	7
Commodity and other derivatives	Non-regulated revenue	14	4
	Regulated revenue	(4)	-
	Non-regulated cost of sales	3	1
	Regulated cost of sales	(4)	-
Total		$ (31)	$ 12

In addition, DPL and IPL have derivative instruments for which the gains and losses are accounted for in accordance with accounting standards for regulated operations, as regulatory assets or liabilities. Gains and losses due to changes in the fair value of these derivatives are probable of recovery through future rates and are initially recognized as an adjustment to the regulatory asset or liability and recognized through earnings when the related costs are recovered through rates. Therefore, these gains and losses are excluded from the above table. The following table sets forth the change in regulatory assets and liabilities resulting from the change in the fair value of these derivatives for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	2011
	(in millions)	
(Increase) decrease in regulatory assets	$ 3	$ -
Increase (decrease) in regulatory liabilities	$ -	$ (1)

Credit Risk-Related Contingent Features

Gener, our generation business in Chile, has cross currency swap agreements with counterparties to swap Chilean inflation indexed bonds issued in December 2007 into U.S. Dollars. The derivative agreements contain credit contingent provisions which would permit the counterparties with which Gener is in a net liability position to require collateral credit support when the fair value of the derivatives exceeds the unsecured thresholds established in the agreements. These thresholds vary based on Gener s credit rating. If Gener s credit rating were to fall below the minimum threshold established in the swap agreements, the counterparties can demand immediate collateralization of the entire mark-to-market loss of the swaps (excluding credit valuation adjustments), which was $5 million at March 31, 2012. The mark-to-market value of the swaps was $18 million at December 31, 2011. As of March 31, 2012 and December 31, 2011, Gener had not posted collateral to support these swaps.

DPL, our utility in Ohio, has certain over-the-counter commodity derivative contracts under master netting agreements that contain provisions that require its debt to maintain an investment-grade credit rating from credit rating agencies. If its debt were to fall below investment grade, the business would be in violation of these provisions, and the counterparties to the derivative contracts could request immediate payment or demand immediate and ongoing full overnight collateralization of the mark-to-market loss (excluding credit valuation adjustments), which was $38 million as of March 31, 2012. As of March 31, 2012, DPL had posted $26 million of cash collateral directly with third parties and in a broker margin account and held $2 million of cash collateral that it received from counterparties to its derivative instruments that were in an asset position. As of December 31, 2011, DPL had posted $16 million of cash collateral directly with third parties and in a broker margin account and held $3 million of cash collateral that it received from counterparties to its derivative instruments that were in an asset position.

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6. FINANCING RECEIVABLES

Accounts and notes receivable are carried at amortized cost. The Company periodically assesses the collectability of accounts receivable by considering factors such as specific evaluation of collectability, historical collection experience, age and other available evidence of the collectability, and records an allowance for doubtful accounts for the estimated uncollectable amount as appropriate. Certain of our businesses charge interest on accounts receivable under contractual terms or where charging interest is a customary business practice. In such cases, interest income is recognized on an accrual basis. In situations where the collection of interest is uncertain, interest income is recognized as cash is received. Individual accounts and notes receivable are written off when they are no longer deemed collectable.

Included in Noncurrent other assets on the condensed consolidated balance sheets as of March 31, 2012 and December 31, 2011 are long-term financing receivables of $288 million and $295 million, respectively, primarily with certain Latin American governmental bodies. These receivables have contractual maturities of greater than one year and are being actively collected. Of the total $288 million as of March 31, 2012, $228 million and $47 million relate to our businesses in Argentina and the Dominican Republic, respectively. The remaining amounts relate to our distribution businesses in Brazil.

7. DEBT

The Company has two types of debt reported on its condensed consolidated balance sheets: non-recourse and recourse debt. Non-recourse debt is used to fund investments and capital expenditures for the construction and acquisition of electric power plants, wind projects, distribution companies and other project-related investments at our subsidiaries. Non-recourse debt is generally secured by the capital stock, physical assets, contracts and cash flows of the related subsidiary. Absent guarantees, intercompany loans or other credit support, the default risk is limited to the respective business and is without recourse to the Parent Company and other subsidiaries, though the Company s equity investments and/or subordinated loans to projects (if any) are at risk. Recourse debt is direct borrowings by the Parent Company and is used to fund development, construction or acquisitions, including serving as funding for equity investments or loans to the affiliates. The Parent Company s debt is, among other things, recourse to the Parent Company and is structurally subordinated to the affiliates debt.

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

The fair value was determined using available market information as of March 31, 2012. The Company is not aware of any factors that would significantly affect the fair value amounts subsequent to March 31, 2012.

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Non-Recourse Debt

The following table summarizes the Company s subsidiary non-recourse debt in default or accelerated as of March 31, 2012 and is in the current portion of non-recourse debt unless otherwise indicated:

Subsidiary	Primary Nature of Default	March 31, 2012 Default Amount	Net Assets
		(in millions)	
Maritza	Covenant	$ 907	$ 228
Sonel	Covenant	318	318
Kelanitissa	Covenant	16	50
Saurashtra	Covenant	28	16
Total		$ 1,269	

None of the subsidiaries that are currently in default are subsidiaries that met the applicable definition of materiality under AES corporate debt agreements as of March 31, 2012 in order to trigger an event of default or permit acceleration under such indebtedness. The bankruptcy or acceleration of material amounts of debt at such subsidiaries would cause a cross default under the recourse senior secured credit facility. It is possible that one or more of these subsidiaries could fall within the definition of a material subsidiary as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations or the financial position or results of operations of an individual subsidiary, and thereby a bankruptcy or an acceleration of its non-recourse debt could trigger an event of default and possible acceleration of the indebtedness under the AES Parent Company s outstanding debt securities.

8. CONTINGENCIES AND COMMITMENTS

Guarantees, Letters of Credit and Commitments

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

The following table summarizes the Parent Company s contingent contractual obligations as of March 31, 2012. Amounts presented in the table below represent the Parent Company s current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure. The maximum exposure is not reduced by the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees. The amounts include obligations made by the Parent Company for the direct benefit of the lenders associated with the non-recourse debt of businesses of $25 million.

Contingent contractual obligations	Amount (in millions)	Number of Agreements	Maximum Exposure Range for Each Agreement (in millions)
Guarantees	$ 352	21	<$1 - $53
Letters of credit under the senior secured credit facility	12	11	<$1 - $7
Cash collateralized letters of credit	254	13	<$1 - $215
Total	$ 618	45	

As of March 31, 2012, the Company had $9 million of commitments to invest in subsidiaries under construction and to purchase related equipment that were not included in the letters of credit discussed above. The Company expects to fund these net investment commitments in 2012. The exact payment schedules will be dictated by the construction milestones.

Environmental

The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of March 31, 2012, the Company had recorded liabilities of $25 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Based on currently available information and analysis, the Company believes that it is reasonably possible that costs associated with such liabilities, or as yet unknown liabilities, may exceed current reserves in amounts that could be material but cannot be estimated as of March 31, 2012.

Litigation

The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has evaluated claims in accordance with the accounting guidance for contingencies that it deems both probable and reasonably estimable and accordingly, has recorded aggregate reserves for all claims of approximately $380 million and $363 million as of March 31, 2012 and December 31, 2011, respectively. These reserves are reported on the consolidated balance sheets within accrued and other liabilities and other noncurrent liabilities. A significant portion of the reserves relate to employment, non-income tax and customer disputes in international jurisdictions, principally Brazil. Certain of the Company s subsidiaries, principally in Brazil, are defendants in a number of labor and employment lawsuits. The complaints generally seek unspecified monetary damages, injunctive relief, or other relief. The subsidiaries have denied any liability and intend to vigorously defend themselves in all of these proceedings. There can be no assurance that these reserves will be adequate to cover all existing and future claims or that we will have the liquidity to pay such claims as they arise.

The Company believes, based upon information it currently possesses and taking into account established reserves for liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material effect on the Company s consolidated financial statements. However, where no reserve has been recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of March 31, 2012. The material contingencies where a loss is reasonably possible primarily include: claims under financing agreements; disputes with offtakers, suppliers and EPC contractors; alleged violation of monopoly laws and regulations; income tax and non-income tax assessments by tax authorities; and environmental and regulatory matters. In aggregate, the Company estimates that the range of potential losses, where estimable, related to these material contingences to be in the range of $364 million to $1.7 billion. The amounts considered reasonably possible do not include amounts reserved, as discussed above. These material contingencies do not include income tax related contingencies which are considered part of our uncertain tax positions.

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9. PENSION PLANS

Total pension cost for the three months ended March 31, 2012 and 2011 included the following components:

	2012		2011	
	U.S.	Foreign	U.S.	Foreign
	(in millions)			
Service cost	$ 4	$ 7	$ 2	$ 5
Interest cost	12	141	8	142
Expected return on plan assets	(14)	(122)	(8)	(128)
Amortization of prior service cost	1	-	1	-
Amortization of net loss	6	10	3	6
Loss on curtailment	-	-	-	4
Total pension cost	$ 9	$ 36	$ 6	$ 29

Total employer contributions for the three months ended March 31, 2012 for the Company s U.S. and foreign subsidiaries were $7 million and $41 million, respectively. The expected remaining scheduled employer contributions for 2012 are $41 million for U.S. subsidiaries and $139 million for foreign subsidiaries.

10. EQUITY

Changes in Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of equity attributable to stockholders of The AES Corporation, noncontrolling interests and total equity as of March 31, 2012 and 2011:

	Three Months Ended March 31, 2012		
	The AES Corporation Stockholders Equity	Noncontrolling Interest	Total Equity
	(in millions)		
Balance at January 1, 2012	$ 5,946	$ 3,783	$ 9,729
Net income	341	174	515
Foreign currency translation adjustment, net of income tax	92	49	141
Actuarial gains and losses and amortization of prior service costs, net of income tax	1	5	6
Change in derivative fair value, net of income tax	90	17	107
Capital contributions from noncontrolling interests	-	6	6
Distributions to noncontrolling interests	-	(14)	(14)
Disposition of businesses	-	(37)	(37)
Issuance and exercise of stock-based compensation benefit plans, net of income tax	19	-	19
Acquisition of subsidiary shares from noncontrolling interests	-	(1)	(1)
Balance at March 31, 2012	$ 6,489	$ 3,982	$ 10,471

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