

**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, 2022
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

(State or other jurisdiction of incorporation or organization)

54-1163725

(I.R.S. Employer Identification No.)

4300 Wilson Boulevard

Arlington, Virginia

(Address of principal executive offices)

22203

(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.01 per share	AES	New York Stock Exchange
Corporate Units	AESC	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 August 2, 2022 was 667,933,612.

The AES Corporation

Form 10-Q for the Quarterly Period ended June 30, 2022

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Glossary of Terms

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

Adjusted EPS	Adjusted Earnings Per Share, a non-GAAP measure
Adjusted PTC	Adjusted Pre-tax Contribution, a non-GAAP measure of operating performance
AES	The Parent Company and its subsidiaries and affiliates
AES Andes	AES Andes S.A., formerly AES Gener
AES Brasil	AES Tietê Energia S.A., formerly branded as AES Tietê
AES Clean Energy Development	AES Clean Energy Development, LLC
AES Indiana	Indianapolis Power & Light Company, formerly branded as IPL. AES Indiana is wholly-owned by IPALCO
AES Ohio	The Dayton Power & Light Company, formerly branded as DP&L. AES Ohio is wholly-owned by DPL
AES Renewable Holdings	AES Renewable Holdings, LLC, formerly branded as AES Distributed Energy
AFUDC	Allowance for Funds Used During Construction
AIMCo	Alberta Management Investment Corporation
ANEEL	Brazilian National Electric Energy Agency
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BEAT	Base Erosion and Anti-Abuse Tax
CAA	United States Clean Air Act
CAMMESA	Wholesale Electric Market Administrator in Argentina
CCEE	Brazilian Chamber of Electric Energy Commercialization
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
CSAPR	Cross-State Air Pollution Rule
DG Comp	Directorate-General for Competition
DPL	DPL Inc.
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement and Construction
ESP	Electric Security Plan
FASB	Financial Accounting Standards Board
Fluence	Fluence Energy, Inc and its subsidiaries, including Fluence Energy, LLC, which was previously our joint venture with Siemens (NASDAQ: FLNC)
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
GILTI	Global Intangible Low Taxed Income
GWh	Gigawatt Hours
HLBV	Hypothetical Liquidation Book Value
IPALCO	IPALCO Enterprises, Inc.
LIBOR	London Interbank Offered Rate
LNG	Liquid Natural Gas
MMBtu	Million British Thermal Units
MW	Megawatts
MWh	Megawatt Hours
NAAQS	National Ambient Air Quality Standards
NCI	Noncontrolling Interest
NM	Not Meaningful
NOV	Notice of Violation
NO _x	Nitrogen Oxide
OTC Policy	Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling
PPA	Power Purchase Agreement
PREPA	Puerto Rico Electric Power Authority
RSU	Restricted Stock Unit
SBU	Strategic Business Unit
SEC	United States Securities and Exchange Commission
SO ₂	Sulfur Dioxide
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, 2022	December 31, 2021
(in millions, except share and per share amounts)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,075	\$ 943
Restricted cash	412	304
Short-term investments	595	232
Accounts receivable, net of allowance for doubtful accounts of \$5 and \$5, respectively	1,675	1,418
Inventory	871	604
Prepaid expenses	182	142
Other current assets	1,269	897
Current held-for-sale assets	844	816
Total current assets	6,923	5,356
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	433	426
Electric generation, distribution assets and other	25,351	25,552
Accumulated depreciation	(8,387)	(8,486)
Construction in progress	3,356	2,414
Property, plant and equipment, net	20,753	19,906
Other Assets:		
Investments in and advances to affiliates	1,098	1,080
Debt service reserves and other deposits	164	237
Goodwill	1,179	1,177
Other intangible assets, net of accumulated amortization of \$402 and \$385, respectively	1,646	1,450
Deferred income taxes	395	409
Other noncurrent assets, net of allowance of \$42 and \$23, respectively	2,775	2,188
Noncurrent held-for-sale assets	1,137	1,160
Total other assets	8,394	7,701
TOTAL ASSETS	\$ 36,070	\$ 32,963
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,685	\$ 1,153
Accrued interest	214	182
Accrued non-income taxes	242	266
Accrued and other liabilities	1,099	1,205
Non-recourse debt, including \$353 and \$302, respectively, related to variable interest entities	2,202	1,367
Current held-for-sale liabilities	547	559
Total current liabilities	5,989	4,732
NONCURRENT LIABILITIES		
Recourse debt	4,177	3,729
Non-recourse debt, including \$2,142 and \$2,223, respectively, related to variable interest entities	14,997	13,603
Deferred income taxes	1,086	977
Other noncurrent liabilities	3,117	3,358
Noncurrent held-for-sale liabilities	678	740
Total noncurrent liabilities	24,055	22,407
Commitments and Contingencies (see Note 8)		
Redeemable stock of subsidiaries	1,173	1,257
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock (without par value, 50,000,000 shares authorized; 1,043,050 issued and outstanding at June 30, 2022 and December 31, 2021, respectively)	838	838
Common stock (\$0.01 par value, 1,200,000,000 shares authorized; 818,735,314 issued and 667,878,925 outstanding at June 30, 2022 and 818,717,043 issued and 666,793,625 outstanding at December 31, 2021)	8	8
Additional paid-in capital	6,924	7,106
Accumulated deficit	(1,153)	(1,089)
Accumulated other comprehensive loss	(1,790)	(2,220)
Treasury stock, at cost (150,856,389 and 151,923,418 shares at June 30, 2022 and December 31, 2021, respectively)	(1,832)	(1,845)
Total AES Corporation stockholders' equity	2,995	2,798
NONCONTROLLING INTERESTS		
	1,858	1,769
Total equity	4,853	4,567
TOTAL LIABILITIES AND EQUITY	\$ 36,070	\$ 32,963

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(in millions, except share and per share amounts)				
Revenue:				
Regulated	\$ 802	\$ 672	\$ 1,637	\$ 1,379
Non-Regulated	2,276	2,028	4,293	3,956
Total revenue	3,078	2,700	5,930	5,335
Cost of Sales:				
Regulated	(734)	(580)	(1,439)	(1,162)
Non-Regulated	(1,781)	(1,392)	(3,398)	(2,781)
Total cost of sales	(2,515)	(1,972)	(4,837)	(3,943)
Operating margin	563	728	1,093	1,392
General and administrative expenses	(46)	(45)	(98)	(91)
Interest expense	(279)	(237)	(537)	(427)
Interest income	95	73	170	141
Loss on extinguishment of debt	(1)	(18)	(7)	(19)
Other expense	(29)	(4)	(41)	(20)
Other income	70	183	76	226
Gain (loss) on disposal and sale of business interests	(2)	64	(1)	59
Asset impairment expense	(482)	(872)	(483)	(1,345)
Foreign currency transaction losses	(49)	(2)	(68)	(37)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	(160)	(130)	104	(121)
Income tax benefit (expense)	19	59	(41)	51
Net equity in earnings (losses) of affiliates	5	(10)	(28)	(40)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(136)	(81)	35	(110)
Gain from disposal of discontinued businesses	—	4	—	4
NET INCOME (LOSS)	(136)	(77)	35	(106)
Less: Net loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	(43)	105	(99)	(14)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ (179)	\$ 28	\$ (64)	\$ (120)
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income (loss) from continuing operations, net of tax	\$ (179)	\$ 24	\$ (64)	\$ (124)
Income from discontinued operations, net of tax	—	4	—	4
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ (179)	\$ 28	\$ (64)	\$ (120)
BASIC EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$ (0.27)	\$ 0.03	\$ (0.10)	\$ (0.19)
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	—	0.01	—	0.01
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$ (0.27)	\$ 0.04	\$ (0.10)	\$ (0.18)
DILUTED EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$ (0.27)	\$ 0.03	\$ (0.10)	\$ (0.19)
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	—	0.01	—	0.01
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$ (0.27)	\$ 0.04	\$ (0.10)	\$ (0.18)
DILUTED SHARES OUTSTANDING	668	671	668	666

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,	
	2022	2021	2022	2021
	(in millions)			
NET INCOME (LOSS)	\$ (136)	\$ (77)	\$ 35	\$ (106)
Foreign currency translation activity:				
Foreign currency translation adjustments, net of \$0 income tax for all periods	(149)	38	(17)	(31)
Reclassification to earnings, net of \$0 income tax for all periods	—	3	—	3
Total foreign currency translation adjustments	(149)	41	(17)	(28)
Derivative activity:				
Change in derivative fair value, net of income tax benefit (expense) of \$(61), \$48, \$(134), and \$(19), respectively	270	(175)	542	68
Reclassification to earnings, net of income tax expense of \$3, \$6, \$13, and \$13, respectively	20	26	38	49
Total change in fair value of derivatives	290	(149)	580	117
Pension activity:				
Change in pension adjustments due to net actuarial gain (loss) for the period, net of income tax expense of \$0, \$1, \$0, and \$0, respectively	—	(1)	—	—
Reclassification to earnings, net of income tax expense of \$0, \$1, \$0, and \$1, respectively	—	1	1	1
Total pension adjustments	—	—	1	1
OTHER COMPREHENSIVE INCOME (LOSS)	141	(108)	564	90
COMPREHENSIVE INCOME (LOSS)	5	(185)	599	(16)
Less: Comprehensive loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	(75)	104	(157)	(47)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ (70)	\$ (81)	\$ 442	\$ (63)

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Changes in Equity (Unaudited)

	Six Months Ended June 30, 2022									
	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital ⁽¹⁾	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount ⁽¹⁾	Shares	Amount	Shares	Amount				
	(in millions)									
Balance at January 1, 2022	1.0	\$ 838	818.7	\$ 8	152.0	\$(1,845)	\$ 7,106	\$ (1,089)	\$ (2,220)	\$ 1,769
Net income	—	—	—	—	—	—	—	115	—	94
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	131	1
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	265	22
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	1	—
Total other comprehensive income	—	—	—	—	—	—	—	—	397	23
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(25)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(93)	—	(76)	(367)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	86
Sales to noncontrolling interests	—	—	—	—	—	—	7	—	—	30
Issuance of preferred shares in subsidiaries	—	—	—	—	—	—	—	—	—	60
Dividends declared on common stock (\$0.1580/share)	—	—	—	—	—	—	(105)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	—	—	(1.1)	13	(12)	—	—	—
Balance at March 31, 2022	1.0	\$ 838	818.7	\$ 8	150.9	\$(1,832)	\$ 6,903	\$ (974)	\$ (1,899)	\$ 1,670
Net income (loss)	—	—	—	—	—	—	—	(179)	—	50
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	(146)	(3)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	255	15
Total other comprehensive income	—	—	—	—	—	—	—	—	109	12
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(45)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	—	—	—	(2)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	3
Sales to noncontrolling interests	—	—	—	—	—	—	10	—	—	170
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	—	—	—	—	11	—	—	—
Balance at June 30, 2022	1.0	\$ 838	818.7	\$ 8	150.9	\$(1,832)	\$ 6,924	\$ (1,153)	\$ (1,790)	\$ 1,858

⁽¹⁾ The balance at January 1, 2022 includes a \$13 million reclass from *Additional paid-in capital* to *Preferred stock* to reflect the retrospective adoption of ASU 2020-06. For further information, see Note 1—*Financial Statement Presentation*.

	Six Months Ended June 30, 2021									
	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount	Shares	Amount	Shares	Amount				
	(in millions)									
Balance at January 1, 2021	—	\$ —	818.4	\$ 8	153.0	\$(1,858)	\$ 7,561	\$ (680)	\$ (2,397)	\$ 2,086
Net income (loss)	—	—	—	—	—	—	—	(148)	—	119
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	(53)	(16)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	219	27
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	—	1
Total other comprehensive income	—	—	—	—	—	—	—	—	166	12
Fair value adjustment ⁽¹⁾	—	—	—	—	—	—	33	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(17)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(5)	—	(6)	(3)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	94
Issuance of preferred stock	1.0	1,043	—	—	—	—	(235)	—	—	—
Dividends declared on common stock (\$0.1505/share)	—	—	—	—	—	—	(101)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.2	—	(0.7)	8	(12)	—	—	—
Balance at March 31, 2021	1.0	\$ 1,043	818.6	\$ 8	152.3	\$(1,850)	\$ 7,241	\$ (828)	\$ (2,237)	\$ 2,291
Net income (loss)	—	—	—	—	—	—	—	28	—	(103)
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	30	11
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	(140)	(9)
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	1	(1)
Total other comprehensive income (loss)	—	—	—	—	—	—	—	—	(109)	1
Fair value adjustment ⁽¹⁾	—	—	—	—	—	—	(36)	—	—	—
Disposition of business interests ⁽²⁾	—	—	—	—	—	—	—	—	—	(109)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(117)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(2)	—	(1)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	1
Sales to noncontrolling interests	—	—	—	—	—	—	—	—	—	17
Issuance of preferred shares in subsidiaries	—	—	—	—	—	—	—	—	—	151
Issuance of preferred stock	—	—	—	—	—	—	1	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.1	—	—	—	7	—	—	—
Balance at June 30, 2021	1.0	\$ 1043	818.7	\$ 8	152.3	\$(1,850)	\$ 7,211	\$ (800)	\$ (2,347)	\$ 2,132

⁽¹⁾ Adjustment to record the redeemable stock of Colon at fair value.

⁽²⁾ See Note 17—*Held-For-Sale and Dispositions* for further information.

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2022	2021
	(in millions)	
OPERATING ACTIVITIES:		
Net income (loss)	\$ 35	\$ (106)
Adjustments to net income (loss):		
Depreciation and amortization	534	538
Loss (gain) on disposal and sale of business interests	1	(59)
Impairment expense	483	1,345
Deferred income taxes	(43)	(73)
Loss on extinguishment of debt	7	19
Loss on sale and disposal of assets	2	20
Gain on remeasurement to acquisition date fair value	—	(212)
Loss of affiliates, net of dividends	52	46
Emissions allowance expense	239	124
Other	46	139
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(262)	(120)
(Increase) decrease in inventory	(227)	7
(Increase) decrease in prepaid expenses and other current assets	(187)	(13)
(Increase) decrease in other assets	94	8
Increase (decrease) in accounts payable and other current liabilities	151	(292)
Increase (decrease) in income tax payables, net and other tax payables	(114)	(439)
Increase (decrease) in deferred income	59	(307)
Increase (decrease) in other liabilities	(5)	(21)
Net cash provided by operating activities	<u>865</u>	<u>604</u>
INVESTING ACTIVITIES:		
Capital expenditures	(1,659)	(999)
Acquisitions of business interests, net of cash and restricted cash acquired	(107)	(81)
Proceeds from the sale of business interests, net of cash and restricted cash sold	1	58
Sale of short-term investments	345	316
Purchase of short-term investments	(694)	(258)
Contributions and loans to equity affiliates	(169)	(173)
Purchase of emissions allowances	(293)	(88)
Other investing	(7)	80
Net cash used in investing activities	<u>(2,583)</u>	<u>(1,145)</u>
FINANCING ACTIVITIES:		
Borrowings under the revolving credit facilities	3,100	998
Repayments under the revolving credit facilities	(2,269)	(932)
Issuance of recourse debt	—	7
Repayments of recourse debt	(29)	(7)
Issuance of non-recourse debt	3,132	700
Repayments of non-recourse debt	(1,469)	(939)
Payments for financing fees	(38)	(12)
Distributions to noncontrolling interests	(93)	(129)
Acquisitions of noncontrolling interests	(540)	(17)
Contributions from noncontrolling interests	28	95
Sales to noncontrolling interests	229	20
Issuance of preferred shares in subsidiaries	60	151
Issuance of preferred stock	—	1,015
Dividends paid on AES common stock	(211)	(200)
Payments for financed capital expenditures	(9)	(4)
Other financing	33	(64)
Net cash provided by financing activities	<u>1,924</u>	<u>682</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18)	(4)
(Increase) decrease in cash, cash equivalents and restricted cash of held-for-sale businesses	(21)	62
Total increase in cash, cash equivalents and restricted cash	167	199
Cash, cash equivalents and restricted cash, beginning	1,484	1,827
Cash, cash equivalents and restricted cash, ending	<u>\$ 1,651</u>	<u>\$ 2,026</u>
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	\$ 423	\$ 406
Cash payments for income taxes, net of refunds	141	372
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Non-cash consideration transferred for Clean Energy acquisitions (see Note 18)	—	99

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(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, except for our investment in Alto Maipo, for which we have elected the fair value option as permitted under ASC 825. 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, 2022 are not necessarily indicative of expected results for the year ending December 31, 2022. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2021 audited consolidated financial statements and notes thereto, which are included in the 2021 Form 10-K filed with the SEC on February 28, 2022 (the “2021 Form 10-K”).

Reclassifications — To comply with newly adopted accounting standards, certain prior period adjustments in the consolidated financial statements have been reclassified to conform to the current presentation. The beneficial conversion feature associated with the Equity Units was reclassified from *Additional paid-in capital* to *Preferred stock* in the Consolidated Balance Sheet for the year ended December 31, 2021. See further detail in the new accounting pronouncements discussion.

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, 2022	December 31, 2021
Cash and cash equivalents	\$ 1,075	\$ 943
Restricted cash	412	304
Debt service reserves and other deposits	164	237
Cash, Cash Equivalents, and Restricted Cash	<u>\$ 1,651</u>	<u>\$ 1,484</u>

ASC 326 - Financial Instruments - Credit Losses - The following table represents the rollforward of the allowance for credit losses for the period indicated (in millions):

Six Months Ended June 30, 2022	Accounts Receivable ⁽¹⁾	Mong Duong Loan Receivable ⁽²⁾	Argentina Receivables	Lease Receivable ⁽³⁾	Other	Total
CECL reserve balance at beginning of period	\$ 3	\$ 30	\$ 23	\$ —	\$ 7	\$ 63
Current period provision	5	—	3	20	—	28
Write-offs charged against allowance	(5)	—	—	—	(6)	(11)
Recoveries collected	1	(1)	—	—	—	—
Foreign exchange	—	—	(5)	—	—	(5)
CECL reserve balance at end of period	<u>\$ 4</u>	<u>\$ 29</u>	<u>\$ 21</u>	<u>\$ 20</u>	<u>\$ 1</u>	<u>\$ 75</u>

Six Months Ended June 30, 2021	Accounts Receivable ⁽¹⁾	Mong Duong Loan Receivable ⁽²⁾	Argentina Receivables	Other	Total
CECL reserve balance at beginning of period	\$ 9	\$ 32	\$ 20	\$ 1	\$ 62
Current period provision	1	—	3	—	4
Write-offs charged against allowance	(6)	—	—	—	(6)
Recoveries collected	1	(1)	—	—	—
Foreign exchange	—	—	(3)	—	(3)
CECL reserve balance at end of period	<u>\$ 5</u>	<u>\$ 31</u>	<u>\$ 20</u>	<u>\$ 1</u>	<u>\$ 57</u>

⁽¹⁾ Excludes operating lease receivable allowances and contractual dispute allowances of \$5 million and \$4 million as of June 30, 2022 and June 30, 2021, respectively. These reserves are not in scope under ASC 326.

⁽²⁾ Mong Duong loan receivable credit losses allowance was reclassified to held-for-sale assets on the Condensed Consolidated Balance Sheet as of June 30, 2022.

⁽³⁾ Lease receivable credit losses allowance at Southland Energy (AES Gilbert).

New Accounting Pronouncements Adopted in 2022 — 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
2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments	The amendments in this update affect lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (a) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3, (b) The lessor would have otherwise recognized a day-one loss. This update could be applied either (1) retrospectively to leases that commenced or were modified on or after the adoption of Update 2016-02 or (2) prospectively to leases that commence or are modified on or after the date that an entity first applies the amendments.	January 1, 2022	The Company adopted this standard on a prospective basis and it did not have a material impact on the financial statements.
2020-06, Debt - Debt with conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Equity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Equity's Own Equity	The amendments in this update affect entities that issue convertible instruments and/or contracts indexed to and potentially settled in an entity's own equity. The new ASU eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation.	January 1, 2022	The Company adopted this standard on a fully retrospective basis and its adoption resulted in a \$13 million increase to <i>Preferred Stock</i> and a corresponding decrease to <i>Additional paid-in capital</i> . No impact to Earnings per Share amounts reported in 2021 or 2022.
2020-04 and 2021-01, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	The amendments in these updates provide 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, and clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. These amendments are effective for a limited period of time (March 12, 2020 - December 31, 2022).	Effective for all entities as of March 12, 2020 through December 31, 2022	The Company is implementing the reference rate reform and does not expect these amendments to have a material impact on the financial statements.

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
2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	This update is to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the following: (1) Recognition of an acquired contract liability, and (2) Payment terms and their effect on subsequent revenue recognized by the acquirer. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application.	For fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.	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, 2022	December 31, 2021
Fuel and other raw materials	\$ 573	\$ 366
Spare parts and supplies	298	238
Total	\$ 871	\$ 604

3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves, and other deposits approximate their reported carrying amounts. The estimated fair values of the Company's assets and liabilities have been determined using available market information. 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 2021 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, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
DEBT SECURITIES:								
Available-for-sale:								
Certificates of deposit	\$ —	\$ 566	\$ —	\$ 566	\$ —	\$ 199	\$ —	\$ 199
Total debt securities	—	566	—	566	—	199	—	199
EQUITY SECURITIES:								
Mutual funds	27	10	—	37	31	13	—	44
Total equity securities	27	10	—	37	31	13	—	44
DERIVATIVES:								
Interest rate derivatives	—	315	2	317	—	51	2	53
Cross-currency derivatives	—	—	—	—	—	5	—	5
Foreign currency derivatives	—	28	50	78	—	29	108	137
Commodity derivatives	—	143	50	193	—	32	6	38
Total derivatives — assets	—	486	102	588	—	117	116	233
TOTAL ASSETS	\$ 27	\$ 1,062	\$ 102	\$ 1,191	\$ 31	\$ 329	\$ 116	\$ 476
Liabilities								
DERIVATIVES:								
Interest rate derivatives	\$ —	\$ 15	\$ 1	\$ 16	\$ —	\$ 286	\$ 8	\$ 294
Cross-currency derivatives	—	42	—	42	—	11	—	11
Foreign currency derivatives	—	33	—	33	—	35	—	35
Commodity derivatives	—	111	13	124	—	37	7	44
Total derivatives — liabilities	—	201	14	215	—	369	15	384
TOTAL LIABILITIES	\$ —	\$ 201	\$ 14	\$ 215	\$ —	\$ 369	\$ 15	\$ 384

As of June 30, 2022, 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, 2022. Credit-related impairments are recognized in earnings under ASC 326. 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,	
	2022	2021	2022	2021
Gross proceeds from sale of available-for-sale securities	\$ 150	\$ 55	\$ 347	\$ 300

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, 2022 and 2021 (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, 2022	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at April 1	\$ 1	\$ —	\$ 93	\$ (13)	\$ 81
Total realized and unrealized gains (losses):					
Included in earnings	1	—	(32)	(4)	(35)
Included in other comprehensive income — derivative activity	5	—	(11)	6	—
Included in regulatory (assets) liabilities	—	—	—	15	15
Settlements	—	—	—	2	2
Transfers of assets (liabilities), net into Level 3	—	—	—	31	31
Transfers of (assets) liabilities, net out of Level 3	(6)	—	—	—	(6)
Balance at June 30	\$ 1	\$ —	\$ 50	\$ 37	\$ 88
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	\$ 1	\$ —	\$ (32)	\$ —	\$ (31)
Three Months Ended June 30, 2021	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at April 1	\$ (166)	\$ (3)	\$ 98	\$ 1	\$ (70)
Total realized and unrealized gains (losses):					
Included in earnings	(1)	(32)	6	—	(27)
Included in other comprehensive income — derivative activity	(16)	—	1	12	(3)
Included in regulatory (assets) liabilities	—	—	—	3	3
Settlements	11	3	(8)	—	6
Transfers of assets (liabilities), net into Level 3	(20)	—	—	—	(20)
Transfers of (assets) liabilities, net out of Level 3	—	—	—	(1)	(1)
Balance at June 30	\$ (192)	\$ (32)	\$ 97	\$ 15	\$ (112)
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	\$ (1)	\$ —	\$ (4)	\$ —	\$ (5)
Six Months Ended June 30, 2022	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	\$ (6)	\$ —	\$ 108	\$ (1)	\$ 101
Total realized and unrealized gains (losses):					
Included in earnings	3	—	(44)	(4)	(45)
Included in other comprehensive income — derivative activity	10	—	(14)	(8)	(12)
Included in regulatory (assets) liabilities	—	—	—	15	15
Settlements	—	—	—	2	2
Transfers of assets (liabilities), net into Level 3	—	—	—	31	31
Transfers of (assets) liabilities, net out of Level 3	(6)	—	—	2	(4)
Balance at June 30	\$ 1	\$ —	\$ 50	\$ 37	\$ 88
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	\$ —	\$ (44)	\$ 1	\$ (40)
Six Months Ended June 30, 2021	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	\$ (236)	\$ (2)	\$ 146	\$ 2	\$ (90)
Total realized and unrealized gains (losses):					
Included in earnings	1	(33)	(23)	—	(55)
Included in other comprehensive income — derivative activity	19	—	(8)	12	23
Included in regulatory (assets) liabilities	—	—	—	3	3
Settlements	24	3	(18)	(1)	8
Transfers of (assets) liabilities, net out of Level 3	—	—	—	(1)	(1)
Balance at June 30	\$ (192)	\$ (32)	\$ 97	\$ 15	\$ (112)
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	\$ 1	\$ —	\$ (44)	\$ —	\$ (43)

The following table summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of June 30, 2022 (in millions, except range amounts):

Type of Derivative	Fair Value	Unobservable Input	Amount or Range (Weighted Average)
Interest rate	\$ 1	Subsidiaries' credit spreads	0.8% - 5.7% (4.4%)
Foreign currency:			
Argentine peso	50	Argentine peso to U.S. dollar currency exchange rate after one year	213 - 499 (374)
Commodity:			
Other	37		
Total	<u>\$ 88</u>		

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, 2022		Measurement Date	Carrying Amount ⁽¹⁾	Fair Value			Pre-tax Loss
				Level 1	Level 2	Level 3	
Long-lived assets held and used:							
Maritza		4/30/2022	\$ 927	\$ —	\$ —	\$ 452	\$ 475
Six Months Ended June 30, 2021							
		Measurement Date	Carrying Amount ⁽¹⁾	Level 1	Level 2	Level 3	Pre-tax Loss
Long-lived assets held and used:							
Puerto Rico		3/31/2021	\$ 548	\$ —	\$ —	\$ 73	\$ 475
Mountain View I & II		4/30/2021	78	—	—	11	67
Ventanas 3 & 4		6/30/2021	661	—	—	12	649
Angamos		6/30/2021	241	—	—	86	155

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

The following table summarizes the significant unobservable inputs used in the Level 3 measurement of long-lived assets held and used measured on a nonrecurring basis during the six months ended June 30, 2022 (in millions, except range amounts):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Long-lived assets held and used:				
Maritza	\$ 452	Discounted cash flow	Annual revenue growth	(66)% to 11% (-11%)
			Annual variable margin	(66)% to 23% (-1%)
			Weighted-average cost of capital	20% to 25% (21%)
Total	<u>\$ 452</u>			

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, 2022				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent ⁽¹⁾	\$ 44	\$ 81	\$ —	\$ —	\$ 81
Liabilities:	Non-recourse debt	17,020	17,654	—	15,451	2,203
	Recourse debt	4,177	3,812	—	3,812	—
		December 31, 2021				
		Carrying Amount	Fair Value			
			Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent ⁽¹⁾	\$ 55	\$ 117	\$ —	\$ —	\$ 117
Liabilities:	Non-recourse debt	14,811	16,091	—	16,065	26
	Recourse debt	3,754	3,818	—	3,818	—

⁽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 \$2 million as of June 30, 2022 and December 31, 2021.

4. 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 2021 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, 2022, 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	\$ 5,596	2059
Cross-currency swaps (Brazilian real)	254	2026
Foreign Currency:		
Colombian peso	132	2024
Euro	58	2024
Mexican peso	53	2023
Brazilian real	37	2024
Chilean peso	29	2024
Argentine peso	9	2026

Commodity Derivatives	Maximum Notional	Latest Maturity
Natural Gas (in MMBtu)	115	2029
Power (in MWhs)	25	2040
Coal (in Tons or Metric Tons)	7	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 Assets	June 30, 2022			December 31, 2021		
	Designated	Not Designated	Total	Designated	Not Designated	Total
Interest rate derivatives	\$ 317	\$ —	\$ 317	\$ 53	\$ —	\$ 53
Cross-currency derivatives	—	—	—	5	—	5
Foreign currency derivatives	14	64	78	28	109	137
Commodity derivatives	31	162	193	6	32	38
Total assets	\$ 362	\$ 226	\$ 588	\$ 92	\$ 141	\$ 233
Liabilities						
Interest rate derivatives	\$ 15	\$ 1	\$ 16	\$ 288	\$ 6	\$ 294
Cross-currency derivatives	42	—	42	11	—	11
Foreign currency derivatives	21	12	33	23	12	35
Commodity derivatives	13	111	124	11	33	44
Total liabilities	\$ 91	\$ 124	\$ 215	\$ 333	\$ 51	\$ 384

Fair Value	June 30, 2022		December 31, 2021	
	Assets	Liabilities	Assets	Liabilities
Current	\$ 216	\$ 86	\$ 85	\$ 83
Noncurrent	372	129	148	301
Total	<u>\$ 588</u>	<u>\$ 215</u>	<u>\$ 233</u>	<u>\$ 384</u>

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,	
	2022	2021	2022	2021
Cash flow hedges				
Gains (losses) recognized in AOCL				
Interest rate derivatives	\$ 323	\$ (222)	\$ 627	\$ 87
Cross-currency derivatives	—	1	—	3
Foreign currency derivatives	(24)	(19)	(12)	(20)
Commodity derivatives	32	17	61	17
Total	<u>\$ 331</u>	<u>\$ (223)</u>	<u>\$ 676</u>	<u>\$ 87</u>
Losses reclassified from AOCL into earnings				
Interest rate derivatives	\$ (23)	\$ (28)	\$ (50)	\$ (52)
Cross-currency derivatives	—	(1)	—	(2)
Foreign currency derivatives	—	(2)	—	(5)
Commodity derivatives	—	(1)	(1)	(3)
Total	<u>\$ (23)</u>	<u>\$ (32)</u>	<u>\$ (51)</u>	<u>\$ (62)</u>
Gains (losses) on fair value hedging relationship				
Cross-currency derivatives	\$ 8	\$ (32)	\$ (35)	\$ (32)
Hedged items	(25)	35	22	35
Total	<u>\$ (17)</u>	<u>\$ 3</u>	<u>\$ (13)</u>	<u>\$ 3</u>
Loss reclassified from AOCL to earnings due to impairment of assets	\$ (16)	\$ (9)	\$ (16)	\$ (13)
Loss reclassified from AOCL to earnings due to de-designation of hedge	\$ (15)	\$ —	\$ (15)	\$ —
Gains (losses) recognized in earnings related to				
Not designated as hedging instruments:				
Interest rate derivatives	\$ 1	\$ (9)	\$ 3	\$ 105
Foreign currency derivatives	4	7	(15)	(4)
Commodity derivatives and other	30	12	17	(81)
Total	<u>\$ 35</u>	<u>\$ 10</u>	<u>\$ 5</u>	<u>\$ 20</u>

AOCL is expected to decrease pre-tax income from continuing operations for the twelve months ended June 30, 2023 by \$24 million, primarily due to interest rate derivatives.

5. 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):

	June 30, 2022			December 31, 2021		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Chile	\$ 16	\$ —	\$ 16	\$ 17	\$ —	\$ 17
Argentina	8	1	7	11	1	10
Other	23	—	23	30	—	30
Total	<u>\$ 47</u>	<u>\$ 1</u>	<u>\$ 46</u>	<u>\$ 58</u>	<u>\$ 1</u>	<u>\$ 57</u>

Chile — AES Andes 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, in conjunction with the Tariff Stabilization Law. 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.

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

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

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

Six Months Ended June 30,	50%-or-less Owned Affiliates ⁽¹⁾		Majority-Owned Unconsolidated Subsidiaries	
	2022	2021	2022	2021
Revenue	\$ 792	\$ 726	\$ 1	\$ 1
Operating margin (loss)	(249)	12	—	(1)
Net loss	(323)	(93)	—	(2)

⁽¹⁾ As of July 1, 2021, AES began to account for its investment in Fluence quarterly, on a three-month lag. This shift in timing is necessary due to the nature of the entity subsequent to its IPO.

Alto Maipo — On May 26, 2022, Alto Maipo emerged from bankruptcy in accordance with Chapter 11 of the U.S. Bankruptcy Code. Alto Maipo, as restructured, is considered a VIE. As the Company lacks the power to make significant decisions, it does not meet the criteria to be considered the primary beneficiary of Alto Maipo and therefore will not consolidate the entity. The Company has elected the fair value option to account for its investment in Alto Maipo as management believes this approach will better reflect the economics of its equity interest. As of June 30, 2022, the fair value is insignificant. Alto Maipo is reported in the South America SBU reportable segment.

Fluence — On June 9, 2021, Fluence issued new shares to the Qatar Investment Authority ("QIA") for \$125 million, which following the completion of the transaction, represented a 13.6% ownership interest in Fluence. As a result of the transaction, which AES has accounted for as a partial disposition, AES' ownership interest in Fluence decreased from 50% to 43.2%. The Company recognized a gain of \$61 million in *Gain (loss) on disposal and sale of business interests*.

On November 1, 2021, Fluence completed its IPO of 35,650,000 of its Class A common stock at a price of \$28 per share, including the exercise of the underwriter's option. Fluence received approximately \$936 million in proceeds, after expenses, and as a result of the transaction, AES' ownership interest in Fluence decreased to 34.2%. As the Company still does not control Fluence after these transactions, it continues to be accounted for as an equity method investment and is reported as part of Corporate and Other.

Grupo Energía Gas Panamá — In April 2021, Grupo Energía Gas Panamá, a joint venture between AES and InterEnergy Power & Gas Limited, completed the acquisition of a combined cycle natural gas development project. AES holds a 49% ownership interest in the affiliate. The Company contributed \$21 million to the joint venture as of June 30, 2021 and has contributed a total of \$45 million as of June 30, 2022. As the Company does not control the joint venture, it is accounted for as an equity method investment and is reported in the MCAC SBU reportable segment.

sPower — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, a consolidated entity, which will serve as the development vehicle for all future renewable projects in the U.S. Since the sPower development platform was carved-out of AES' existing equity method investment, this transaction resulted in a \$104 million decrease in the carrying value of the sPower investment and the Company recognized a gain of \$212 million in *Other income*. See Note 18—*Acquisitions* for further information. As the Company still does not control sPower after the transaction, it continues to be accounted for as an equity method investment and is reported in the US and Utilities SBU reportable segment.

Guacolda — In February 2021, AES Andes entered into an agreement to sell its 50% ownership interest in Guacolda for \$34 million and in May 2021, the Company received a \$10 million advance on the sales price. On July 20, 2021, the Company completed the sale of Guacolda and received the remaining \$24 million. Prior to its sale, the Guacolda equity method investment was reported in the South America SBU reportable segment.

7. DEBT

Non-Recourse Debt

During the six months ended June 30, 2022, the Company's subsidiaries had the following significant debt transactions:

Subsidiary	Transaction Period	Issuances	Repayments
AES Andes ⁽¹⁾	Q1, Q2	\$ 477	\$ (95)
AES Brasil	Q1, Q2	469	(201)
United Kingdom	Q1	710	(350)
Netherlands/Panama	Q1	500	—
El Salvador	Q2	348	(345)
AES Clean Energy Development	Q2	267	—
AES Indiana	Q2	200	—
AES Ohio	Q2	140	—

⁽¹⁾ Issuances relate to AES Andes S.A. and Chivor.

Netherlands and Panama — In March 2022, AES Hispanola Holdings BV, a Netherlands based company, and Colon, as co-borrowers, executed a \$500 million bridge loan due in 2023. The Company allocated \$450 million and \$50 million of the proceeds from the agreement to AES Hispanola Holdings BV and Colon, respectively.

United Kingdom — On January 6, 2022, Mercury Chile HoldCo LLC ("Mercury Chile"), a UK based company, executed a \$350 million bridge loan, and used the proceeds, as well as an additional capital contribution of \$196 million from the Parent Company, to purchase the minority interest in AES Andes through intermediate holding companies (see Note 11—*Equity* for further information). On January 24, 2022, Mercury Chile issued \$360 million aggregate principal of 6.5% senior secured notes due in 2027 and used the proceeds from the issuance to fully prepay the \$350 million bridge loan.

Non-Recourse Debt in Default — The following table summarizes the Company's subsidiary non-recourse debt in default (in millions) as of June 30, 2022. 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	\$ 177	\$ (185)
AES Jordan PSC ⁽¹⁾	Covenant	75	126
AES Ilumina (Puerto Rico)	Covenant	28	26
AES Jordan Solar	Covenant	7	9
Total		<u>\$ 287</u>	

⁽¹⁾ Classified as current held-for-sale liability on the Condensed Consolidated Balance Sheets.

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, 2022, 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 revolving credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment defaults and bankruptcy defaults would preclude the making of any restricted payments.

8. COMMITMENTS AND CONTINGENCIES

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

creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to no more than 17 years.

The following table summarizes the Parent Company's contingent contractual obligations as of June 30, 2022. 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	\$ 2,252	81	\$0 — 400
Letters of credit under the unsecured credit facilities	155	44	\$0 — 36
Letters of credit under the revolving credit facility	26	12	\$0 — 15
Surety bonds	2	2	\$1
Total	<u>\$ 2,435</u>	<u>139</u>	

During the six months ended June 30, 2022, 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 the periods ended June 30, 2022 and December 31, 2021, 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, 2022. 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 \$28 million and \$23 million as of June 30, 2022 and December 31, 2021, 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, 2022. 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 \$247 million and \$728 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.

Tietê GSF Settlement — In accordance with the regulation published by ANEEL in December 2020 regarding the incorrect application of the GSF mechanism between 2013 and 2018, Tietê will be compensated in the form of a concession extension period, initially determined to be 2.7 years, which will be amortized from the date of the agreement until the end of the new concession period. As of December 31, 2020, the compensation to be received from the concession extension was estimated to have a fair value of \$184 million, based on a preliminary time-value equivalent calculation made by the CCEE. In March 2021, the CCEE's final calculation of fair value was \$190 million and the Company recognized an additional reversal of *Non-Regulated Cost of Sales* of \$6 million. In August 2021, ANEEL published Resolution 2.919/2021, establishing an extension for the end of the concession originally granted to AES Brasil's hydroelectric plants, from 2029 to 2032. On April 14, 2022, the amended term was finalized and agreed upon by ANEEL and AES.

9. 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 receipts 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 receipts from such contracts are recognized as lease revenue on a straight-line basis over the lease term, whereas variable lease receipts are recognized when earned.

The following table presents lease revenue from operating leases in which the Company is the lessor for the periods indicated (in millions):

Operating Lease Revenue	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Total lease revenue	\$ 140	\$ 118	\$ 274	\$ 261
Less: Variable lease revenue	(16)	(25)	(23)	(39)
Total Non-variable lease revenue	\$ 124	\$ 93	\$ 251	\$ 222

The following table presents the underlying gross assets and accumulated depreciation of operating leases included in *Property, plant and equipment, net* for the periods indicated (in millions):

Property, Plant and Equipment, Net	June 30, 2022	December 31, 2021
Gross assets	\$ 1,600	\$ 2,423
Less: Accumulated depreciation	(419)	(765)
Net assets	\$ 1,181	\$ 1,658

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, 2022. 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, 2022 for the remainder of 2022 through 2026 and thereafter (in millions):

	Future Cash Receipts for	
	Sales-Type Leases	Operating Leases
2022	\$ 12	\$ 215
2023	24	384
2024	24	384
2025	24	385
2026	24	277
Thereafter	361	747
Total	\$ 469	\$ 2,392
Less: Imputed interest	(268)	
Present value of total lease receipts	\$ 201	

Battery Storage Lease Arrangements — The Company constructs and operates projects consisting only of a stand-alone battery energy storage system (“BESS”) facility, as well as projects that pair a BESS with solar energy systems. These projects allow more flexibility on when to provide energy to the grid. The Company will enter into PPAs for the full output of the facility that allow customers the ability to determine when to charge and discharge the BESS. These arrangements include both lease and non-lease elements under ASC 842, with the BESS component typically constituting a sales-type lease. The Company recognized lease income on sales-type leases through interest income of \$13 million and \$16 million for the three and six months ended June 30, 2022, respectively; and \$4 million and \$8 million for the three and six months ended June 30, 2021, respectively. During the second quarter of 2022, the Company recognized a full allowance of \$20 million on a sales-type lease receivable at AES Gilbert. See Note 14—*Other Income and Expense* for further information.

Prior to January 1, 2022, due to the variable-based nature of lease payments under certain contracts, the Company recorded a loss at commencement of sales-type leases of \$13 million for the six months ended June 30, 2021. These amounts are recognized in *Other expense* in the Condensed Consolidated Statement of Operations. See Note 14—*Other Income and Expense* for further information. Effective January 1, 2022, the Company adopted ASU 2021-05 in which lessors classify and account for certain leases with primarily variable-based lease payments as operating leases. The Company adopted this standard on a prospective basis. See Note 1—*Financial Statement Presentation* for further information.

10. 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, 2022	December 31, 2021
IPALCO common stock	\$ 700	\$ 700
AES Clean Energy Development common stock	400	497
AES Indiana preferred stock	60	60
Potengi common and preferred stock	13	—
Total redeemable stock of subsidiaries	\$ 1,173	\$ 1,257

Potengi — In March 2022, Tucano Holding I (“Tucano”), a subsidiary of AES Brasil, completed the sale of 24% of its ownership in the Potengi wind development project to BRF S.A. (“BRF”) for \$12 million, reducing the Company's indirect ownership interest in Potengi to 35.5%. As the Company maintained control after the transaction, Potengi continues to be consolidated by the Company. As part of the transaction, BRF was given an option to sell its entire ownership interest at the conclusion of the PPA term. As a result, the minority ownership interest is considered temporary equity, which will be adjusted for earnings or losses allocated to the noncontrolling interest under ASC 810. Any subsequent changes in the redemption value of the exit rights will be recognized against permanent equity in accordance with ASC 480-10-S99, as it is probable that the shares will become redeemable.

AES Clean Energy Development — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, which will serve as the development vehicle for all future renewable projects in the U.S. As part of the transaction, AIMCo, our existing partner in the sPower equity method investment, received a 25% minority ownership interest in the newly formed entity along with certain partnership rights, though not currently in effect, that would enable AIMCo to exit in the future. As a result, the minority ownership interest is considered temporary equity.

During the second quarter of 2021, the Company recorded measurement period adjustments to the estimated fair values of the sPower and AES Renewable Holdings development platforms and the value of the partnership rights initially recorded in the first quarter of 2021, which resulted in a \$81 million increase in the value of the temporary equity. These measurement period adjustments primarily relate to higher expected developer profits and a higher growth rate, reflective of additional information that became available regarding market participants' views of the value of early-stage renewable development projects as of the date of acquisition. The temporary equity will be adjusted for earnings or losses allocated to the noncontrolling interest under ASC 810. Any subsequent changes in the redemption value of the exit rights will be recognized against permanent equity in accordance with ASC 480-10-S99, as it is probable that the shares will become redeemable. See Note 18—*Acquisitions* for further information.

11. EQUITY

Equity Units

In March 2021, the Company issued 10,430,500 Equity Units with a total notional value of \$1,043 million. Each Equity Unit has a stated amount of \$100 and was initially issued as a Corporate Unit, consisting of a forward stock purchase contract (“2024 Purchase Contracts”) and a 10% undivided beneficial ownership interest in one share of 0% Series A Cumulative Perpetual Convertible Preferred Stock, issued without par and with a liquidation preference of \$1,000 per share (“Series A Preferred Stock”).

Upon reconsideration of the nature of the Equity Units, the Company re-evaluated its accounting assessment and concluded that the Equity Units should be accounted for as one unit of account based on the economic linkage between the 2024 Purchase Contracts and the Series A Preferred Stock, as well as the Company's assessment of the applicable accounting guidance relating to combining freestanding instruments. The Equity Units represent mandatorily convertible preferred stock. Accordingly, the shares associated with the combined instrument are reflected in diluted earnings per share using the if-converted method.

In the fourth quarter of 2021, the Company also corrected the classification of certain amounts in the Consolidated Balance Sheet and Statement of Changes in Equity to reflect the 2024 Purchase Contracts and Series A Preferred Stock as one unit of account. The corrections have no impact on the Company's net earnings, total assets, cash flows, or segment information.

In conjunction with the issuance of the Equity Units, the Company received approximately \$1 billion in proceeds, net of underwriting costs and commissions, before offering expenses. The proceeds for the issuance of 1,043,050 shares are attributed to the Series A Preferred Stock for \$838 million and \$205 million for the present value of the quarterly payments due to holders of the 2024 Purchase Contracts ("Contract Adjustment Payments"). The proceeds will be used for the development of the AES renewable businesses, U.S. utility businesses, LNG infrastructure, and for other developments determined by management.

The Series A Preferred Stock will initially not bear any dividends and the liquidation preference of the convertible preferred stock will not accrete. The Series A Preferred Stock has no maturity date and will remain outstanding unless converted by holders or redeemed by the Company. Holders of the shares of the convertible preferred stock will have limited voting rights.

The Series A Preferred Stock is pledged as collateral to support holders' purchase obligations under the 2024 Purchase Contracts and can be remarketed. In connection with any successful remarketing, the Company may increase the dividend rate, increase the conversion rate, and modify the earliest redemption date for the convertible preferred stock. After any successful remarketing in connection with which the dividend rate on the convertible preferred stock is increased, the Company will pay cumulative dividends on the convertible preferred stock, if declared by the board of directors, quarterly in arrears from the applicable remarketing settlement date.

Holders of Corporate Units may create Treasury Units or Cash Settled Units from their Corporate Units as provided in the Purchase Contract Agreement by substituting Treasury securities or cash, respectively, for the Convertible Preferred Stock comprising a part of the Corporate Units.

The Company may not redeem the Series A Preferred Stock prior to March 22, 2024. At the election of the Company, on or after March 22, 2024, the Company may redeem for cash, all or any portion of the outstanding shares of the Series A Preferred Stock at a redemption price equal to 100% of the liquidation preference, plus any accumulated and unpaid dividends.

The 2024 Purchase Contracts obligate the holders to purchase, on February 15, 2024, for a price of \$100 in cash, a maximum number of 57,256,144 shares of the Company's common stock (subject to customary anti-dilution adjustments). The 2024 Purchase Contract holders may elect to settle their obligation early, in cash. The Series A Preferred Stock is pledged as collateral to guarantee the holders' obligations to purchase common stock under the terms of the 2024 Purchase Contracts. The initial settlement rate determining the number of shares that each holder must purchase will not exceed the maximum settlement rate and is determined over a market value averaging period preceding February 15, 2024.

The initial maximum settlement rate of 3.864 was calculated using an initial reference price of \$25.88, equal to the last reported sale price of the Company's common stock on March 4, 2021. As of June 30, 2022, due to the customary anti-dilution provisions, the maximum settlement rate was 3.8667, equivalent to a reference price of \$25.86. If the applicable market value of the Company's common stock is less than or equal to the reference price, the settlement rate will be the maximum settlement rate; and if the applicable market value of common stock is greater than the reference price, the settlement rate will be a number of shares of the Company's common stock equal to \$100 divided by the applicable market value. Upon successful remarketing of the Series A Preferred Stock ("Remarketed Series A Preferred Stock"), the Company expects to receive additional cash proceeds of \$1 billion and issue shares of Remarketed Series A Preferred Stock.

The Company pays Contract Adjustment Payments to the holders of the 2024 Purchase Contracts at a rate of 6.875% per annum, payable quarterly in arrears on February 15, May 15, August 15, and November 15, commencing on May 15, 2021. The \$205 million present value of the Contract Adjustment Payments at inception reduced the Series A Preferred Stock. As each quarterly Contract Adjustment Payment is made, the related liability is reduced and the difference between the cash payment and the present value will accrete to interest expense, approximately \$5 million over the three-year term. As of June 30, 2022, the present value of the Contract Adjustment Payments was \$124 million.

The holders can settle the purchase contracts early, for cash, subject to certain exceptions and conditions in the prospectus supplement. Upon early settlement of any purchase contracts, the Company will deliver the number of shares of its common stock equal to 85% of the number of shares of common stock that would have otherwise been deliverable.

Equity Transactions with Noncontrolling Interests

AES Clean Energy Development — During the second quarter of 2022, AES Clean Energy Development, through multiple transactions, sold noncontrolling interests in multiple project companies to tax equity partners, resulting in a \$98 million increase to NCI. AES Clean Energy Development is reported in the US and Utilities SBU reportable segment.

Guaimbê Holding — In April 2021, Guaimbê Solar Holding S.A. (“Guaimbê Holding”), a subsidiary of AES Brasil which wholly owns the Guaimbê solar complex and the Alto Sertão II wind facility, issued preferred shares representing 19.9% ownership in the subsidiary for total proceeds of \$158 million. The transaction decreased the Company’s indirect ownership interest in the operational entities from 45.3% to 36.3%.

In January 2022, Guaimbê Holding issued additional preferred shares representing 3.5% ownership in the subsidiary for total proceeds of \$63 million. The transaction further decreased the Company’s indirect ownership interest to 35.8%. As the Company maintained control after these transactions, Guaimbê Holding continues to be consolidated by the Company within the South America SBU reportable segment.

Chile Renovables — Under its agreement with Global Infrastructure Management, LLC (“GIP”), the minority interest holder in Chile Renovables SpA since July 2021, AES Andes will contribute a specified pipeline of renewable development projects to Chile Renovables as the projects reach commercial operations, and GIP will make additional contributions to maintain its 49% ownership interest. In January 2022, AES Andes completed the sale of Andes Solar 2a to Chile Renovables for \$37 million, resulting in an increase to NCI of \$28 million and an increase to additional paid-in capital of \$9 million. In June 2022, the sale of Los Olmos was completed for \$80 million, resulting in an increase to NCI of \$68 million and an increase to additional paid-in capital of \$12 million. As the Company maintained control after these transactions, Chile Renovables continues to be consolidated by the Company within the South America SBU reportable segment.

AES Andes — On December 29, 2020, AES Andes commenced a preemptive rights offering for its existing shareholders to subscribe for up to 1.98 billion of newly issued shares to fund its renewable growth program. The period ended on February 5, 2021 and Inversiones Cachagua SpA (“Cachagua”), an AES subsidiary, subscribed for 1.35 billion shares at a cost of \$205 million, increasing AES’ indirect beneficial interest in AES Andes from 67% to 67.1%. The noncontrolling interest holders subscribed for 629 million shares, resulting in additional capital contributions of \$94 million.

In January 2022, Cachagua completed a tender offer for the shares of AES Andes held by minority shareholders for \$522 million, net of transaction costs. Upon completion, AES’ indirect beneficial interest in AES Andes increased from 67.1% to 98%. Through multiple transactions following the tender offer, Cachagua acquired an additional 1% ownership in AES Andes for \$13 million, further increasing AES’ indirect beneficial interest to 99%. These transactions resulted in a \$169 million decrease to Parent Company Stockholder’s Equity due to a decrease in additional paid-in capital of \$93 million and the reclassification of accumulated other comprehensive losses from NCI to AOCL of \$76 million. AES Andes is reported in the South America SBU reportable segment.

AES Brasil — On December 18, 2020, the AES Tietê board approved a proposal for the corporate reorganization and exchange of shares issued by AES Tietê with newly issued shares of AES Brasil, a formerly wholly-owned entity of AES Tietê, with the intent to list AES Brasil on Novo Mercado, a listing segment of the Brazilian stock exchange that requires equity capital to be composed only of common shares, as the 100% shareholder of AES Tietê. The reorganization and the exchange of shares was completed on March 26, 2021, and the shares issued by AES Brasil started trading on Novo Mercado on March 29, 2021. The Company maintains majority representation on AES Brasil’s board of directors, and as such, continues to consolidate AES Brasil.

Through multiple transactions in the first half of 2021, AES Holdings Brasil Ltda. acquired an additional 1.6% ownership in AES Brasil for \$17 million. These transactions increased the Company’s ownership interest in AES Brasil to 45.7% and resulted in a \$13 million decrease in Parent Company Stockholder’s Equity due to a decrease in additional paid-in capital of \$6 million and the reclassification of accumulated other comprehensive losses from NCI to AOCL of \$7 million. AES Brasil is reported in the South America SBU reportable segment.

Accumulated Other Comprehensive Loss — The following table summarizes the changes in AOCL by component, net of tax and NCI, for the six months ended June 30, 2022 (in millions):

	Foreign currency translation adjustment, net	Unrealized derivative gains (losses), net	Unfunded pension obligations, net	Total
Balance at the beginning of the period	\$ (1,734)	\$ (456)	\$ (30)	\$ (2,220)
Other comprehensive income (loss) before reclassifications	(15)	490	—	475
Amount reclassified to earnings	—	30	1	31
Other comprehensive income (loss)	(15)	520	1	506
Reclassification from NCI due to share repurchases	(53)	(20)	(3)	(76)
Balance at the end of the period	\$ (1,802)	\$ 44	\$ (32)	\$ (1,790)

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,	
		2022	2021	2022	2021
Foreign currency translation adjustment, net					
	Gain (loss) on disposal and sale of business interests	\$ —	\$ (3)	\$ —	\$ (3)
	Net income (loss) attributable to The AES Corporation	<u>\$ —</u>	<u>\$ (3)</u>	<u>\$ —</u>	<u>\$ (3)</u>
Derivative gains (losses), net					
	Non-regulated revenue	\$ —	\$ —	\$ (1)	\$ —
	Non-regulated cost of sales	(1)	(3)	(2)	(4)
	Interest expense	(10)	(13)	(33)	(29)
	Gain (loss) on disposal and sale of business interests	(16)	—	(16)	—
	Asset impairment expense	—	(9)	—	(13)
	Foreign currency transaction losses	—	(2)	—	(5)
	Income from continuing operations before taxes and equity in earnings of affiliates	(27)	(27)	(52)	(51)
	Income tax benefit (expense)	3	6	13	13
	Net equity in earnings (losses) of affiliates	4	(5)	1	(11)
	Net income (loss)	(20)	(26)	(38)	(49)
	Less: Net loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	(3)	7	8	13
	Net income (loss) attributable to The AES Corporation	<u>\$ (23)</u>	<u>\$ (19)</u>	<u>\$ (30)</u>	<u>\$ (36)</u>
Amortization of defined benefit pension actuarial gain (loss), net					
	Regulated cost of sales	\$ (1)	\$ (1)	\$ (1)	\$ (1)
	Other expense	1	(1)	—	(1)
	Income (loss) from continuing operations before taxes and equity in earnings of affiliates	—	(2)	(1)	(2)
	Income tax benefit (expense)	—	1	—	1
	Net income (loss) attributable to The AES Corporation	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>
Total reclassifications for the period, net of income tax and noncontrolling interests		<u>\$ (23)</u>	<u>\$ (23)</u>	<u>\$ (31)</u>	<u>\$ (40)</u>

Common Stock Dividends — The Parent Company paid dividends of \$0.1580 per outstanding share to its common stockholders during the first and second quarters of 2022 for dividends declared in December 2021 and February 2022.

On July 15, 2022, the Board of Directors declared a quarterly common stock dividend of \$0.1580 per share payable on August 15, 2022, to shareholders of record at the close of business on August 1, 2022.

12. 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. In January 2022, we internally announced a reorganization as a part of our ongoing strategy to align our business to meet our customers' needs and deliver on our major strategic objectives. The Company performed an assessment in accordance with ASC 280 and determined there were no changes to its operating or reportable segments.

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) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. 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,	
	2022	2021	2022	2021
Total Revenue				
US and Utilities SBU	\$ 1,197	\$ 972	\$ 2,314	\$ 1,921
South America SBU	880	964	1,690	1,848
MCAC SBU	686	490	1,252	1,025
Eurasia SBU	318	277	686	547
Corporate and Other	36	37	59	61
Eliminations	(39)	(40)	(71)	(67)
Total Revenue	\$ 3,078	\$ 2,700	\$ 5,930	\$ 5,335
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Total Adjusted PTC				
Income (loss) from continuing operations before taxes and equity in earnings of affiliates	\$ (160)	\$ (130)	\$ 104	\$ (121)
Add: Net equity in losses of affiliates	5	(10)	(28)	(40)
Less: Income from continuing operations before taxes, attributable to noncontrolling interests and redeemable stock of subsidiaries	(53)	140	(119)	(23)
Pre-tax contribution	(208)	—	(43)	(184)
Unrealized derivative and equity securities losses (gains)	(35)	8	6	77
Unrealized foreign currency losses (gains)	39	(12)	20	(6)
Disposition/acquisition losses	23	(229)	32	(244)
Impairment losses	479	628	480	1,103
Loss on extinguishment of debt	6	18	16	24
Net gains from early contract terminations at Angamos	—	(110)	—	(220)
Total Adjusted PTC	\$ 304	\$ 303	\$ 511	\$ 550
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Total Adjusted PTC				
US and Utilities SBU	\$ 70	\$ 128	\$ 127	\$ 172
South America SBU	145	96	273	184
MCAC SBU	87	71	124	132
Eurasia SBU	42	48	107	99
Corporate and Other	(75)	(55)	(150)	(62)
Eliminations	35	15	30	25
Total Adjusted PTC	\$ 304	\$ 303	\$ 511	\$ 550

Total Assets	June 30, 2022	December 31, 2021
US and Utilities SBU	\$ 18,541	\$ 16,512
South America SBU	8,838	7,728
MCAC SBU	4,968	4,545
Eurasia SBU	2,904	3,466
Corporate and Other	819	712
Total Assets	<u>\$ 36,070</u>	<u>\$ 32,963</u>

13. 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, 2022						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 794	\$ —	\$ —	\$ —	\$ —	\$ 794
Other regulated revenue	8	—	—	—	—	8
Total regulated revenue	802	—	—	—	—	802
Non-Regulated Revenue						
Revenue from contracts with customers	281	877	662	266	(3)	2,083
Other non-regulated revenue ⁽¹⁾	114	3	24	52	—	193
Total non-regulated revenue	395	880	686	318	(3)	2,276
Total revenue	<u>\$ 1,197</u>	<u>\$ 880</u>	<u>\$ 686</u>	<u>\$ 318</u>	<u>\$ (3)</u>	<u>\$ 3,078</u>
Three Months Ended June 30, 2021						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 659	\$ —	\$ —	\$ —	\$ —	\$ 659
Other regulated revenue	12	—	—	—	—	12
Total regulated revenue	671	—	—	—	—	671
Non-Regulated Revenue						
Revenue from contracts with customers	232	959	465	215	(3)	1,868
Other non-regulated revenue ⁽¹⁾	69	5	25	62	—	161
Total non-regulated revenue	301	964	490	277	(3)	2,029
Total revenue	<u>\$ 972</u>	<u>\$ 964</u>	<u>\$ 490</u>	<u>\$ 277</u>	<u>\$ (3)</u>	<u>\$ 2,700</u>
Six Months Ended June 30, 2022						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 1,622	\$ —	\$ —	\$ —	\$ —	\$ 1,622
Other regulated revenue	15	—	—	—	—	15
Total regulated revenue	1,637	—	—	—	—	1,637
Non-Regulated Revenue						
Revenue from contracts with customers	550	1,682	1,203	575	(12)	3,998
Other non-regulated revenue ⁽¹⁾	127	8	49	111	—	295
Total non-regulated revenue	677	1,690	1,252	686	(12)	4,293
Total revenue	<u>\$ 2,314</u>	<u>\$ 1,690</u>	<u>\$ 1,252</u>	<u>\$ 686</u>	<u>\$ (12)</u>	<u>\$ 5,930</u>
Six Months Ended June 30, 2021						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 1,357	\$ —	\$ —	\$ —	\$ —	\$ 1,357
Other regulated revenue	21	—	—	—	—	21
Total regulated revenue	1,378	—	—	—	—	1,378
Non-Regulated Revenue						
Revenue from contracts with customers	456	1,842	975	424	(6)	3,691
Other non-regulated revenue ⁽¹⁾	87	6	50	123	—	266
Total non-regulated revenue	543	1,848	1,025	547	(6)	3,957
Total revenue	<u>\$ 1,921</u>	<u>\$ 1,848</u>	<u>\$ 1,025</u>	<u>\$ 547</u>	<u>\$ (6)</u>	<u>\$ 5,335</u>

(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 \$265 million and \$216 million as of June 30, 2022 and December 31, 2021, respectively.

During the six months ended June 30, 2022 and 2021, we recognized revenue of \$32 million and \$355 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods.

In August 2020, AES Andes reached an agreement with Minera Escondida and Minera Spence to early terminate two PPAs of the Angamos coal-fired plant in Chile, further accelerating AES Andes' decarbonization strategy. As a result of the termination payment, Angamos recognized a contract liability of \$655 million, of which \$55 million was derecognized each month through the end of the remaining performance obligation in August 2021.

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. Contract consideration related to the construction, but not yet collected through the 25 year PPA, was reflected on the Condensed Consolidated Balance Sheet. As of June 30, 2022 and December 31, 2021, Mong Duong met the held-for-sale criteria and the loan receivable balance of approximately \$1.2 billion net of CECL reserve of \$29 million and \$30 million, respectively, was classified as held-for-sale assets. Of the loan receivable balance, \$95 million and \$91 million was classified as *Current held-for-sale assets*, respectively, and \$1.1 billion was classified as *Noncurrent held-for-sale assets*.

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, 2022, the aggregate amount of transaction price allocated to remaining performance obligations was \$10 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 2022 and 2023, with the remainder recognized thereafter.

14. 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, 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,	
		2022	2021	2022	2021
Other Income	Gain on remeasurement of investment ⁽¹⁾	\$ 26	\$ —	\$ 26	\$ —
	Insurance proceeds ⁽²⁾	16	—	16	—
	Legal settlements	6	—	6	—
	AFUDC (US Utilities)	2	2	5	4
	Gain on acquired customer contracts	5	—	5	—
	Gain on remeasurement of contingent consideration	3	—	3	—
	Gain on remeasurement to acquisition-date fair value ⁽³⁾	—	176	—	212
	Other	12	5	15	10
	Total other income	\$ 70	\$ 183	\$ 76	\$ 226
Other Expense	Allowance for lease receivable ⁽⁴⁾	\$ 20	\$ —	\$ 20	\$ —
	Loss on sale and disposal of assets	5	4	9	7
	Loss on commencement of sales-type leases ⁽⁵⁾	—	—	—	13
	Other	4	—	12	—
	Total other expense	\$ 29	\$ 4	\$ 41	\$ 20

(1) Related to the remeasurement of our existing investment in 5B, accounted for using the measurement alternative.

(2) Primarily related to insurance recoveries associated with property damage at TermoAndes.

(3) Related to the remeasurement of our existing equity interest in sPower's development platform as part of the step acquisition to form AES Clean Energy Development. See Note 18—*Acquisitions* for further information.

(4) Related to a full allowance recognized on a sales-type lease receivable at AES Gilbert due to a fire incident in April 2022.

(5) Related to a loss recognized at commencement of a sales-type lease at AES Renewable Holdings. See Note 9—*Leases* for further information.

15. ASSET IMPAIRMENT EXPENSE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Maritza	\$ 475	\$ —	\$ 475	\$ —
Ventanas 3 & 4	—	649	—	649
Puerto Rico	—	—	—	475
Angamos	—	155	—	155
Mountain View I & II	—	67	—	67
Other	7	1	8	(1)
Total	\$ 482	\$ 872	\$ 483	\$ 1,345

Maritza — In May 2022, the Council for the European Union approved Bulgaria's National Recovery and Resilience plan which commits the country to cease generating electricity from coal beyond 2038. As this plan is expected to prohibit the Company from operating the Maritza coal-fired plant through its estimated useful life, it was determined that an indicator of impairment had occurred. The Company reassessed the useful life of the facility and performed an impairment analysis as of April 30, 2022, in which it was determined that the carrying amount of the asset group was not recoverable. The Maritza asset group was determined to have a fair value of \$452 million using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$475 million. Maritza is reported in the Eurasia SBU reportable segment.

Ventanas and Angamos — In July 2021, AES Andes entered into an agreement committing to accelerate the retirement of the Ventanas 3, Ventanas 4, Angamos 1, and Angamos 2 coal-fired plants in Chile in order to further advance its decarbonization strategy. Due to these strategic developments, the Company performed impairment analyses as of June 30, 2021, and determined that the carrying amounts of the asset groups were not recoverable. The Ventanas 3 & 4 and Angamos asset groups were determined to have fair values of \$12 million and \$86 million, respectively, using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$649 million and \$155 million, respectively. Ventanas and Angamos are reported in the South America SBU reportable segment.

Mountain View I & II — In April 2021, the Company approved plans to execute a repowering project for the Mountain View I & II wind facility and signed two new PPAs for the energy and capacity related to the repowered asset. As the repowering will result in decommissioning the majority of the existing wind turbines in advance of their depreciable lives, the execution of the new PPAs was identified as an impairment indicator. The asset group was determined to have a fair value of \$11 million using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$67 million. Mountain View I & II is reported in the US and Utilities SBU reportable segment.

Puerto Rico — New factors arose in the first quarter of 2021 associated with the economic costs and operational and reputational risks of disposal of coal combustion residuals off island. In addition, new legislative initiatives surrounding the prohibition of coal generation assets in Puerto Rico were introduced. Collectively, these factors along with management's decision on how to best achieve our stated decarbonization goals resulted in an indicator of impairment at our asset group in Puerto Rico. As such, management performed a recoverability test in accordance with ASC 360 and concluded that Puerto Rico's undiscounted cash flows did not exceed the carrying value of the asset group. The fair value of the asset group was determined to be \$73 million, resulting in pre-tax impairment expense of \$475 million. Puerto Rico is reported in the US and Utilities SBU reportable segment.

16. 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, 2022 were 12% and 39%, respectively. The effective tax rates for the three and six months ended June 30, 2021 were 45% and 42%, respectively. The difference between the Company's effective tax rates for the 2022 and 2021 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 Company recognized discrete tax expense in 2021 resulting from several transactions. For the three and six months ended June 30, 2021, the Company recorded discrete tax expense of approximately \$39 million and \$46 million, respectively, due to the formation of AES Clean Energy Development. Additionally, the issuance of new shares by Fluence resulted in approximately \$13 million of discrete tax expense for the three and six months ended June 30, 2021.

17. HELD-FOR-SALE AND DISPOSITIONS

Held-for-Sale

Mong Duong — In December 2020, the Company entered into an agreement to sell its entire 51% ownership interest in Mong Duong, a coal-fired plant in Vietnam, and 51% equity interest in Mong Duong Finance Holdings B.V, an SPV accounted for as an equity affiliate. The sale is subject to regulatory approval and is expected to close in the second half of 2023. As of June 30, 2022, the Mong Duong plant and SPV were 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 plant and SPV held-for-sale as of June 30, 2022 was \$552 million. Mong Duong is reported in the Eurasia SBU reportable segment.

Jordan — In November 2020, the Company signed an agreement to sell 26% ownership interest in Amman East and IPP4 for \$58 million. The closing of the transaction was delayed by an extended lender approval process triggered by a restructuring in the buyer's group. The Company and the buyer continue to work closely with the lenders to achieve closing in the second half of 2022. After completion of the sale, the Company will retain a 10% ownership interest in Amman East and IPP4, which will be accounted for as an equity method investment. As of June 30, 2022, the generation plants were 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 plants held-for-sale as of June 30, 2022 was \$203 million. Jordan is reported in the Eurasia SBU reportable segment.

Excluding any impairment charges, pre-tax income attributable to AES of businesses held-for-sale as of June 30, 2022 was as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Mong Duong	\$ 16	\$ 15	\$ 41	\$ 30
Jordan	6	5	11	10
Total	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$ 52</u>	<u>\$ 40</u>

Dispositions

AES Tietê Inova Soluções — In June 2021, the Company completed the sale of its ownership in AES Inova Soluções, an investment platform in distributed solar generation, for \$20 million, resulting in a pre-tax loss on sale of \$1 million. The sale did not meet the criteria to be reported as discontinued operations. Pre-tax income attributable to AES was immaterial for the three and six months ended June 30, 2021. Prior to its sale, AES Tietê Inova Soluções was reported in the South America SBU reportable segment.

Itabo — In April 2021, the Company completed the sale of its 43% ownership interest in Itabo, a coal-fired plant and gas turbine in Dominican Republic, for \$88 million, resulting in a pre-tax gain on sale of \$4 million. The sale did not meet the criteria to be reported as discontinued operations. Pre-tax income attributable to AES was \$1 million and \$5 million for the three and six months ended June 30, 2021. Prior to its sale, Itabo was reported in the MCAC SBU reportable segment.

18. ACQUISITIONS

Agua Clara — On June 17, 2022, the Company, through its subsidiaries AES Dominicana Renewable Energy and AES Andres DR, S.A., acquired 100% of the equity interests in Agua Clara, S.A.S., a wind project for consideration of \$98 million. The transaction was accounted for as an asset acquisition that did not meet the definition of a business. As Agua Clara is not a VIE, any difference between the fair value of the assets and consideration transferred will be allocated to PP&E on a relative fair value basis. Agua Clara is reported in the MCAC SBU reportable segment.

Tunica Windpower, LLC — On June 17, 2022, the Company entered into an agreement for the purchase of 100% of the membership interests in Tunica Windpower, LLC. The transaction was accounted for as an asset acquisition of variable interest entities that did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration paid of approximately \$22 million, including contingent consideration of \$7 million. The contingent consideration will be updated quarterly with any prospective changes in fair value recorded through earnings. Tunica Windpower is reported in the US and Utilities SBU reportable segment.

Windsor PV1, LLC — On May 27, 2022, the Company entered into an agreement for the purchase of 100% of the membership interests in Windsor PV1, LLC, an early development-stage solar project. The transaction was accounted for as an asset acquisition of variable interest entities that did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration paid of approximately \$17 million, including contingent consideration of \$5 million. The contingent consideration will be updated quarterly with any prospective changes in fair value recorded through earnings. Windsor is reported in the US and Utilities SBU reportable segment.

Community Energy — In the first quarter of 2022, the Company finalized the purchase price allocation related to the acquisition of Community Energy, LLC. There were no significant adjustments made to the preliminary purchase price allocation recorded in the fourth quarter of 2021 when the acquisition was completed. Community Energy is reported in the US and Utilities SBU reportable segment.

New York Wind — In the first quarter of 2022, the Company finalized the purchase price allocation related to the acquisition of Cogentrix Valcour Intermediate Holdings, LLC. There were no significant adjustments made to the preliminary purchase price allocation recorded in the fourth quarter of 2021 when the acquisition was completed. New York Wind is reported in the US and Utilities SBU reportable segment.

Cajuina Wind Complex — On May 21, 2021, AES Brasil completed the acquisition of the Cajuina Wind Complex phase I for \$22 million. The Company made initial cash payments of \$6 million and the remaining balance will be paid in three annual installments ending on March 31, 2024. The transaction was accounted for as an asset acquisition of variable interest entities that did not meet the definition of a business, therefore the assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration. Cajuina is reported in the South America SBU.

Cubico Wind Complex — On April 30, 2021, AES Brasil completed the acquisition of the Cubico Wind Complex for \$109 million, subject to customary working capital adjustments. The transaction was accounted for as an asset acquisition, therefore the consideration transferred, plus transaction costs, were allocated to the individual assets acquired and liabilities assumed based on their relative fair values. Cubico is reported in the South America SBU.

AES Clean Energy Development — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, which will serve as the development vehicle for all future renewable projects in the U.S. As part of the transaction, AES acquired an additional 25% ownership interest in the sPower development platform from AIMCo, our existing partner in the sPower equity method investment, in exchange for a 25% ownership interest in specifically identified development entities of AES Renewable Holdings, certain future exit rights in the new partnership, and \$7 million of cash.

The sPower development platform was carved-out of AES' existing equity method investment. AES' basis in the portion of assets transferred was \$104 million, and the contribution to AES Clean Energy Development resulted in a corresponding decrease in the carrying value of the sPower investment. See Note 6—*Investments in and Advances to Affiliates* for further information.

During the first quarter of 2021, the sPower development assets transferred were remeasured at their acquisition-date preliminary fair values, resulting in the recognition of a \$36 million gain, recorded in *Other income* on the Condensed Consolidated Statement of Operations. The Company recorded \$81 million in *Goodwill* as of the acquisition date, representing the difference between the fair value of the consideration transferred, the noncontrolling interest in the sPower development platform, and the acquisition-date fair value of the Company's previously held equity interest and the fair value of the identifiable assets acquired and liabilities assumed.

During the second quarter of 2021, the Company recorded measurement period adjustments as result of additional facts and circumstances that existed as of the date of the acquisition but were not yet known as of the time of the valuation performed in the first quarter of 2021. These measurement period adjustments primarily related to higher expected developer profits and a higher growth rate, reflective of additional information that became available regarding market participants' views of the value of early-stage renewable development projects as of the date of acquisition. As a result, the estimated acquisition-date carrying value and fair values of the sPower development assets transferred were increased, which resulted in the recognition of an additional \$176 million gain, for an updated gain of \$212 million. Furthermore, the estimated goodwill as of the acquisition date was reduced to the estimated goodwill as of the acquisition date was reduced to \$46 million, as a result of adjustments to the fair value of the consideration paid and updates to the fair values of separately identifiable intangible assets. The Company finalized the purchase price allocation in the third quarter of 2021, which did not result in any material measurement period adjustments.

Subsequent to the closing of the transaction, AES holds a 75% ownership interest in AES Clean Energy Development. AIMCo holds the remaining 25% minority interest along with certain partnership rights, though currently not in effect, that would enable AIMCo to exit in the future. AIMCo's minority interest is recorded as temporary equity in *Redeemable stock of subsidiaries* on the Condensed Consolidated Balance Sheet. See Note 10—*Redeemable Stock of Subsidiaries* for further information. AES Clean Energy Development is reported in the US and Utilities SBU reportable segment.

Great Cove Solar— On January 25, 2021, and May 3, 2021, AES Clean Energy Development completed the acquisitions of Great Cove I and II, respectively. The fair value of the initial consideration paid to acquire Great Cove I and Great Cove II was \$13 million and \$24 million, which included contingent consideration liabilities of \$6 million and \$22 million, respectively. These acquisitions were accounted for as asset acquisitions of variable interest entities that did not meet the definition of a business; therefore, the assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration. Great Cove Solar is reported in the US and Utilities SBU reportable segment.

19. EARNINGS PER SHARE

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

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, 2022 and 2021, where income represents the numerator and weighted average shares represent the denominator.

Three Months Ended June 30, (in millions, except per share data)	2022			2021		
	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	\$ (179)	668	\$ (0.27)	\$ 24	666	\$ 0.03
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	—	—	—	1	—
Restricted stock units	—	—	—	—	3	—
Equity units	—	—	—	—	1	—
DILUTED EARNINGS (LOSS) PER SHARE	\$ (179)	668	\$ (0.27)	\$ 24	671	\$ 0.03
Six Months Ended June 30, (in millions, except per share data)	2022			2021		
	Loss	Shares	\$ per Share	Loss	Shares	\$ per Share
BASIC EARNINGS (LOSS) PER SHARE						
Income (loss) from continuing operations attributable to The AES Corporation common stockholders	\$ (64)	668	\$ (0.10)	\$ (124)	666	\$ (0.19)
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	—	—	—	—	—
Restricted stock units	—	—	—	—	—	—
Equity units	—	—	—	—	—	—
DILUTED EARNINGS (LOSS) PER SHARE	\$ (64)	668	\$ (0.10)	\$ (124)	666	\$ (0.19)

For the three and six months ended June 30, 2022, the calculation of diluted earnings per share excluded 4 million outstanding stock awards and 40 million shares underlying our March 2021 Equity Units because their impact would be anti-dilutive given the loss from continuing operations. These shares could potentially dilute basic earnings per share in the future. Had the Company generated income, 2 million and 40 million potential shares of common stock related to the stock awards and the Equity Units, respectively, would have been included in diluted weighted-average shares outstanding.

The calculation of diluted earnings per share excluded 1 million outstanding stock awards for the three months ended June 30, 2021, which would be anti-dilutive. These stock awards could potentially dilute basic earnings per share in the future. Due to the full retrospective adoption of ASU 2020-06, an additional 1 million potential shares of common stock related to the assumed share settlement of the Contract Adjustment Payments were included in diluted weighted-average shares outstanding for the three months ended June 30, 2021.

For the six months ended June 30, 2021, the calculation of diluted earnings per share excluded 6 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, 4 million potential shares of common stock related to the stock awards, and an additional 1 million potential shares of common stock related to the assumed share settlement of the Contract Adjustment Payments due to the full retrospective adoption of ASU 2020-06, would have been included in diluted weighted-average shares outstanding.

As described in Note 11—*Equity*, the Company issued 10,430,500 Equity Units in March 2021 with a total notional value of \$1,043 million. Each Equity Unit has a stated amount of \$100 and was initially issued as a Corporate Unit, consisting of a 2024 Purchase Contract and a 10% undivided beneficial ownership interest in one share of Series A Preferred Stock. Prior to February 15, 2024, the Series A Preferred Stock may be converted at the option of the holder only in connection with a fundamental change. On and after February 15, 2024, the Series A Preferred Stock may be converted freely at the option of the holder. Upon conversion, the Company will deliver to the holder with respect to each share of Series A Preferred Stock being converted (i) a share of our Series B Preferred Stock, or, solely with respect to conversions in connection with a redemption, cash and (ii) shares of our common stock, if any, in respect of any conversion value in excess of the liquidation preference of the preferred stock being converted. The conversion rate was initially 31.5428 shares of common stock per one share of Series A Preferred Stock, which was equivalent to an initial conversion price of approximately \$31.70 per share of common stock. As of June 30, 2022, due to customary anti-dilution provisions, the conversion rate was 31.5649, equivalent to a conversion price of approximately \$31.68 per share of common stock. The Series A Preferred Stock and the 2024 Purchase Contracts are being accounted for as one unit of account. In calculating diluted EPS, the Company has applied the if-converted method to determine the impact of the forward purchase feature and considered if there are incremental shares that should be included related to the Series A Preferred conversion value.

20. 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 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.

Alto Maipo — On August 27, 2021, Alto Maipo updated its creditors with respect to the construction budget and long-term business plan for the project, which considers different scenarios for spot prices, decarbonization initiatives, and hydrological conditions, among other significant variables. Under some of these scenarios, Alto Maipo may experience reduced future cash flows, which would limit its ability to repay debt. Alto Maipo's management initiated negotiations with its creditors to restructure its obligations and achieve a sustainable long-term capital structure for Alto Maipo. On November 17, 2021, Alto Maipo SpA commenced a reorganization proceeding in accordance with Chapter 11 of the U.S. Bankruptcy Code, through a voluntary petition. Consequently, after the Chapter 11 filing, the Company is no longer considered to have control over Alto Maipo, which resulted in its deconsolidation. The Company recognized an after-tax loss of approximately \$1.2 billion, net of noncontrolling interests, in the Consolidated Statement of Operations in the fourth quarter of 2021, associated with the loss of control attributable to the former controlling interest.

On May 26, 2022, Alto Maipo emerged from bankruptcy in accordance with Chapter 11 of the U.S. Bankruptcy Code. Alto Maipo, as restructured, is considered a VIE. As the Company lacks the power to make significant decisions, it does not meet the criteria to be considered the primary beneficiary of Alto Maipo and therefore will not consolidate this entity. The Company has elected the fair value option to account for its investment in Alto Maipo. If Alto Maipo is unable to meet its obligations under the restructured arrangements as they come due, the creditors may enforce their rights under the credit agreements. These finance agreements are non-recourse with respect to The AES Corporation.

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 2021 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 2021 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 2021 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 \$0.30, from earnings of \$0.03 to a loss of \$0.27. This decrease is mainly driven by the prior year gains on remeasurement of our interest in sPower's development platform and on the issuance of new shares by Fluence, which was accounted for as a partial disposition, and the prior year net gains from early contract terminations at Angamos; partially offset by lower impairments in the current year.

Adjusted EPS, a non-GAAP measure, increased \$0.03 to \$0.34, mainly due to a lower adjusted tax rate and higher contributions from our South America SBU due to increased ownership in AES Andes, partially offset by lower contributions from our US and Utilities SBU due to impacts of outages and timing of renewables projects coming online.

Compared with last year, diluted earnings per share from continuing operations for the six months ended June 30, 2022 increased \$0.09, from a loss of \$0.19 to a loss of \$0.10. This increase is mainly driven by lower impairments in the current year, partially offset by the prior year gains on remeasurement of our interest in sPower's development platform and on the issuance of new shares by Fluence, which was accounted for as a partial disposition, prior year net gains from early contract terminations at Angamos, lower capitalized interest at construction projects, and higher income tax expense.

Adjusted EPS, a non-GAAP measure, decreased \$0.04 to \$0.55, mainly due to the prior year impact of

realized gains on de-designated interest rate swaps at the Parent Company and lower contributions from our US and Utilities SBU due to timing of renewables projects coming online, partially offset by higher contributions from our South America SBU due to increased ownership in AES Andes and a lower adjusted tax rate.



Accelerating the future of energy, together.

Business Overview

126 Generation
Facilities

6 Utility
Companies

Three Months Ended June 30,	2022	2021
Diluted earnings (loss) per share	\$ (0.27)	\$ 0.03
Adjusted EPS ⁽¹⁾	0.34	0.31

31,584 Gross
MW

31,794 GWh ⁽²⁾

Six Months Ended June 30,	2022	2021
Diluted earnings (loss) per share	\$ (0.10)	\$ (0.19)
Adjusted EPS ⁽¹⁾	0.55	0.59

Operating Margin (in millions)



Adjusted PTC ⁽¹⁾ (in millions)



Operating Cash Flow (in millions)



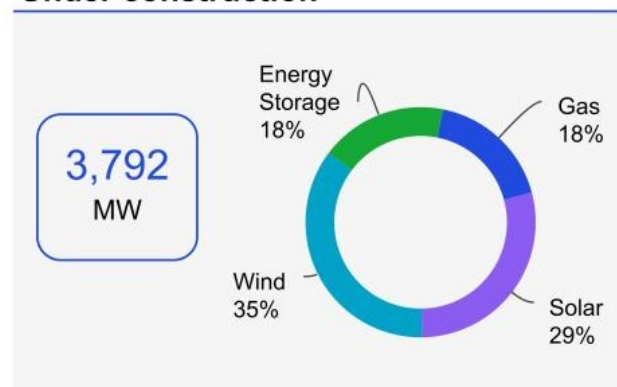
Key events in 2022

- Signed or awarded PPAs for 1,618 MW of renewables
- With investment grade credit rating from Moody's, attained investment grade ratings from all three major agencies

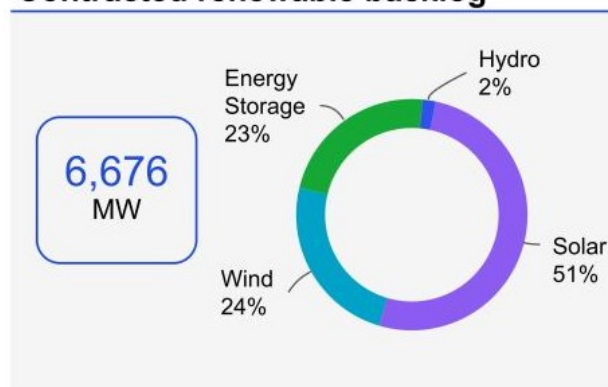
Strategic outlook

- Backlog of 10,468 MW of projects under signed long-term PPAs
- Sign 4.5-5.5 GW of renewable PPAs in 2022
- Intent to exit coal by year-end 2025

Under construction



Contracted renewable backlog



⁽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 2021.

Overview of Strategic Performance

AES is leading the industry's transition to clean energy by investing in clean power growth and innovative technology businesses. The Company is well-positioned to benefit from very favorable trends in clean power generation, distribution, and supporting technologies.

- In year-to-date 2022, the Company signed or was awarded 1,618 MW of renewables and energy storage under long-term PPAs expected to come online in 2023 and 2024, primarily including 1,250 MW of solar and energy storage in the U.S.
 - In the second quarter of 2022, the Company signed 531 MW of renewables and energy storage under long-term PPAs.
- In year-to-date 2022, the Company completed the construction or acquisition of 390 MW of solar projects in the U.S. and the Dominican Republic.
- The Company's backlog is now 10,468 MW expected to be completed through 2025, including:
 - 3,792 MW under construction; and
 - 6,676 MW of renewable energy projects signed under long-term PPAs, but not yet under construction.
- In June 2022, the Company formed the U.S. Solar Buyer Consortium with three other leading solar companies to drive the expansion of the U.S. solar supply chain and support the growth of the American solar industry.
- In year-to-date 2022, the Company signed agreements that will direct excess LNG from the Company's business in Panama to international customers.

Review of Consolidated Results of Operations (Unaudited)

(in millions, except per share amounts)	Three Months Ended June 30,				Six Months Ended June 30,			
	2022	2021	\$ change	% change	2022	2021	\$ change	% change
Revenue:								
US and Utilities SBU	\$ 1,197	\$ 972	\$ 225	23%	\$ 2,314	\$ 1,921	\$ 393	20%
South America SBU	880	964	(84)	-9%	1,690	1,848	(158)	-9%
MCAC SBU	686	490	196	40%	1,252	1,025	227	22%
Eurasia SBU	318	277	41	15%	686	547	139	25%
Corporate and Other	36	37	(1)	-3%	59	61	(2)	-3%
Eliminations	(39)	(40)	1	3%	(71)	(67)	(4)	-6%
Total Revenue	3,078	2,700	378	14%	5,930	5,335	595	11%
Operating Margin:								
US and Utilities SBU	124	165	(41)	-25%	254	272	(18)	-7%
South America SBU	192	345	(153)	-44%	396	697	(301)	-43%
MCAC SBU	150	121	29	24%	232	243	(11)	-5%
Eurasia SBU	55	53	2	4%	142	112	30	27%
Corporate and Other	38	44	(6)	-14%	85	76	9	12%
Eliminations	4	—	4	NM	(16)	(8)	(8)	-100%
Total Operating Margin	563	728	(165)	-23%	1,093	1,392	(299)	-21%
General and administrative expenses	(46)	(45)	(1)	2%	(98)	(91)	(7)	8%
Interest expense	(279)	(237)	(42)	18%	(537)	(427)	(110)	26%
Interest income	95	73	22	30%	170	141	29	21%
Loss on extinguishment of debt	(1)	(18)	17	-94%	(7)	(19)	12	-63%
Other expense	(29)	(4)	(25)	NM	(41)	(20)	(21)	NM
Other income	70	183	(113)	-62%	76	226	(150)	-66%
Gain (loss) on disposal and sale of business interests	(2)	64	(66)	NM	(1)	59	(60)	NM
Asset impairment expense	(482)	(872)	390	-45%	(483)	(1,345)	862	-64%
Foreign currency transaction losses	(49)	(2)	(47)	NM	(68)	(37)	(31)	84%
Income tax benefit (expense)	19	59	(40)	-68%	(41)	51	(92)	NM
Net equity in earnings (losses) of affiliates	5	(10)	15	NM	(28)	(40)	12	-30%
INCOME (LOSS) FROM CONTINUING OPERATIONS	(136)	(81)	(55)	68%	35	(110)	145	NM
Gain from disposal of discontinued businesses	—	4	(4)	-100%	—	4	(4)	-100%
NET INCOME (LOSS)	(136)	(77)	(59)	77%	35	(106)	141	NM
Less: Loss (income) from continuing operations attributable to noncontrolling interests and redeemable stock of subsidiaries	(43)	105	(148)	NM	(99)	(14)	(85)	NM
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ (179)	\$ 28	\$ (207)	NM	\$ (64)	\$ (120)	\$ 56	-47%
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:								
Income (loss) from continuing operations, net of tax	\$ (179)	\$ 24	\$ (203)	NM	\$ (64)	\$ (124)	\$ 60	-48%
Income from discontinued operations, net of tax	—	4	(4)	-100%	—	4	(4)	-100%
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ (179)	\$ 28	\$ (207)	NM	\$ (64)	\$ (120)	\$ 56	-47%
Net cash provided by operating activities	\$ 408	\$ 351	\$ 57	16%	\$ 865	\$ 604	\$ 261	43%

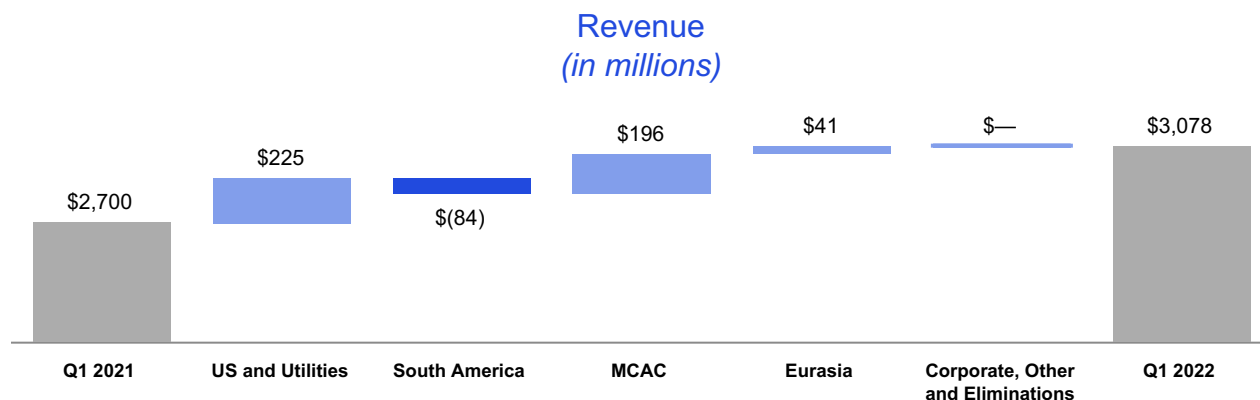
Components of Revenue, Cost of Sales, and Operating Margin — Revenue includes revenue earned from the sale of energy from our utilities and the production and sale of energy from our generation plants, which are classified as regulated and non-regulated, respectively, on the Condensed Consolidated Statements 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

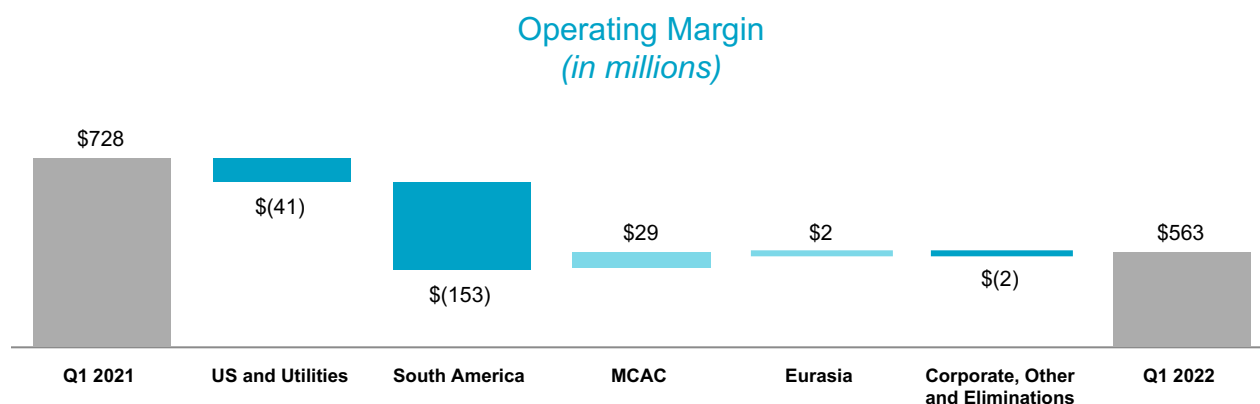
Three Months Ended June 30, 2022



Consolidated Revenue — Revenue increased \$378 million, or 14%, for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, driven by:

- \$225 million in US and Utilities mainly driven by higher prices at AES Indiana and AES Ohio due to increases in riders to collect fuel and purchased power costs from customers, as well as increased demand and favorable weather; higher pass-through energy prices in El Salvador; an increase at Southland due to unrealized losses in the prior year under the commercial hedging strategy; higher sales at AES Clean Energy due to the supply agreement with Google, the prior year acquisition of New York Wind, and the commencement of renewables projects; and an increase in unrealized commodity derivative gains at AES Clean Energy;
- \$196 million in MCAC driven by higher LNG prices and contract sales in the Dominican Republic and Panama; and by higher fuel prices in Mexico; and
- \$41 million in Eurasia mainly driven by higher energy prices and generation in Bulgaria; partially offset by unfavorable FX impact and by lower contract sales at Mong Duong due to a forced outage.

These favorable impacts were partially offset by a decrease of \$84 million in South America primarily driven by revenue recognized at Angamos in the prior year for the early termination of contracts with Minera Escondida and Minera Spence; partially offset by higher generation and prices (Resolution 238/2022) in Argentina; higher spot sales and energy prices in Chile; and higher volume and generation at AES Brasil.



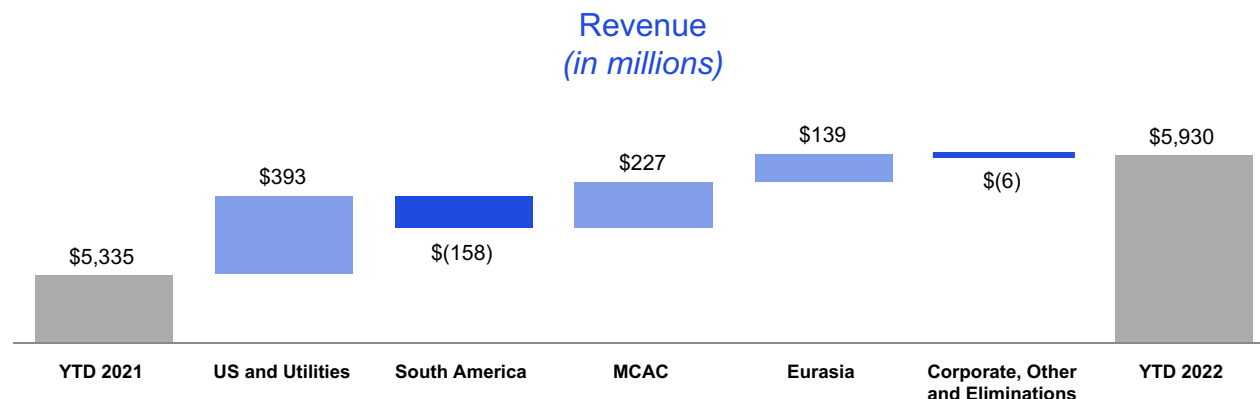
Consolidated Operating Margin — Operating margin decreased \$165 million, or 23%, for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, driven by:

- \$153 million in South America primarily driven by revenue recognized at Angamos in the prior year for the early termination of contracts with Minera Escondida and Minera Spence; and by unfavorable FX impact; partially offset by lower spot purchases in Chile; and by business interruption insurance proceeds received at TermoAndes; and
- \$41 million in US and Utilities mainly driven by impact of outages at AES Indiana and Southland Energy;

and by an increase in costs associated with growing and accelerating the development pipeline at AES Clean Energy; partially offset at AES Clean Energy due to unrealized commodity derivative gains and higher sales due to the supply agreement with Google.

These unfavorable impacts were partially offset by an increase of \$29 million in MCAC primarily driven by higher contract and spot sales due to higher prices in Panama and the Dominican Republic; and by an increase in unrealized commodity derivative gains in the Dominican Republic.

Six Months Ended June 30, 2022

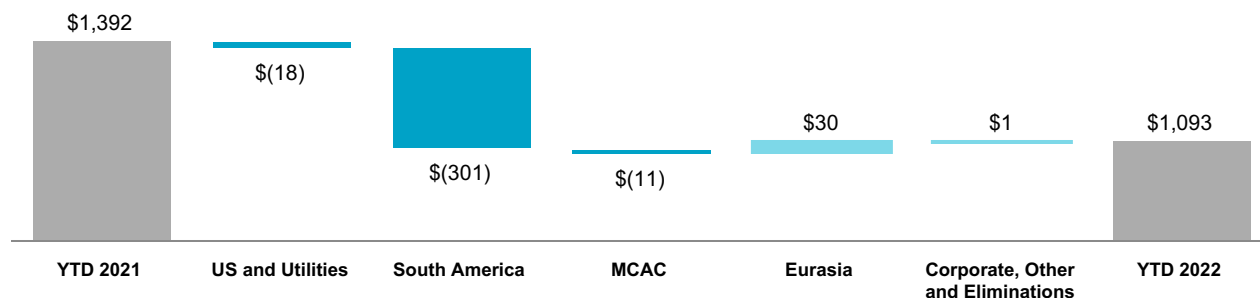


Consolidated Revenue — Revenue increased \$595 million, or 11%, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, driven by:

- \$393 million in US and Utilities mainly driven by higher prices at AES Indiana and AES Ohio due to increases in riders to collect fuel and purchased power costs from customers, as well as increased demand and favorable weather; higher pass-through energy prices in El Salvador; an increase at Southland due to unrealized losses in the prior year under the commercial hedging strategy; and higher sales at AES Clean Energy due to the supply agreement with Google, the prior year acquisition of New York Wind, and the commencement of renewables projects; partially offset by an increase in unrealized commodity derivative losses at AES Clean Energy;
- \$227 million in MCAC driven by higher LNG prices and sales in the Dominican Republic, higher fuel prices in Mexico, and higher spot sales and increased demand in Panama; partially offset by the impact from the sale of Itabo in April 2021; and
- \$139 million in Eurasia mainly driven by higher energy prices and generation in Bulgaria and recognition of construction revenue at Mong Duong due to a reduction in expected completion costs for ash pond 2; partially offset by unfavorable FX impact and by lower contract sales at Mong Duong due to a forced outage.

These favorable impacts were partially offset by a decrease of \$158 million in South America primarily driven by revenue recognized at Angamos in the prior year for the early termination of contracts with Minera Escondida and Minera Spence; partially offset by higher generation and prices (Resolution 238/2022) in Argentina; higher energy prices in Chile and Colombia; and higher volume and generation at AES Brasil.

Operating Margin (in millions)



Consolidated Operating Margin — Operating margin decreased \$299 million, or 21%, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, driven by:

- \$301 million in South America primarily driven by revenue recognized at Angamos in the prior year for the early termination of contracts with Minera Escondida and Minera Spence; a prior period GSF settlement and higher fixed costs at Tietê; and unfavorable FX impact; partially offset by higher energy prices in Colombia; business interruption insurance proceeds received at TermoAndes; and lower depreciation of coal assets in Chile;
- \$18 million in US and Utilities mainly driven by unrealized commodity derivative losses and an increase in costs associated with growing and accelerating the development pipeline at AES Clean Energy; and by the impact from outages at AES Indiana, AES Hawaii, and Southland Energy; partially offset by an increase at Southland due to unrealized losses in the prior year under the commercial hedging strategy; higher volume at AES Indiana due to increased demand and favorable weather; and higher sales at AES Clean Energy due to the supply agreement with Google; and
- \$11 million in MCAC primarily driven by higher net energy spot purchases due to drier hydrology in Panama and the Dominican Republic; and by the impact from the sale of Itabo in April 2021; partially offset by higher contract sales in Panama and the Dominican Republic, primarily due to higher prices and increased demand; and by an increase in unrealized commodity derivative gains in the Dominican Republic.

These unfavorable impacts were partially offset by an increase of \$30 million in Eurasia primarily driven by recognition of construction revenue at Mong Duong due to a reduction in expected completion costs for ash pond 2; and by higher electricity prices at Kavarna in Bulgaria.

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 increased \$1 million, or 2%, to \$46 million for the three months ended June 30, 2022, compared to \$45 million for the three months ended June 30, 2021, with no material drivers.

General and administrative expenses increased \$7 million, or 8%, to \$98 million for the six months ended June 30, 2022, compared to \$91 million for the six months ended June 30, 2021, primarily due to increased business development activity and people costs.

Interest expense

Interest expense increased \$42 million, or 18%, to \$279 million for the three months ended June 30, 2022, compared to \$237 million for the three months ended June 30, 2021. This increase is primarily due to lower capitalized interest in construction projects in Chile, and increased borrowings at AES Brasil.

Interest expense increased \$110 million, or 26%, to \$537 million for the six months ended June 30, 2022, compared to \$427 million for the six months ended June 30, 2021. This increase is primarily due to the prior year impact of realized gains on de-designated interest rate swaps, lower capitalized interest in construction projects in Chile, and increased borrowings at AES Brasil.

Interest income

Interest income increased \$22 million, or 30%, to \$95 million for the three months ended June 30, 2022, compared to \$73 million for the three months ended June 30, 2021, primarily due to an increase in short-term investments at AES Brasil and sales-type lease receivables at the Alamitos Energy Center.

Interest income increased \$29 million, or 21%, to \$170 million for the six months ended June 30, 2022, compared to \$141 million for the six months ended June 30, 2021, primarily due to the drivers above.

Loss on extinguishment of debt

Loss on extinguishment of debt decreased \$17 million, or 94%, to \$1 million for the three months ended June 30, 2022, compared to \$18 million for the three months ended June 30, 2021, primarily due to the prior year loss at Andres due to the refinancing in May 2021.

Loss on extinguishment of debt decreased \$12 million, or 63%, to \$7 million for the six months ended June 30, 2022, compared to \$19 million for the six months ended June 30, 2021, primarily due to the driver above.

See Note 7—*Debt* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Other income and expense

Other income decreased \$113 million, or 62%, to \$70 million for the three months ended June 30, 2022, compared to \$183 million for the three months ended June 30, 2021, primarily due to the prior year gain on remeasurement of our equity interest in the sPower development platform to its acquisition-date fair value, recognized as part of the merger to form AES Clean Energy Development; partially offset by the current year gain on remeasurement of our existing investment in 5B, which is accounted for using the measurement alternative, and insurance proceeds primarily associated with property damage at TermoAndes.

Other income decreased \$150 million, or 66%, to \$76 million for the six months ended June 30, 2022, compared to \$226 million for the six months ended June 30, 2021, primarily due to the drivers above.

Other expense increased \$25 million to \$29 million for the three months ended June 30, 2022, compared to \$4 million for the three months ended June 30, 2021, primarily due to the recognition of an allowance on a sales-type lease receivable at AES Gilbert due to a fire incident in April 2022.

Other expense increased \$21 million to \$41 million for the six months ended June 30, 2022, compared to \$20 million for the six months ended June 30, 2021, primarily due to the driver above.

See Note 14—*Other Income and Expense*, Note 6—*Investments in and Advances to Affiliates*, and Note 18—*Acquisitions* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Gain (loss) on disposal and sale of business interests

Loss on disposal and sale of business interests was \$2 million for the three months ended June 30, 2022 and \$1 million for the six months ended June 30, 2022, with no material drivers.

Gain on disposal and sale of business interests was \$64 million for the three months ended June 30, 2021 and \$59 million for the six months ended June 30, 2021, primarily due to the issuance of new shares by Fluence, our equity method investment, to a new investor, which AES has accounted for as a gain on the partial disposition of its investment in Fluence.

Asset impairment expense

Asset impairment expense decreased \$390 million, or 45%, to \$482 million for the three months ended June 30, 2022, compared to \$872 million for the three months ended June 30, 2021. This decrease was primarily due to two prior year impairments at AES Andes totaling \$804 million associated with a commitment to accelerate the retirement of certain coal-fired plants in Chile and a \$67 million impairment at the Mountain View I & II wind facilities related to a repowering project that will result in decommissioning the majority of the existing wind turbines in advance of their depreciable lives, partially offset by the \$475 million current year impairment at Maritza due to the commitment to cease electricity generation using coal as a fuel source in Bulgaria beyond 2038.

Asset impairment expense decreased \$862 million, or 64%, to \$483 million for the six months ended June 30, 2022, compared to \$1,345 million for the six months ended June 30, 2021. This decrease was primarily due to the prior year \$804 million impairment at AES Andes, as well as a \$475 million impairment at Puerto Rico associated with the economic costs and reputational risks of disposal of coal combustion residuals off island, and the \$67 million impairment at the Mountain View I & II wind facilities, partially offset by the \$475 million current year

impairment at Maritza discussed above.

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

Foreign currency transaction losses

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Argentina	\$ (42)	\$ 1	\$ (55)	\$ (40)
Chile	(1)	1	(11)	9
Brazil	(12)	(7)	(7)	(4)
Other	6	3	5	(2)
Total ⁽¹⁾	<u>\$ (49)</u>	<u>\$ (2)</u>	<u>\$ (68)</u>	<u>\$ (37)</u>

⁽¹⁾ Includes gains of \$7 million and losses of \$27 million on foreign currency derivative contracts for the three months ended June 30, 2022 and 2021, respectively, and losses of \$49 million and \$46 million on foreign currency derivative contracts for the six months ended June 30, 2022 and 2021, respectively.

The Company recognized net foreign currency transaction losses of \$49 million for the three months ended June 30, 2022 primarily due to unrealized losses on foreign currency derivatives related to government receivables in Argentina, unrealized losses due to depreciating receivables denominated in the Argentine peso, and unrealized losses on debt denominated in the Brazilian real.

The Company recognized net foreign currency transaction losses of \$68 million for the six months ended June 30, 2022, primarily due to unrealized losses on foreign currency derivatives related to government receivables in Argentina, unrealized losses due to depreciating receivables denominated in the Argentine peso, and unrealized derivative losses on foreign currency derivatives in South America due to the depreciating Colombian peso.

The Company recognized net foreign currency transaction losses of \$2 million for the three months ended June 30, 2021, with no material drivers.

The Company recognized net foreign currency transaction losses of \$37 million for the six months ended June 30, 2021, primarily due to to unrealized losses on foreign currency derivatives related to government receivables in Argentina, partially offset by unrealized derivative gains on foreign currency derivatives in South America due to the depreciating Colombian peso.

Income tax benefit (expense)

Income tax benefit was \$19 million for the three months ended June 30, 2022, compared to income tax benefit of \$59 million for the three months ended June 30, 2021. The Company's effective tax rates were 12% and 45% for the three months ended June 30, 2022 and 2021, respectively. This net change in the effective tax rate was primarily due to the impact of the current year asset impairment of the Maritza coal-fired plant, partially offset by the current year impact of inflationary adjustments on net operating losses at certain Argentine renewables businesses. The prior year effective tax rate was impacted by the impairment of the coal-fired plants in Chile.

Income tax expense was \$41 million for the six months ended June 30, 2022, compared to income tax benefit of \$51 million for the six months ended June 30, 2021. The Company's effective tax rates were 39% and 42% for the six months ended June 30, 2022 and 2021, respectively. This net decrease in the effective tax rate was primarily due to the impact of the current year asset impairment of the Maritza coal-fired plant, partially offset by the current year impact of inflationary adjustments on net operating losses at certain Argentine renewables businesses. The prior year effective tax rate was impacted by the aforementioned asset impairment of the coal-fired plants in Chile, as well as the asset impairment at Puerto Rico.

See Note 15—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for details of the Maritza, Chile, and Puerto Rico asset impairments.

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 \$15 million, to \$5 million for the three months ended June 30, 2022, compared to losses of \$10 million for the three months ended June 30, 2021. This increase was a result of a reduction in the AES share of losses at our equity method affiliates.

Net equity in losses of affiliates decreased \$12 million, or 30%, to \$28 million for the six months ended June 30, 2022, compared to \$40 million for the six months ended June 30, 2021. This decrease was primarily driven by an increase in earnings at sPower due to higher allocation of earnings driven by renewable projects that came online in 2021, partially offset by an increase in losses at Fluence due to shipping issues, cost overruns and delays at projects under construction, and an increase in costs, including share-based compensation, associated with the growing business.

See Note 6—*Investments in and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased \$148 million to \$43 million for the three months ended June 30, 2022, compared to a loss of \$105 million for the three months ended June 30, 2021. This increase was primarily due to:

- Prior year long-lived asset impairment in Chile; and
- Lower allocation of losses to tax equity partners at AES Renewable Holdings.

These increases were partially offset by:

- Lower earnings from AES Andes due to increased ownership from 67% to 99% in the first quarter of 2022.

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased \$85 million to \$99 million for the six months ended June 30, 2022, compared to \$14 million for the six months ended June 30, 2021. This increase was primarily due to:

- Prior year long-lived asset impairments in Chile; and
- Lower allocation of losses to tax equity partners at AES Renewable Holdings.

These increases were partially offset by:

- Prior year net gains from early contract terminations at Angamos;
- Increased costs associated with growing and accelerating the development pipeline at AES Clean Energy Development; and
- Lower earnings from AES Andes due to increased ownership from 67% to 99% in the first quarter of 2022.

Net income (loss) attributable to The AES Corporation

Net loss attributable to The AES Corporation decreased \$207 million, to \$179 million for the three months ended June 30, 2022, compared to income of \$28 million for the three months ended June 30, 2021. This decrease was primarily due to:

- Prior year gain on remeasurement of our equity interest in the sPower development platform to acquisition-date fair value;
- Lower margins at our South America SBU due to prior year net gains from early contract terminations at Angamos;
- Prior year gain due to the issuance of new shares by Fluence, which was accounted for as a partial disposition; and
- Lower capitalized interest on construction projects in Chile.

These decreases were partially offset by:

- Lower long-lived asset impairments in the current year.

Net loss attributable to The AES Corporation decreased \$56 million, to \$64 million for the six months ended June 30, 2022, compared to \$120 million for the six months ended June 30, 2021. This decrease was primarily due to:

- Lower long-lived asset impairments in the current year.

This decrease was partially offset by:

- Prior year gain on remeasurement of our equity interest in the sPower development platform to acquisition-date fair value;
- Lower margins at our South America SBU due to prior year net gains from early contract terminations at Angamos;
- Higher income tax expense;
- Prior year gain due to the issuance of new shares by Fluence, which was accounted for as a partial disposition; and
- Lower capitalized interest on construction projects in Chile.

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.

For the year ended December 31, 2021, the Company updated the definition of Adjusted EPS item (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* to include the 2021 tax benefit on reversal of uncertain tax positions effectively settled upon the closure of the Company's 2017 U.S. tax return exam.

Effective January 1, 2021, the Company changed the definitions of Adjusted Operating Margin, Adjusted PTC, and Adjusted EPS to remove the adjustment for costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation. As this adjustment was specific to the major restructuring program announced by the Company in 2018, we believe removing this adjustment from our non-GAAP definitions provides simplification and clarity for our investors.

Adjusted Operating Margin

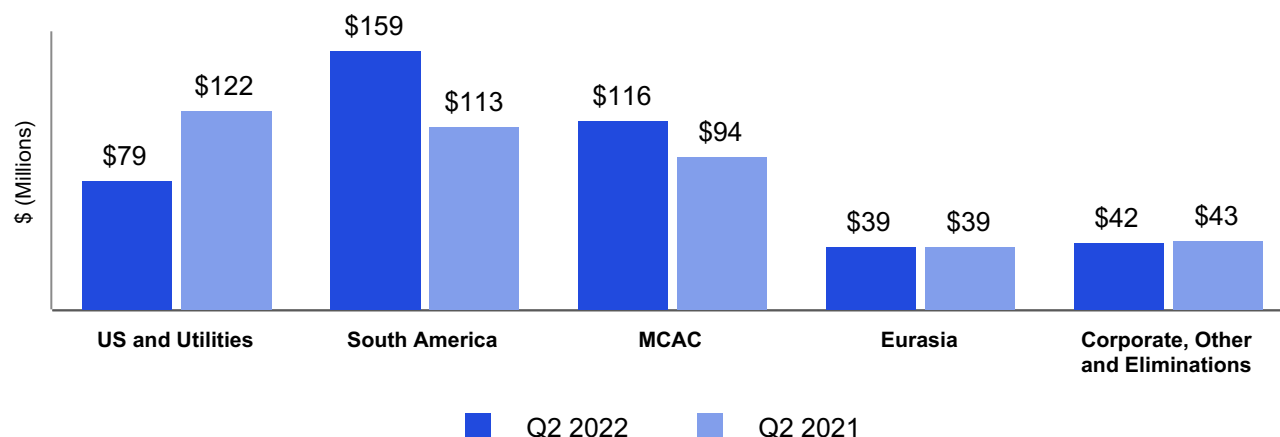
We define Adjusted Operating Margin as Operating Margin, adjusted for the impact of NCI, excluding (a) unrealized gains or losses related to derivative transactions; (b) benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures; and (c) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. 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.

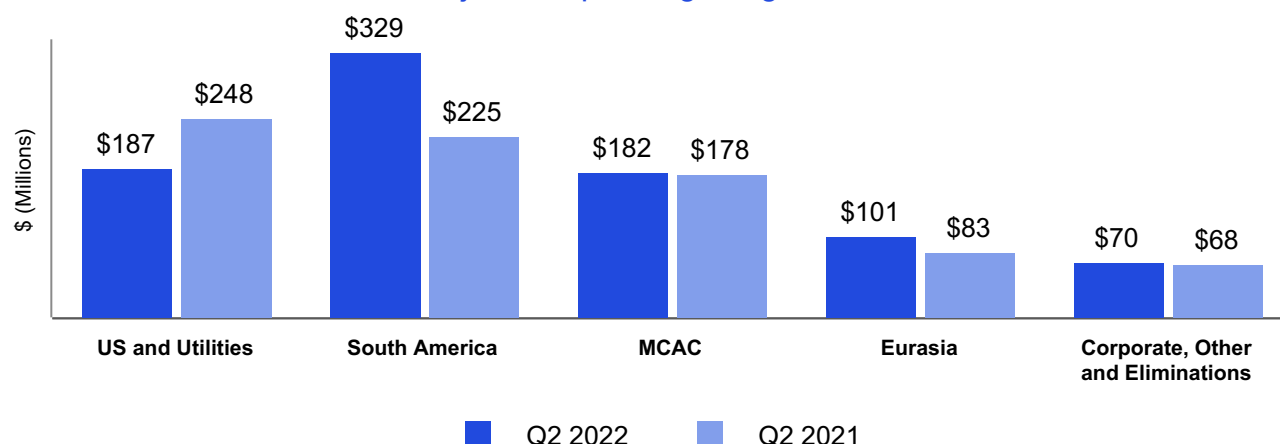
Reconciliation of Adjusted Operating Margin (in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating Margin	\$ 563	\$ 728	\$ 1,093	\$ 1,392
Noncontrolling interests adjustment ⁽¹⁾	(98)	(198)	(190)	(407)
Unrealized derivative (gains) losses	(31)	(13)	(34)	31
Disposition/acquisition losses	1	4	—	6
Net gains from early contract terminations at Angamos	—	(110)	—	(220)
Total Adjusted Operating Margin	<u>\$ 435</u>	<u>\$ 411</u>	<u>\$ 869</u>	<u>\$ 802</u>

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

Adjusted Operating Margin QTD



Adjusted Operating Margin YTD



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) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. 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 Corporate and Other, 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*.

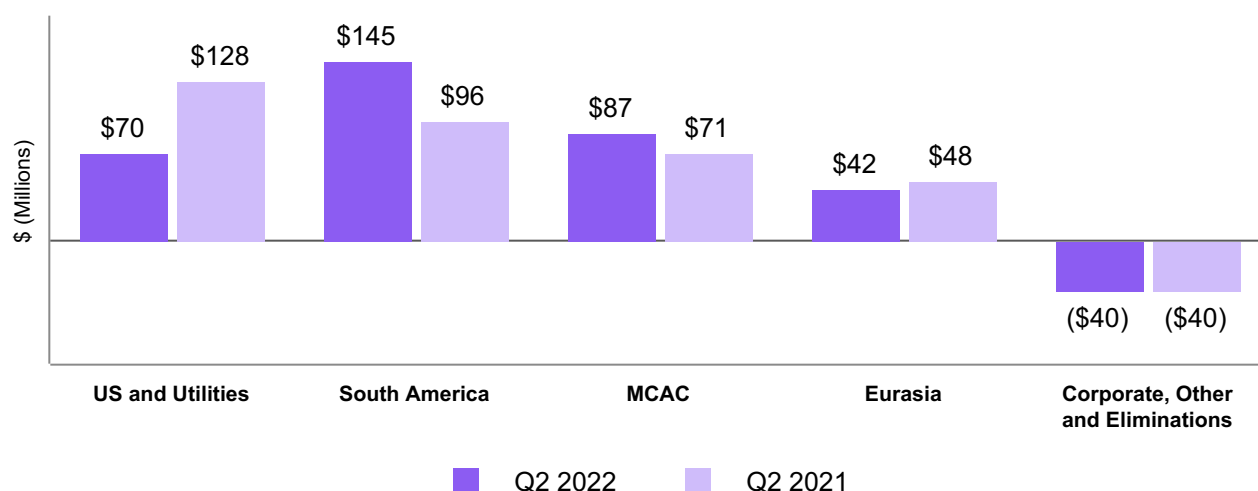
The GAAP measure most comparable to Adjusted PTC is *income from continuing operations attributable to The AES Corporation*. We believe that Adjusted PTC better reflects the underlying business performance of the Company and is the most relevant measure considered in the Company's internal evaluation of the financial performance of its segments. Factors in this determination include the variability due to unrealized gains or losses

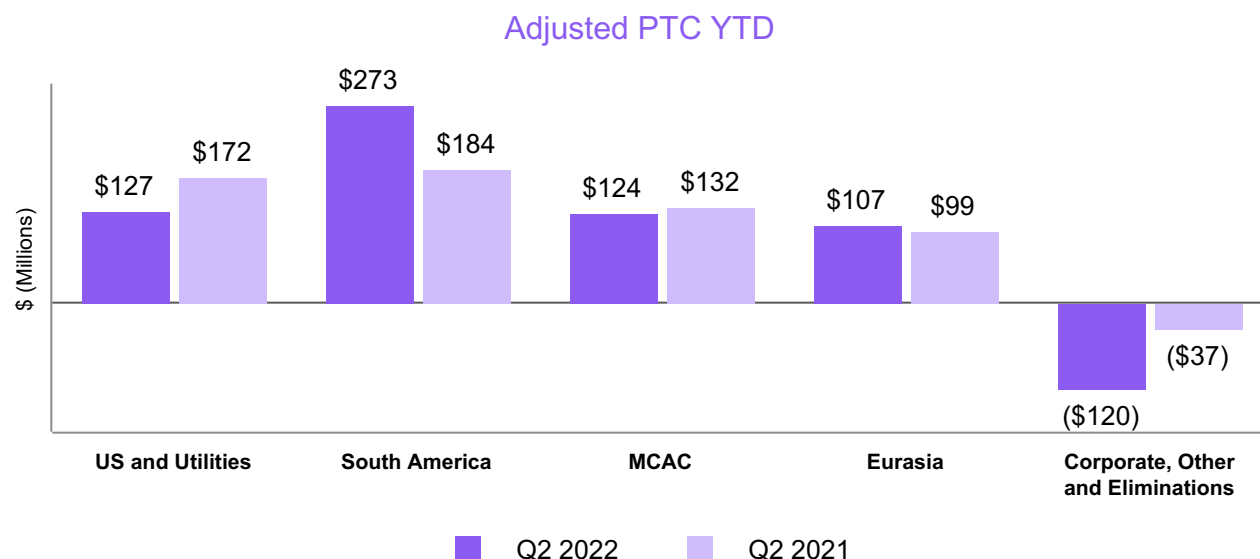
related to derivative transactions or equity securities remeasurement, unrealized foreign currency gains or losses, losses due to impairments, strategic decisions to dispose of or acquire business interests or retire debt, and the non-recurring nature of the impact of the early contract terminations at Angamos, 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,		Six Months Ended June 30,	
	2022	2021	2022	2021
Income (loss) from continuing operations, net of tax, attributable to The AES Corporation	\$ (179)	\$ 24	\$ (64)	\$ (124)
Income tax expense (benefit) from continuing operations attributable to The AES Corporation	(29)	(24)	21	(60)
Pre-tax contribution	(208)	—	(43)	(184)
Unrealized derivative and equity securities losses (gains)	(35)	8	6	77
Unrealized foreign currency losses (gains)	39	(12)	20	(6)
Disposition/acquisition losses	23	(229)	32	(244)
Impairment losses	479	628	480	1,103
Loss on extinguishment of debt	6	18	16	24
Net gains from early contract terminations at Angamos	—	(110)	—	(220)
Total Adjusted PTC	\$ 304	\$ 303	\$ 511	\$ 550

Adjusted PTC QTD





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) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence; 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, including the 2021 tax benefit on reversal of uncertain tax positions effectively settled upon the closure of the Company's U.S. tax return exam.

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, strategic decisions to dispose of or acquire business interests or retire debt, the one-time impact of the 2017 U.S. tax law reform and subsequent period adjustments related to enactment effects, and the non-recurring nature of the impact of the early contract terminations at Angamos, 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.

The Company reported a loss from continuing operations of \$0.27 and \$0.10 for the three and six months ended June 30, 2022, respectively. For purposes of measuring diluted loss per share under GAAP, common stock equivalents were excluded from weighted average shares as their inclusion would be anti-dilutive. However, for purposes of computing Adjusted EPS, the Company has included the impact of dilutive common stock equivalents. The table below reconciles the weighted average shares used in GAAP diluted loss per share to the weighted average shares used in calculating the non-GAAP measure of Adjusted EPS.

Reconciliation of Denominator Used For Adjusted EPS
(in millions, except per share data)

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Loss	Shares	\$ per Share	Loss	Shares	\$ per Share
GAAP DILUTED LOSS PER SHARE						
Loss from continuing operations attributable to The AES Corporation common stockholders	\$ (179)	668	\$ (0.27)	\$ (64)	668	\$ (0.10)
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	1	—	—	1	—
Restricted stock units	—	2	—	—	2	—
Equity units	—	40	0.02	1	40	0.01
NON-GAAP DILUTED LOSS PER SHARE	\$ (179)	711	\$ (0.25)	\$ (63)	711	\$ (0.09)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation of Adjusted EPS				
Diluted earnings (loss) per share from continuing operations	\$ (0.25)	\$ 0.03	\$ (0.09)	\$ (0.19)
Unrealized derivative and equity securities losses (gains)	(0.05) ⁽¹⁾	0.01	0.01	0.12 ⁽²⁾
Unrealized foreign currency losses (gains)	0.05 ⁽³⁾	(0.02)	0.03	(0.01)
Disposition/acquisition losses (gains)	0.03 ⁽⁴⁾	(0.34) ⁽⁵⁾	0.04 ⁽⁴⁾	(0.37) ⁽⁶⁾
Impairment losses	0.68 ⁽⁷⁾	0.94 ⁽⁸⁾	0.68 ⁽⁷⁾	1.65 ⁽⁹⁾
Loss on extinguishment of debt	0.01	0.03 ⁽¹⁰⁾	0.02	0.04 ⁽¹⁰⁾
Net gains from early contract terminations at Angamos	—	(0.16) ⁽¹¹⁾	—	(0.33) ⁽¹¹⁾
Less: Net income tax benefit	(0.13) ⁽¹²⁾	(0.18) ⁽¹³⁾	(0.14) ⁽¹²⁾	(0.32) ⁽¹⁴⁾
Adjusted EPS	\$ 0.34	\$ 0.31	\$ 0.55	\$ 0.59

- ⁽¹⁾ Amount primarily relates to the unrealized gain on remeasurement of our existing investment in 5B, accounted for using the measurement alternative, of \$26 million, or \$0.04 per share.
- ⁽²⁾ Amount primarily relates to unrealized derivative losses in Argentina mainly associated with foreign currency derivatives on government receivables of \$41 million, or \$0.06 per share, and net unrealized derivative losses on power and commodities swaps at Southland of \$32 million, or \$0.05 per share.
- ⁽³⁾ Amount primarily relates to unrealized FX losses in Brazil of \$12 million, or \$0.02 per share, mainly associated with debt denominated in Brazilian reais, and unrealized FX losses of \$9 million, or \$0.01 per share, mainly associated with the devaluation of long-term receivables denominated in Argentine pesos.
- ⁽⁴⁾ Amount primarily relates to the recognition of an allowance on the AES Gilbert sales-type lease receivable as a cost of disposition of a business interest of \$20 million, or \$0.03 per share, for the three and six months ended June 30, 2022.
- ⁽⁵⁾ Amount primarily relates to an adjustment on the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$176 million, or \$0.26, and gain on Fluence issuance of shares of \$61 million, or \$0.09 per share.
- ⁽⁶⁾ Amount primarily relates to the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$212 million, or \$0.32, and gain on Fluence issuance of shares of \$61 million, or \$0.09 per share, partially offset by day-one loss recognized at commencement of a sales-type lease at AES Renewable Holdings of \$13 million, or \$0.02 per share.
- ⁽⁷⁾ Amount primarily relates to asset impairment at Maritza of \$475 million, or \$0.67 per share, for the three and six months ended June 30, 2022.
- ⁽⁸⁾ Amount primarily relates to asset impairments at AES Andes of \$540 million, or \$0.81 per share, at Mountain View of \$67 million, or \$0.10 per share, and at sPower of \$20 million, or \$0.03 per share.
- ⁽⁹⁾ Amount primarily relates to asset impairments at AES Andes of \$540 million, or \$0.81 per share, at Puerto Rico of \$475 million, or \$0.71 per share, at Mountain View of \$67 million, or \$0.10 per share, and at sPower of \$21 million, or \$0.03 per share.
- ⁽¹⁰⁾ Amount primarily relates to loss on early retirement of debt at Andres and Los Mina of \$15 million, or \$0.02 per share, for the three and six months ended June 30, 2021.
- ⁽¹¹⁾ Amount relates to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$110 million, or \$0.16 per share and \$220 million, or \$0.33 per share, for the three and six months ended June 30, 2021, respectively.
- ⁽¹²⁾ Amount primarily relates to income tax benefits associated with the impairment at Maritza of \$110 million, or \$0.15 per share, partially offset by income tax expense associated with the unrealized gain on remeasurement of our existing investment in 5B of \$6 million, or \$0.01 per share for the three and six months ended June 30, 2022.
- ⁽¹³⁾ Amount primarily relates to income tax benefits associated with the impairments at AES Andes of \$195 million, or \$0.29 per share and at Mountain View of \$21 million, or \$0.03 per share, partially offset by income tax expense related to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$51 million, or \$0.08 per share, income tax expense related to the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$39 million, or \$0.06 per share, and income tax expense related to the gain on Fluence issuance of shares of \$13 million, or \$0.02 per share.
- ⁽¹⁴⁾ Amount primarily relates to income tax benefits associated with the impairments at AES Andes of \$195 million, or \$0.29 per share, at Puerto Rico of \$114 million, or \$0.17 per share, and at Mountain View of \$21 million, or \$0.03 per share, partially offset by income tax expense related to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$79 million, or \$0.12 per share, income tax expense related to the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$46 million, or \$0.07 per share, and income tax expense related to the gain on Fluence issuance of shares of \$13 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,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Operating Margin	\$ 124	\$ 165	\$ (41)	-25%	\$ 254	\$ 272	\$ (18)	-7%
Adjusted Operating Margin ⁽¹⁾	79	122	(43)	-35%	187	248	(61)	-25%
Adjusted PTC ⁽¹⁾	70	128	(58)	-45%	127	172	(45)	-26%

⁽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 2021 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2022 decreased \$41 million, or 25%, which was driven primarily by the following (in millions):

Decrease at Southland Energy primarily due to the impact of forced outages at the CCGT units	\$ (27)
Decrease at AES Indiana driven by higher maintenance expenses due to timing of planned outages and plant-related projects and higher storm costs	(22)
Increase at AES Clean Energy driven by unrealized commodity derivative gains and higher revenue due to the Company's agreement to supply Google's data centers with 24/7 carbon-free energy, partially offset by increased costs associated with growing and accelerating the development pipeline	12
Other	(4)
Total US and Utilities SBU Operating Margin Decrease	\$ (41)

Adjusted Operating Margin decreased \$43 million primarily due to the drivers above, adjusted for NCI and unrealized gains on derivatives.

Adjusted PTC decreased \$58 million, primarily associated with the decrease in Adjusted Operating Margin described above and lower contributions at our U.S. renewables businesses due to timing of renewable projects coming online.

Operating Margin for the six months ended June 30, 2022 decreased \$18 million, or 7%, which was driven primarily by the following (in millions):

Decrease at AES Clean Energy driven by unrealized commodity derivative losses and increased costs associated with growing and accelerating the development pipeline, partially offset by higher revenue due to the Company's agreement to supply Google's data centers with 24/7 carbon-free energy	\$ (20)
Decrease at Southland Energy primarily due to the impact of forced outages at the CCGT units	(20)
Decrease at AES Indiana driven by higher maintenance expenses due to timing of planned outages and plant-related projects and higher storm costs, partially offset by higher volumes from increased demand and favorable weather	(11)
Decrease in Puerto Rico mainly driven by higher coal and chemical consumption due to higher heat rate	(9)
Decrease at AES Hawaii primarily due to increased outages in the current year	(9)
Increase at Southland primarily driven by lower unrealized losses from commodity derivatives under the commercial hedging strategy and higher energy sales driven by energy price adjustments from market re-settlements in the prior year	53
Other	(2)
Total US and Utilities SBU Operating Margin Decrease	\$ (18)

Adjusted Operating Margin decreased \$61 million primarily due to the drivers above, adjusted for NCI and prior year unrealized losses on derivatives.

Adjusted PTC decreased \$45 million, primarily associated with the decrease in Adjusted Operating Margin described above and lower contributions at our U.S. renewables businesses due to timing of renewable projects coming online.

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,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Operating Margin	\$ 192	\$ 345	\$ (153)	-44%	\$ 396	\$ 697	\$ (301)	-43%
Adjusted Operating Margin ⁽¹⁾	159	113	46	41%	329	225	104	46%
Adjusted PTC ⁽¹⁾	145	96	49	51%	273	184	89	48%

⁽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 2021 Form 10-K for the respective ownership interest for key businesses. In the first quarter of 2022, AES' indirect beneficial interest in AES Andes increased from 67% to 99%. See Note 11—*Equity* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Operating Margin for the three months ended June 30, 2022 decreased \$153 million, or 44%, which was driven primarily by the following (in millions):

Lower revenue recognized on contract terminations at Angamos in Chile	\$ (164)
Higher contract margin primarily associated with new generation and lower depreciation of coal assets, partially offset by lower availability of Ventanas and higher fixed costs in Chile	7
Other	4
Total South America SBU Operating Margin Decrease	\$ (153)

After adjusting for the net gains on early contract terminations at Angamos in the prior year, Adjusted Operating Margin increased \$46 million due to the increase in ownership in AES Andes from 67% to 99% in the first quarter of 2022.

Adjusted PTC increased \$49 million, primarily associated with the increase in Adjusted Operating Margin described above and an insurance recovery at TermoAndes, partially offset by lower capitalized interest at construction projects.

Operating Margin for the six months ended June 30, 2022 decreased \$301 million, or 43%, which was driven primarily by the following (in millions):

Lower revenue recognized on contract terminations at Angamos in Chile	\$ (327)
Decrease in Brazil primarily driven by prior year GSF gain and higher fixed costs	(13)
Higher contract margin primarily associated with new generation and lower depreciation of coal assets, partially offset by lower availability of Ventanas and higher fixed costs in Chile	26
Increase in Colombia mainly related to increase in contract prices, partially offset by depreciation of the Colombian peso	9
Other	4
Total South America SBU Operating Margin Decrease	\$ (301)

After adjusting for the net gains on early contract terminations at Angamos in the prior year, Adjusted Operating Margin increased \$104 million due to the increase in ownership in AES Andes from 67% to 99% in the first quarter of 2022.

Adjusted PTC increased \$89 million, primarily associated with the increase in Adjusted Operating Margin described above and an insurance recovery at TermoAndes, partially offset by lower capitalized interest at construction projects.

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,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Operating Margin	\$ 150	\$ 121	\$ 29	24%	\$ 232	\$ 243	\$ (11)	-5%
Adjusted Operating Margin ⁽¹⁾	116	94	22	23%	182	178	4	2%
Adjusted PTC ⁽¹⁾	87	71	16	23%	124	132	(8)	-6%

⁽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 2021 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2022 increased \$29 million, or 24%, which was driven primarily by the following (in millions):

Increase in Panama driven by higher prices due to an increase in the NYMEX Henry Hub index, and lower cost of sales resulting from favorable hydrology during Q2 2022	\$ 19
Increase in the Dominican Republic mainly driven by higher contract sales due to higher prices and unrealized gains on LNG derivatives, partially offset by higher fixed costs	11
Other	(1)
Total MCAC SBU Operating Margin Increase	\$ 29

Adjusted Operating Margin increased \$22 million due to the drivers above, adjusted for NCI and unrealized gains on LNG derivatives.

Adjusted PTC increased \$16 million, mainly driven by the increase in Adjusted Operating Margin described above, partially offset by a higher allocation of interest expense attributable to AES after Colon's noncontrolling interest buyout in September 2021.

Operating Margin for the six months ended June 30, 2022 decreased \$11 million, or 5%, which was driven primarily by the following (in millions):

Decrease in the Dominican Republic mainly driven by the sale of Itabo on April 8, 2021	\$ (19)
Decrease in Mexico driven by lower availability in 2022	(5)
Decrease in Panama mainly driven by higher energy spot purchases due to drier hydrology during Q1 2022, partially offset by higher contract and spot sales at Colon mainly during Q2 2022	(3)
Increase in the Dominican Republic due to unrealized gains on LNG derivatives and higher contract sales due to higher demand and higher prices, partially offset by higher spot purchases and higher fixed costs	20
Other	(4)
Total MCAC SBU Operating Margin Decrease	\$ (11)

Adjusted Operating Margin increased \$4 million due to the drivers above, adjusted for NCI and unrealized gains on LNG derivatives.

Adjusted PTC decreased \$8 million, mainly driven by higher allocation of interest expense attributable to AES after Colon's noncontrolling interest buyout in September 2021, partially offset by the increase in Adjusted Operating Margin described above.

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,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Operating Margin	\$ 55	\$ 53	\$ 2	4%	\$ 142	\$ 112	\$ 30	27%
Adjusted Operating Margin ⁽¹⁾	39	39	—	—%	101	83	18	22%
Adjusted PTC ⁽¹⁾	42	48	(6)	-13%	107	99	8	8%

⁽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 2021 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended June 30, 2022 increased \$2 million, or 4%, with no material drivers.

Adjusted Operating Margin remained flat.

Adjusted PTC decreased \$6 million, mainly driven by higher interest expense.

Operating Margin for the six months ended June 30, 2022 increased \$30 million, or 27%, which was driven primarily by the following (in millions):

Construction revenue for Mong Duong driven by a reduction in expected completion costs for ash pond 2	\$ 19
Higher merchant prices captured by Kavarna	10
Other	1
Total Eurasia SBU Operating Margin Increase	\$ 30

Adjusted Operating Margin increased \$18 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased \$8 million, mainly driven by the increase in Adjusted Operating Margin described above, partially offset by higher interest expense.

Key Trends and Uncertainties

During the remainder of 2022 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 2021 Form 10-K.

Operational

COVID-19 Pandemic — The COVID-19 pandemic has impacted global economic activity, including electricity and energy consumption, and caused significant volatility in financial markets. Throughout the COVID-19 pandemic we have conducted our essential operations without significant disruption. 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. In 2022, our operational locations continued to experience the impact of, and recovery from, the COVID-19 pandemic. Across our global portfolio, our utilities businesses have generally performed in line with our expectations consistent with a recovery from the COVID-19 pandemic. While we cannot predict the length and magnitude of the pandemic, including the impact of current or future variants, or how it could impact global economic conditions, a delayed recovery with respect to demand may adversely impact our financial results for 2022. Also see Item 1A.—*Risk Factors* of our 2021 Form 10-K.

We continue to monitor and manage our credit exposures in a prudent manner. Our credit exposures have continued in-line with historical levels and within the customary 45-60 day grace period. We have not experienced any material credit-related impacts from our PPA offtakers due to the COVID-19 pandemic.

Our supply chain management has remained robust during this challenging time and we continue to closely manage and monitor developments. We continue to experience 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.

Trade Restrictions and Supply Chain — On March 29, 2022, the U.S. Department of Commerce (“Commerce”) announced the initiation of an investigation into whether imports into the U.S. of solar cells and panels imported from Cambodia, Malaysia, Thailand, and Vietnam are circumventing antidumping and countervailing duty orders on solar cells and panels from China. This investigation resulted in significant systemic disruptions to the import of solar cells and panels from Southeast Asia. On July 6, 2022, President Biden issued a Proclamation waiving any tariffs that result from this investigation for a 24-month period. Following President Biden’s proclamation, suppliers in Southeast Asia have begun importing cells and panels again to the U.S. We have contracted and substantially secured our expected requirements for solar panels for U.S. projects targeted to achieve commercial operations in 2022 and are working to secure our requirements for future years.

Additionally, certain suppliers could be blocked from importing solar cells and panels to the U.S. under the Uyghur Forced Labor Prevention Act (“UFLPA”). UFLPA seeks to block the import of products made with forced labor in certain areas of China. We are monitoring the impacts of the UFLPA on our solar cells and panels suppliers.

Further disruptions may impact our suppliers’ ability or willingness to meet their contractual agreements or to continue to supply cells or panels into the U.S. market on terms that we deem satisfactory.

The impact of any adverse Commerce determination, the impact of the UFLPA, future disruptions to the solar panel supply chain and their effect on AES’ U.S. solar project development and construction activities are uncertain. AES will continue to monitor developments and take prudent steps towards maintaining a robust supply chain for our renewables projects.

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.

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 2021 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. Despite the Title III protection, PREPA has been making substantially all of its payments to the generators in line with historical payment patterns.

AES Puerto Rico and AES Ilumina's non-recourse debt of \$177 million and \$28 million, respectively, continue to be in technical default and are classified as current as of June 30, 2022 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, 2022.

On April 12, 2022, a mediation team was appointed to prepare the plan to resolve the PREPA Title III case and related proceedings, which is expected to conclude by August 15, 2022.

Considering the information available as of the filing date, management believes the carrying amount of our long-lived assets in Puerto Rico of \$85 million is recoverable as of June 30, 2022.

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 2021 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. The ICE Benchmark Association ("IBA") has determined that it will cease publication of the one-month, three-month, six-month, and 12-month USD LIBOR rates by June 30, 2023. AES holds a substantial amount of debt and derivative contracts referencing LIBOR as an interest rate benchmark. In order to facilitate an organized transition from LIBOR to alternative benchmark rate(s), AES has established a process to measure and mitigate risks associated with the cessation of LIBOR. As part of this initiative, alternative benchmark rates have been, and continue to be, assessed, and implemented for newly executed agreements. Many of AES' existing agreements include provisions designed to facilitate an orderly transition from LIBOR, and interest rate derivatives address the LIBOR transition through the adoption of the ISDA 2020 IBOR Fallbacks Protocol and subsequent amendments. To the extent that the terms of the credit agreements and derivative instruments do not align following the cessation of LIBOR rates, AES will seek to negotiate contract amendments with counterparties or additional derivatives contracts.

Global Tax — The macroeconomic and political environments in the U.S. and in some countries where our subsidiaries conduct business have changed during 2021 and 2022. This could result in significant impacts to tax law. For example, on July 1, 2022, the Chilean government proposed to reduce the corporate tax rate from 27% to 25%, limit net operating loss utilization per year, and introduce a disintegrated system whereby dividends may be subject to a 22% withholding tax, among other changes. The potential impact to the Company may be material.

Additionally, in the first quarter of 2022, the Biden Administration released its fiscal year 2023 budget, which includes proposed U.S. corporate and international tax reform proposals that would increase the U.S. corporate income tax rate and GILTI tax rate, replace BEAT with rules in line with OECD Pillar 2 Model Rules, eliminate tax preferences for fossil fuels, among others. Also in the first quarter of 2022, the European Commission published an amended draft Directive on Pillar 2 which includes numerous amendments compared to the version published in the fourth quarter of 2021. The potential timing for possible enactment and impact to the Company remains unknown, but may be material.

Inflation — In the markets in which we operate, there have been higher rates of inflation in recent months. While most of our contracts in our international businesses are indexed to inflation, in general, our U.S.-based generation contracts are not indexed to inflation. If inflation continues to increase in our markets, it may increase our expenses that we may not be able to pass through to customers. It may also increase the costs of some of our development projects that could negatively impact their competitiveness. Our utility businesses do allow for recovering of operations and maintenance costs through the regulatory process, which may have timing impacts on recovery.

Alto Maipo

Alto Maipo is currently constructing a hydroelectric facility near Santiago, Chile which is approximately 99% complete and started generating energy in the fourth quarter of 2021 as part of the commissioning process. The Alto Maipo project (the “Project”) has experienced significant construction difficulties, which resulted in a substantial increase in project costs over the original budget and led to a series of negotiations that resulted in securing additional funding from creditors and additional equity injections from AES Andes. See Item 7—*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2021 Form 10-K for further information.

On November 17, 2021, Alto Maipo SpA commenced a reorganization proceeding in accordance with Chapter 11 of the U.S. Bankruptcy Code, through a voluntary petition. Consequently, through Chapter 11 proceedings, The AES Corporation was no longer considered to have control over Alto Maipo and, therefore, derecognized Alto Maipo from its Consolidated Balance Sheets and recognized an after-tax loss of approximately \$1.2 billion, net of noncontrolling interests, in the Consolidated Statement of Operations in the fourth quarter of 2021, associated with the loss of control attributable to the former controlling interest.

On May 26, 2022, Alto Maipo emerged from bankruptcy in accordance with Chapter 11 of the U.S. Bankruptcy Code. Alto Maipo, as restructured, is considered a VIE. As the Company lacks the power to make significant decisions, it does not meet the criteria to be considered the primary beneficiary of Alto Maipo and therefore will not consolidate the entity. The Company has elected the fair value option to account for its investment in Alto Maipo.

Decarbonization Initiatives

Our strategy involves shifting towards clean energy platforms, including renewable energy, energy storage, LNG, and modernized grids. It is designed to position us for continued growth while reducing our carbon intensity and in support of our mission of accelerating the future of energy, together. In February 2022, we announced our intent to exit coal generation by year-end 2025, subject to necessary approvals.

In addition, initiatives have been announced by regulators, including in Chile, Puerto Rico, and Hawaii, and offtakers in recent years, with the intention of reducing GHG emissions generated by the energy industry. In parallel, the shift towards renewables has caused certain customers to migrate to other low-carbon energy solutions and this trend may continue.

Although we cannot currently estimate the financial impact of these decarbonization initiatives, new legislative or regulatory programs further restricting carbon emissions or other initiatives to voluntarily exit coal generation 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 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 2021 Form 10-K.

Regulatory

AES Maritza PPA Review — DG Comp is conducting a preliminary review of whether AES Maritza’s PPA with NEK is compliant with the European Union’s State Aid rules. No formal investigation has been launched by DG Comp to date. However, AES Maritza has been engaging in discussions with the DG Comp case team and the Government of Bulgaria (“GoB”) to attempt to reach a negotiated resolution of DG Comp’s review (“PPA Discussions”). The PPA Discussions are ongoing and the PPA continues to remain in place. However, there can be no assurance that, in the context of the PPA Discussions, the other parties will not seek a prompt termination of the PPA.

We do not believe termination of the PPA is justified. Nevertheless, the PPA Discussions will involve a range of potential outcomes, including but not limited to the termination of the PPA and payment of some level of compensation to AES Maritza. Any negotiated resolution would be subject to mutually acceptable terms, lender consent, and DG Comp approval. At this time, we cannot predict the outcome of the PPA Discussions or when those discussions will conclude. Nor can we predict how DG Comp might resolve its review if the PPA Discussions fail to result in an agreement concerning the agency’s review. AES Maritza believes that its PPA is legal and in compliance with all applicable laws, and it will take all actions necessary to protect its interests, whether through negotiated agreement or otherwise. However, there can be no assurance that this matter will be resolved favorably; if it is not,

there could be a material adverse effect on the Company's financial condition, results of operations, and cash flows. As of June 30, 2022, the carrying value of our long-lived assets at Maritza is \$452 million.

AES Ohio Distribution Rate Case — On November 30, 2020, AES Ohio filed a new distribution rate case with the The Public Utilities Commission of Ohio ("PUCO") that proposes a revenue increase of \$120.8 million per year and incorporates the DIR investments that were planned and approved in the last rate case, but not yet included in distribution rates, other distribution investments since September 2015, and other investments and expenses. Certain parties that have intervened in the distribution rate case have argued that ESP 1 incorporates a distribution rate freeze. The rate case is pending a commission order and we are unable to predict the outcome at this time.

AES Indiana Integrated Resource Plan ("IRP") — AES Indiana has begun holding public advisory meetings for its 2022 IRP. Changes to its generation portfolio are evaluated and decided through the IRP. AES Indiana issued an all-source Request for Proposal on April 14, 2022, in order to competitively procure replacement capacity; such need is being evaluated in AES Indiana's 2022 IRP.

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 — During the six months ended June 30, 2022, the Company recognized asset impairment expense of \$483 million. See Note 15—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for further information. After recognizing this impairment expense, the carrying value of long-lived assets that were assessed for impairment totaled \$454 million at June 30, 2022.

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 SO₂, 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 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 2021 Form 10-K.

CSAPR — CSAPR addresses the "good neighbor" provision of the CAA, which prohibits sources within each state from emitting any air pollutant in an amount which will contribute significantly to any other state's nonattainment, or interference with maintenance of, any NAAQS. The CSAPR required significant reductions in SO₂ and NO_x emissions from power plants in many states in which subsidiaries of the Company operate. The Company is required to comply with the CSAPR in certain states, including Indiana and Maryland. The CSAPR is implemented, in part, through a market-based program under which compliance may be achievable through the acquisition and use of emissions allowances created by the EPA. The Company complies with CSAPR through operation of existing controls and purchases of allowances on the open market, as needed.

In October 2016, the EPA published a final rule to update the CSAPR to address the 2008 ozone NAAQS

("CSAPR Update Rule"). The CSAPR Update Rule found that NO_x ozone season emissions in 22 states (including Indiana, Maryland, Ohio, and Pennsylvania) affected the ability of downwind states to attain and maintain the 2008 ozone NAAQS, and, accordingly, the EPA issued federal implementation plans that both updated existing CSAPR NO_x ozone season emission budgets for electric generating units within these states and implemented these budgets through modifications to the CSAPR NO_x ozone season allowance trading program. Implementation started in the 2017 ozone season (May-September 2017). Affected facilities receive fewer ozone season NO_x allowances in 2017 and later, possibly resulting in the need to purchase additional allowances. Additionally, on September 13, 2019, the D.C. Circuit remanded a portion of October 2016 CSAPR Update Rule to the EPA. On April 30, 2021, the EPA published a final rule to address the 2020 D.C. Circuit decision. The EPA is issuing new or amended federal implementation plans for 12 states, including Indiana, Maryland, Ohio, and Pennsylvania, with revised CSAPR NO_x ozone season emission budgets for electric generating units within these states via a new CSAPR NO_x Ozone Season Group 3 Trading Program. Implementation began during the 2021 ozone season (May-September 2021) with an effective date of June 29, 2021. AES Indiana facilities and AES Warrior Run in Maryland will receive fewer ozone season NO_x allowances for future NO_x Ozone Seasons beginning in 2021 and later, possibly resulting in the need to purchase additional allowances. In addition, subject sources in these states were required to surrender an equivalent number of previously allocated 2021-2024 Group 2 allowances by deadlines in 2021. This requirement applies inclusive of assets and allowances that have since been sold and/or retired, including former AES assets in Ohio and Pennsylvania. While AES no longer operates electric generating units subject to the revised CSAPR Update Rule in Ohio or Pennsylvania, certain prior AES sources in these states were required to surrender an equivalent number of previously allocated 2021-2024 Group 2 allowances and on July 14, 2021 the required allowances were recalled by the EPA, fulfilling this obligation.

On April 6, 2022, the EPA published a proposed Federal Implementation Plan to address air quality impacts with respect to the 2015 Ozone NAAQS. The rule would establish a revised CSAPR NO_x Ozone Season Group 3 trading program of 25 states, including Indiana and Maryland. In addition to other requirements, if finalized, electric generating units ("EGUs") in these states would begin receiving fewer allowances as soon as 2023, possibly resulting in the need to purchase additional allowances.

While the Company's additional CSAPR compliance costs to date have been immaterial, the future availability of and cost to purchase allowances to meet the emission reduction requirements is uncertain at this time, but it could be material.

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 CPP. 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 ACE Rule established CO₂ emission rules for existing power plants under CAA Section 111(d) and replaced the EPA's 2015 Clean Power Plan Rule ("CPP"), which among other things, had called on states to mandate that power companies shift electricity generation to lower or zero carbon fuel sources. In the final ACE rule, the EPA determined that heat rate improvement measures are the Best System of Emissions Reductions for existing coal-fired electric generating units. AES Indiana Petersburg and AES Warrior Run have coal-fired electric generating units that could have been impacted by this regulation. On January 19, 2021, the D.C. Circuit vacated and remanded to the EPA the ACE Rule, although the parties had an opportunity to request a rehearing at the D.C. Circuit or seek a review of the decision by the U.S. Supreme Court. On March 5, 2021, the D.C. Circuit issued the partial mandate effectuating the vacatur of the ACE Rule. In effect, the CPP did not take effect while the EPA is addressing the remand of the ACE rule by promulgating a new Section 111(d) rule to regulate greenhouse gases from existing electric generating units. On October 29, 2021, the U.S. Supreme Court granted petitions to review the decision by the D.C. Circuit to vacate the ACE Rule. On June 30, 2022, the Supreme Court reversed the judgment of the D.C. Circuit Court and remanded for further proceedings consistent with its opinion. The opinion held that the "generation shifting" approach in the CPP exceeded the authority granted to EPA by Congress under Section 111(d) of the CAA. The impact of the results of further proceedings and potential future greenhouse gas emissions regulations remains uncertain.

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. If this rule is finalized before Indiana or Puerto Rico establishes a state-level CCR permit program, AES CCR units in those locations could eventually be required to apply for a federal CCR permit from the EPA. The EPA has indicated that it will implement a phased approach to amending the CCR Rule, which is ongoing. On August 28, 2020, the EPA published final amendments to the CCR Rule titled "A Holistic Approach to Closure Part A: Deadline to Initiate Closure," that, among other amendments, required certain CCR units to cease waste receipt and initiate closure by April 11, 2021. The CCR Part A Rule also allowed for extensions of the April 11, 2021 deadline if the EPA determines certain criteria are met. Facilities seeking such an extension were required to submit a demonstration to the EPA by November 30, 2020. On January 25, 2022, the EPA released proposed determinations regarding nine CCR Part A Rule demonstrations. On the same day, the EPA issued four compliance-related letters notifying certain other facilities of their compliance obligations under the federal CCR regulations. The determinations and letters include interpretations regarding implementation of the CCR Rule. On April 8, 2022, petitions for review were filed challenging these EPA actions. The petitions are consolidated in *Electric Energy, Inc. v. EPA*. On July 12, 2022, EPA released prepublication determinations regarding two CCR Part A Rule demonstrations. It is too early to determine the direct or indirect impact of these letters or any determinations that may be made.

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. AES Indiana would seek recovery of any resulting expenditures; however, there is no guarantee we would be successful in this regard.

Capital Resources and Liquidity

Overview

As of June 30, 2022, the Company had unrestricted cash and cash equivalents of \$1.1 billion, of which \$29 million was held at the Parent Company and qualified holding companies. The Company had \$595 million in short-term investments, held primarily at subsidiaries, and restricted cash and debt service reserves of \$576 million. The Company also had non-recourse and recourse aggregate principal amounts of debt outstanding of \$17 billion and \$4.2 billion, respectively. Of the \$2.2 billion of our current non-recourse debt, \$2 billion was presented as such because it is due in the next twelve months and \$212 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 \$205 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 \$810 million under its revolving credit facility. On a consolidated basis, of the Company's

\$21.5 billion of total gross debt outstanding as of June 30, 2022, approximately \$3.1 billion bore interest at variable rates that were not subject to a derivative instrument which fixed the interest rate. Brazil holds \$1.5 billion of our floating rate non-recourse exposure as variable rate instruments act as a natural hedge against inflation in Brazil.

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. As of June 30, 2022, 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 \$2.3 billion in aggregate (excluding those collateralized by letters of credit and other obligations discussed below).

As the Parent Company has only recently been upgraded to investment grade by all three rating agencies, 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. As of June 30, 2022, we had \$155 million in letters of credit outstanding provided under our unsecured credit facility and \$26 million in letters of credit outstanding provided under our revolving 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, 2022, 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, 2022, the Company had approximately \$47 million of gross accounts receivable classified as *Other noncurrent assets*. These noncurrent receivables mostly consist of accounts receivable in Argentina and Chile that, pursuant to amended agreements or government resolutions, have collection periods that extend beyond June 30, 2023, or one year from the latest balance sheet date. The majority of Argentine receivables have been converted into long-term financing for the construction of power plants. 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. See Note 5—*Financing Receivables* in Item 1.—*Financial Statements* of this Form 10-Q and Item 1.—*Business—South America SBU—Argentina—Regulatory Framework and Market Structure* included in our 2021 Form 10-K for further information.

As of June 30, 2022, the Company had approximately \$1.2 billion of 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. In December 2020, Mong Duong met the held-for-sale criteria and the loan receivable balance, net of CECL reserve, was reclassified to held-for-sale assets. As of June 30, 2022, \$95 million of the loan receivable balance was classified as *Current held-for-sale assets* and \$1.1 billion was classified as *Noncurrent held-for-sale assets* on the Condensed Consolidated Balance Sheets. See Note 13—*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, 2022 were debt financings, cash flows from operating activities, and sales of short-term investments. The primary uses of cash in the six months ended June 30, 2022 were repayments of debt, capital expenditures, purchases of short-term investments, and acquisitions of noncontrolling interests.

The primary sources of cash for the Company in the six months ended June 30, 2021 were debt financings, proceeds from the issuance of Equity Units, cash flows from operating activities, and sales of short-term investments. The primary uses of cash in the six months ended June 30, 2021 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,	
	2022	2021
Cash Sources:		
Issuance of non-recourse debt	\$ 3,132	\$ 700
Borrowings under the revolving credit facilities	3,100	998
Net cash provided by operating activities	865	604
Sale of short-term investments	345	316
Sales to noncontrolling interests	229	20
Issuance of preferred shares in subsidiaries	60	151
Contributions from noncontrolling interests	28	95
Issuance of preferred stock	—	1,015
Other	34	207
Total Cash Sources	\$ 7,793	\$ 4,106
Cash Uses:		
Repayments under the revolving credit facilities	\$ (2,269)	\$ (932)
Capital expenditures	(1,659)	(999)
Repayments of non-recourse debt	(1,469)	(939)
Purchase of short-term investments	(694)	(258)
Acquisitions of noncontrolling interests	(540)	(17)
Purchase of emissions allowances	(293)	(88)
Dividends paid on AES common stock	(211)	(200)
Contributions and loans to equity affiliates	(169)	(173)
Acquisitions of business interests, net of cash and restricted cash sold	(107)	(81)
Distributions to noncontrolling interests	(93)	(129)
Other	(122)	(91)
Total Cash Uses	\$ (7,626)	\$ (3,907)
Net increase in Cash, Cash Equivalents, and Restricted Cash	\$ 167	\$ 199

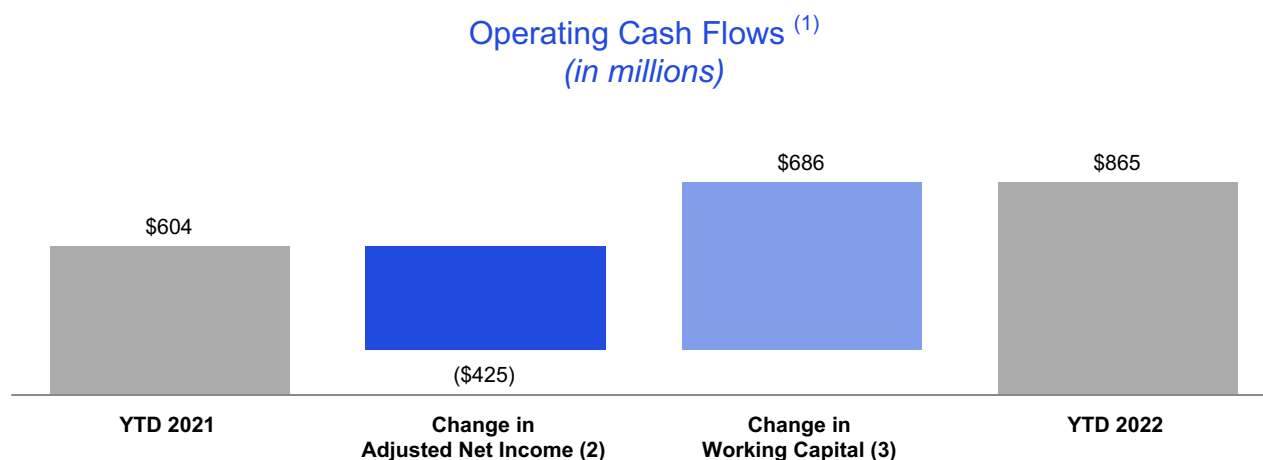
Consolidated Cash Flows

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

Cash flows provided by (used in):	Six Months Ended June 30,		
	2022	2021	\$ Change
Operating activities	\$ 865	\$ 604	\$ 261
Investing activities	(2,583)	(1,145)	(1,438)
Financing activities	1,924	682	1,242

Operating Activities

Net cash provided by operating activities increased \$261 million for the six months ended June 30, 2022, compared to the six months ended June 30, 2021.



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

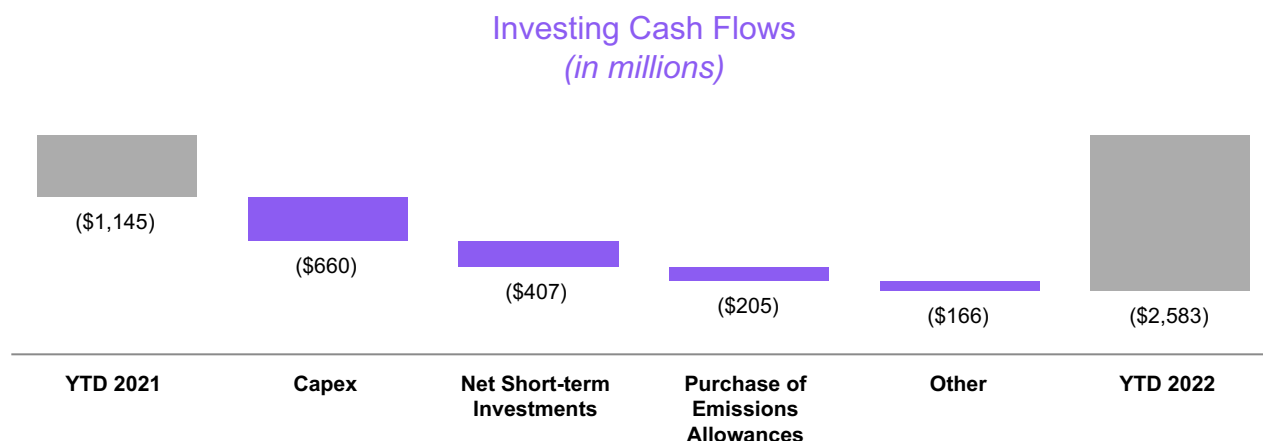
⁽²⁾ The change in adjusted net income is defined as the variance in *net income*, net of the total *adjustments to net income* as shown on the Condensed Consolidated Statements of Cash Flows in Item 1—*Financial Statements* of this Form 10-Q.

⁽³⁾ The change in working capital is defined as the variance in total *changes 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 \$425 million primarily due to lower margins at our South America SBU and an increase in interest expense, partially offset by higher margins at our Eurasia SBU.
- Working capital requirements decreased \$686 million, primarily due to the GSF liability payment at Tietê in the prior year, deferred income at Angamos in the prior year due to revenue recognized for the early contract terminations with Minera Escondida and Minera Spence, and the change in income tax liabilities, partially offset by an increase in inventory, primarily fuel and other raw materials, at AES Andes.

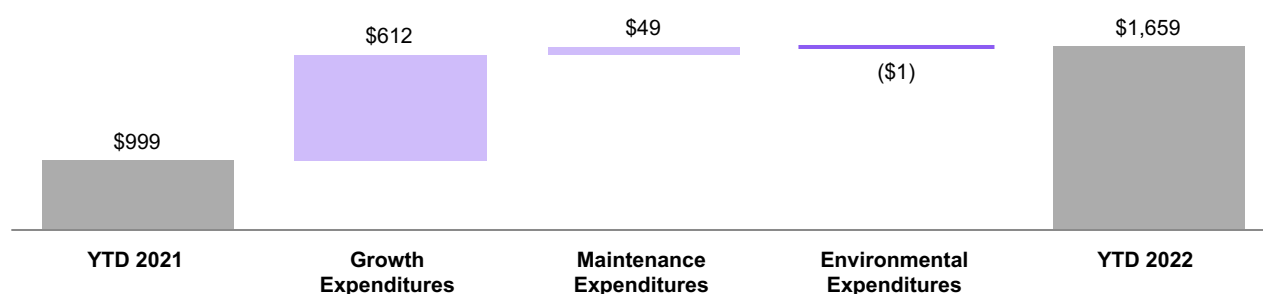
Investing Activities

Net cash used in investing activities increased \$1.4 billion for the six months ended June 30, 2022, compared to the six months ended June 30, 2021.



- Cash used for short-term investing activities increased \$407 million, primarily at AES Brasil as a result of higher net short-term investment purchases in 2022.
- Purchases of emissions allowances increased \$205 million, primarily in Bulgaria as a result of increased demand and higher CO₂ prices.
- Capital expenditures increased \$660 million, discussed further below.

Capital Expenditures (in millions)

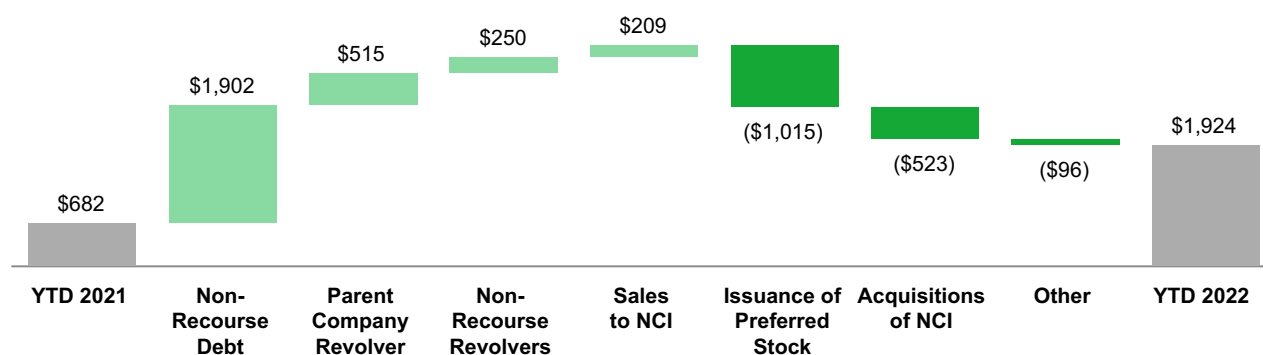


- Growth expenditures increased \$612 million, primarily driven by an increase in renewable projects at AES Clean Energy and AES Brasil, and by higher TDSIC plan and renewable project investments at AES Indiana, partially offset by the timing of payments for the construction of the Alamitos Energy Center at Southland Energy in the prior year.
- Maintenance expenditures increased \$49 million, primarily due to the timing of payments and increased expenditures at AES Indiana and AES Ohio.
- Environmental expenditures decreased \$1 million, with no material drivers.

Financing Activities

Net cash provided by financing activities increased \$1.2 billion for the six months ended June 30, 2022, compared to the six months ended June 30, 2021.

Financing Cash Flows (in millions)



See Notes 7—Debt and 11—Equity in Item 1—Financial Statements of this Form 10-Q for more information regarding significant debt and equity transactions.

- The \$1.9 billion impact from non-recourse debt transactions is primarily due to an increase in net borrowings in the Netherlands and Panama, the United Kingdom, AES Clean Energy, IPALCO, AES Ohio, AES Brasil, and AES Andes, and by a decrease in net repayments in the Dominican Republic.
- The \$515 million impact from Parent Company revolver transactions is primarily due to higher net borrowings in the current year.
- The \$250 million impact from non-recourse revolver transactions is primarily due to higher net borrowings in the Dominican Republic and at AES Clean Energy, partially offset by higher net repayments at AES Ohio.
- The \$209 million impact from sales to noncontrolling interests is primarily due to proceeds received from the sales of ownership interests in Andes Solar 2a and Los Olmos as part of the Chile Renovables renewable partnership, and at AES Clean Energy from the sales of ownership in project companies to tax equity partners.

- The \$1 billion impact from issuance of preferred stock is due to the issuance of Equity Units at the Parent Company in the prior year.
- The \$523 million impact from acquisitions of noncontrolling interests is mainly due to the acquisition of an additional 32% ownership interest in AES Andes.

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 revolving 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, 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, 2022	December 31, 2021
Consolidated cash and cash equivalents	\$ 1,075	\$ 943
Less: Cash and cash equivalents at subsidiaries	(1,046)	(902)
Parent Company and qualified holding companies' cash and cash equivalents	29	41
Commitments under the Parent Company credit facility	1,250	1,250
Less: Letters of credit under the credit facility	(26)	(48)
Less: Borrowings under the credit facility	(810)	(365)
Borrowings available under the Parent Company credit facility	414	837
Total Parent Company Liquidity	\$ 443	\$ 878

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.

The Parent Company paid dividends of \$0.1580 per outstanding share to its common stockholders during the first and second quarters of 2022 for dividends declared in December 2021 and February 2022, 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 \$4.2 billion and \$3.8 billion as of June 30, 2022 and December 31, 2021, respectively. See Note 7—*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 2021 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 revolving credit facility. See Item 1A.—*Risk Factors*—*The AES Corporation's ability to make payments on its outstanding indebtedness is dependent upon the receipt of funds from our subsidiaries* of the Company's 2021 Form 10-K for additional information.

Various debt instruments at the Parent Company level, including our revolving 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, 2022, 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 revolving 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 \$2.2 billion. The portion of current debt related to such defaults was \$212 million at June 30, 2022, all of which was non-recourse debt related to three subsidiaries — AES Puerto Rico, AES Illumina, and AES Jordan Solar. An additional \$75 million of debt in default exists at the subsidiary AES Jordan PSC which was classified as a current held-for-sale liability at June 30, 2022. 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 \$205 million is due to the bankruptcy of the offtaker. See Note 7—*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, 2022, 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 revolving 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, 2022, 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 2021 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 2021 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, 2022.

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, Fluctuations in currency exchange rates may impact our financial results and position; Wholesale power prices may experience significant volatility in our markets which could impact 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 2021 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. As of June 30, 2022, we project pre-tax earnings exposure on a 10% (uncorrelated) move in commodity prices would be approximately a \$10 million gain for power, a \$5 million gain for coal, a \$5 million loss for oil, and a \$10 million loss for natural gas. 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, higher 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, our existing once-through cooling generation units ("Legacy Assets") have been requested to continue operating beyond their current retirement date

and the OTC policy establishing retirement deadlines has been extended for between one and three years. These assets have contracts in capacity and have seen incremental value in energy revenues.

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 three 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 variation. 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-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; as such, our assets may be selling the excess above contract levels at spot prices or buy the deficit in the spot market to satisfy contractual 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, 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 2022 stem from the following currencies: Brazilian real, Colombian peso, and Euro. As of June 30, 2022, assuming a 10% USD appreciation, cash distributions attributable to foreign subsidiaries exposed to movement in the exchange rate of the Euro, Brazilian real, and Colombia peso each are projected to be impacted by less than a \$5 million loss. These numbers have been produced by applying a one-time 10% USD appreciation to forecasted exposed cash distributions for 2022 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 or 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, 2022, the portfolio's pre-tax earnings exposure for 2022 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 less than \$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, 2022, 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.

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, 2022.

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 \$8 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 Guaíba, 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 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 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, the City of Redondo Beach ("the City"), with respect to AES' 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. On October 14, 2020, the City deemed the CDP application to be complete and indicated a public hearing will be required, at which time AES must present additional information and analysis on the pumps within the alleged wetlands and the onsite electrical vaults.

In October 2015, AES Indiana received an NOV alleging violations of the Clean Air Act (“CAA”), the Indiana State Implementation Plan (“SIP”), and the Title V operating permit related to alleged particulate and opacity violations at Petersburg Station Unit 3. In addition, in February 2016, AES Indiana received an NOV from the EPA alleging violations of New Source Review and other CAA regulations, the Indiana SIP, and the Title V operating permit at Petersburg Station. On August 31, 2020, AES Indiana reached a settlement with the EPA, the DOJ and the Indiana Department of Environmental Management (“IDEM”), resolving these purported violations of the CAA at Petersburg Station. The settlement agreement, in the form of a proposed judicial consent decree, was approved and entered by the U.S. District Court for the Southern District of Indiana on March 23, 2021, and includes, among other items, the following requirements: annual caps on NO_x and SO₂ emissions and more stringent emissions limits than AES Indiana's current Title V air permit; payment of civil penalties totaling \$1.5 million; a \$5 million environmental mitigation project consisting of the construction and operation of a new, non-emitting source of generation at the site; expenditure of \$0.3 million on a state-only environmentally beneficial project to preserve local, ecologically-significant lands; and retirement of Units 1 and 2 prior to July 1, 2023. If AES Indiana does not meet the retirement obligation, it must install a Selective Non-Catalytic Reduction System (“SNCR”) on Unit 4.

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 initiated 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 denied liability and sought a declaration that its termination was wrongful, alleged damages relating to that termination, and other relief. CNM alleged that it was entitled to damages ranging from \$70 million to \$170 million (which included the LC Funds) plus interest and costs, based on various scenarios. Alto Maipo contested those submissions. The evidentiary hearing in the First Arbitration took place May 20-31, 2019, and closing arguments were heard June 9-10, 2020. Also, in August 2018, CNM purported to initiate a separate arbitration against AES Andes and the Company (“Second Arbitration”). In the Second Arbitration, CNM sought to pierce Alto Maipo's corporate veil and appeared to seek an award holding AES Andes and the Company jointly and severally liable to pay any alleged net amounts that were found to be due to CNM in the First Arbitration or otherwise. The Second Arbitration was consolidated into the First Arbitration. In October 2021, the Tribunal issued a final and enforceable Partial Award in favor of Alto Maipo. The Tribunal held, among other things, that Alto Maipo properly terminated the relevant tunneling contract and that Alto Maipo's draw of the LC Funds was proper. Also, the Tribunal determined that Alto Maipo was entitled to be paid additional damages of nearly \$107 million (net after offsets) and that interest would accrue on the total amount of damages awarded until paid by CNM. The Tribunal also dismissed the Second Arbitration as moot. The Tribunal reserved for further proceedings, the issues of the interest to be paid by CNM and, as to all parties, the award of legal fees and costs. CNM subsequently made an application for an immaterial correction to the Partial Award. That application was granted with the consent of Alto Maipo. CNM also filed an application to revise the Partial Award (“Revision Application”) seeking to reduce the net damages awarded to Alto Maipo to approximately \$42 million. The Tribunal later rejected CNM's Revision Application, upon consideration of Alto Maipo's objections. Also, in May 2022, CNM initiated a separate proceeding in the Santiago Court of Appeals seeking to annul the Partial Award under Chilean Law (“Annulment Proceeding”). In July 2022, the parties entered into a settlement agreement fully and finally settling this dispute (“Agreement”). Pursuant to the Agreement, settlement payments were received by Alto Maipo, AES Andes, and the Company. The parties have waived all existing or potential future claims between them. Furthermore, the above-referenced First Arbitration, Second Arbitration, and Annulment Proceeding have been dismissed with prejudice.

In October 2017, the Maritime Prosecution Office from Valparaíso issued a ruling alleging responsibility by AES Andes for the presence of coal waste on Ventanas beach, and proposed a fine before the Maritime Governor, of approximately \$395,000. AES Andes submitted its statement of defense, denying the allegations. In May 2021, AES Andes was notified of an amended Opinion of the Maritime Prosecution Office which extends the alleged liability to a third party and reduces the proposed fine to AES Andes to approximately \$372,000. On August 18, 2021, the Maritime Governor issued a resolution affirming the proposed fine, and on September 8, AES Andes filed an administrative action with the Maritime Governor requesting reconsideration of the fine. On December 28, 2021 the resolution rejecting the reinstatement appeal was notified and on January 17, 2022 AES Andes filed an appeal against that ruling. In April 2022, Puerto Ventanas requested that the Maritime Authority join this proceeding with a parallel proceeding; however, the request was rejected. In May 2022, the General Director of the Maritime Territory

and Merchant Marine of the Chilean Navy rejected AES Andes' appeal and imposed a fine of \$341,363. AES Andes will continue with administrative appeals, but the fine must be paid, as it is not suspended during the pendency of the remaining appeals. AES Andes believes that it has meritorious defenses to the allegations; however, there are no assurances it will be successful.

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 over \$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. In August 2020, at the request of the relevant AES companies, the case was transferred to a different civil court. Preliminary hearings have taken place and are ongoing. 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 October 2019, the Superintendency of the Environment (the "SMA") notified AES Andes 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. AES Andes has submitted a proposed "Compliance Program" to the SMA for the Ventanas Complex. The latest version of this Compliance Program was submitted on May 26, 2021. On December 30, 2021, the Compliance Program was approved by the SMA. However an ex officio action was brought by the SMA due to alleged exceedances of generation limits, which would require the Company to reduce SO₂, NO_x and PM emissions in order to achieve the emissions offset established in the Compliance Program. On January 6, 2022, AES Andes filed a reposition with the SMA seeking modification of the means for compliance with the ex officio action. The reposition filing is currently under review by the SMA. The effects of the ex officio action are suspended until the reposition is resolved, but the SMA ruling is otherwise unaffected. Fines are possible if the SMA determines there is an unsatisfactory execution of the Compliance Program. The cost of proposed Compliance Program is approximately \$10.8 million.

In March 2020, Mexico's Comisión Federal de Electricidad ("CFE") served an arbitration demand upon AES Mérida III. CFE makes allegations that AES Mérida III is in breach of its obligations under a power and capacity purchase agreement ("Contract") between the two parties, which allegations related to CFE's own failure to provide fuel within the specifications of the Contract. CFE seeks to recover approximately \$200 million in payments made to AES Mérida under the Contract as well as approximately \$480 million in alleged damages for having to acquire power from alternative sources in the Yucatan Peninsula. AES Mérida has filed an answer denying liability to CFE and asserting a counterclaim for damages due to CFE's breach of its obligations. The parties submitted their respective initial briefs and supporting evidence in December 2020. After additional briefing, the evidentiary hearing took place in November 2021. Closing arguments were heard in May 2022. The parties are awaiting the decision of the arbitration Tribunal. AES Mérida believes that it has meritorious defenses and claims and will assert them vigorously in the arbitration; however, there can be no assurances that it will be successful in its efforts.

On May 12, 2021, the Federal Attorney for Environmental Protection (the "Authority") initiated an environmental audit at the Termoelectrica del Golfo ("TEG") and Termoelectrica del Peñoles ("TEP") thermal generating facilities. On July 15, 2022, TEG was notified of the resolution issued by the Authority, which alleges breaches of air emission regulations, including failure to submit reports. The resolution imposes a fine of \$8,467,360 pesos (approximately USD \$400,000). The facility has until September 8, 2022 to file a nullity judgment to challenge the resolution. No resolution for TEP's audit has been issued. 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.

In February 2022, a lawsuit was filed in Dominican Republic civil court against the Company. The lawsuit purports to be brought on behalf of over 425 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 over \$600 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 Company believes that it has meritorious defenses to the claims asserted against it and will defend itself vigorously in this proceeding; however, there can be no assurances that it will be successful in its efforts.

On July 25, 2022, AES Puerto Rico, LP ("AES-PR") received from the EPA an NOV alleging certain violations of the CAA at AES-PR's coal-fired power facility in Guayama, Puerto Rico. The NOV alleges AES-PR exceeded an emission limit and did not continuously operate certain monitoring equipment, conduct certain analyses and testing, maintain complete records, and submit certain reports as required by the EPA's Mercury and Air Toxics Standards. The NOV further alleges AES-PR did not comply fully with the facility's Title V operating permit. AES-PR expects to engage in discussions with the EPA about the NOV in the near term. AES-PR will defend its interests, but we cannot predict the outcome of this matter at this time. However, settlements and litigated outcomes of CAA claims alleged against other coal-fired power plants have required companies to pay civil penalties and undertake remedial measures.

ITEM 1A. RISK FACTORS

You should consider carefully the following updates to risk factors, along with the risk factors disclosed in Item 1A.—*Risk Factors* of our 2021 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. The Risk Factors section in our 2021 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 operation of power generation, distribution and transmission facilities involves significant risks.

We are in the business of generating and distributing electricity, which involves certain risks that can adversely affect financial and operating performance, including:

- changes in the availability of our generation facilities or distribution systems due to increases in scheduled and unscheduled plant outages, equipment failure, failure of transmission systems, labor disputes, disruptions in fuel supply, poor hydrologic and wind conditions, inability to comply with regulatory or permit requirements, or catastrophic events such as fires, floods, storms, hurricanes, earthquakes, dam failures, tsunamis, explosions, terrorist acts, cyber-attacks or other similar occurrences; and
- changes in our operating cost structure, including, but not limited to, increases in costs relating to gas, coal, oil and other fuel; fuel transportation; purchased electricity; operations, maintenance and repair; environmental compliance, including the cost of purchasing emissions offsets and capital expenditures to install environmental emission equipment; transmission access; and insurance.

Our businesses require reliable transportation sources (including related infrastructure such as roads, ports and rail), power sources and water sources to access and conduct operations. The availability and cost of this infrastructure affects capital and operating costs and levels of production and sales. Limitations, or interruptions in this infrastructure or at the facilities of our subsidiaries, including as a result of third parties intentionally or unintentionally disrupting this infrastructure or the facilities of our subsidiaries, could impede their ability to produce electricity.

In addition, a portion of our generation facilities were constructed many years ago and may require significant capital expenditures for maintenance. The equipment at our plants requires periodic upgrading, improvement or repair and replacement equipment or parts may be difficult to obtain in circumstances where we rely on a single supplier or a small number of suppliers. The inability to obtain replacement equipment or parts, due to disruption of the supply chain or other factors, may impact the ability of our plants to perform. Breakdown or failure of one of our operating facilities may prevent the facility from performing under applicable power sales agreements which, in

certain situations, could result in termination of a power purchase or other agreement or incurrence of a liability for liquidated damages and/or other penalties.

Power generation involves hazardous activities, including acquiring, transporting and unloading fuel, operating large pieces of rotating equipment and delivering electricity to transmission and distribution systems. In addition to natural risks, such as earthquakes, floods, lightning, hurricanes and wind, hazards, such as fire, explosion, collapse and machinery failure, are inherent risks in our operations which may occur as a result of inadequate internal processes, technological flaws, human error or actions of third parties or other external events. The control and management of these risks depend upon adequate development and training of personnel and on operational procedures, preventative maintenance plans, and specific programs supported by quality control systems, which may not prevent the occurrence and impact of these risks.

In addition, our battery storage operations also involve risks associated with lithium-ion batteries. On rare occasions, lithium-ion batteries can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion batteries. While more recent design developments for our storage projects seek to minimize the impact of such events, these events are inherent risks of our battery storage operations.

The hazards described above, along with other safety hazards associated with our operations, can cause significant personal injury or loss of life, severe damage to and destruction of property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. The occurrence of any one of these events may result in our being named as a defendant in lawsuits asserting claims for substantial damages, environmental cleanup costs, personal injury and fines, and/or penalties.

Furthermore, we and our affiliates are parties to material litigation and regulatory proceedings. See Item 1.—Legal Proceedings above. There can be no assurance that the outcomes of such matters will not have a material adverse effect on our consolidated financial position.

Our renewable energy projects and other initiatives face considerable uncertainties.

Wind, solar, and energy storage projects are subject to substantial risks. Some of these business lines are dependent upon favorable regulatory incentives to support continued investment, and there is significant uncertainty about the extent to which such favorable regulatory incentives will be available in the future. In particular, in the U.S., AES' renewable energy generation growth strategy depends in part on federal, state and local government policies and incentives that support the development, financing, ownership and operation of renewable energy generation projects, including investment tax credits, production tax credits, accelerated depreciation, renewable portfolio standards, feed-in-tariffs and similar programs, renewable energy credit mechanisms, and tax exemptions. If these policies and incentives are changed or eliminated, or AES is unable to use them, there could be a material adverse impact on AES' U.S. renewable growth opportunities, including fewer future PPAs or lower prices in future PPAs, decreased revenues, reduced economic returns on certain project company investments, increased financing costs, and/or difficulty obtaining financing.

In addition, the results of the U.S. Department of Commerce's investigation into the antidumping and countervailing duties circumvention claim on solar cells and panels supplied from Malaysia, Vietnam, Thailand, and Cambodia are uncertain. If the investigation results in additional taxes, tariffs, duties, or other assessments on renewable energy or the equipment necessary to generate or deliver it, such as antidumping and countervailing duty rates, such developments could impede the realization of our U.S. renewables strategy by resulting in, among other items, lack of a satisfactory market for the development and/or financing of our U.S. renewable energy projects, abandoning the development of certain U.S. renewable energy projects, a loss of our investments in the projects, and/or reduced project returns.

Furthermore, production levels for our wind and solar projects may be dependent upon adequate wind or sunlight, resulting in volatility in production levels and profitability. For our wind projects, wind resource estimates are based on historical experience when available and on wind resource studies conducted by an independent engineer. These wind resource estimates are not expected to reflect actual wind energy production in any given year, but long-term averages of a resource.

As a result, these types of projects face considerable risk, including that favorable regulatory regimes expire or are adversely modified. At the development or acquisition stage, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. There are also risks associated with the fact that some of these projects exist in markets where long-term fixed-price contracts for the major cost and revenue components may be unavailable, which in turn may result in these projects having relatively high levels of volatility. These projects can be capital-intensive and generally are designed with a view to obtaining third-party financing,

which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop or obtain third-party financing for these projects.

Any of the above factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Cyber-attacks and data security breaches could harm our business.

Our business relies on electronic systems and network technologies to operate our generation, transmission and distribution infrastructure. We also use various financial, accounting, and other infrastructure systems. Our infrastructure may be targeted by nation states, hackers, criminals, insiders, or terrorist groups. In particular, there has been an increased focus on the U.S. energy grid believed to be related to the Russia/Ukraine conflict. Such an attack, by hacking, malware or other means, may interrupt our operations, cause property damage, affect our ability to control our infrastructure assets, cause the release of sensitive customer information, or limit communications with third parties. Any loss or corruption of confidential or proprietary data through a breach may:

- impact our operations, revenue, strategic objectives, customer and vendor relationships;
- expose us to legal claims and/or regulatory investigations and proceedings;
- require extensive repair and restoration costs for additional security measures to avert future attacks;
- impair our reputation and limit our competitiveness for future opportunities; and
- impact our financial and accounting systems and, subsequently, our ability to correctly record, process, and report financial information.

We have implemented measures to help prevent unauthorized access to our systems and facilities, including certain measures to comply with mandatory regulatory reliability standards. To date, cyber-attacks have not had a material impact on our operations or financial results. We continue to assess potential threats and vulnerabilities and make investments to address them, including global monitoring of networks and systems, identifying and implementing new technology, improving user awareness through employee security training, and updating our security policies as well as those for third-party providers. We cannot guarantee the extent to which our security measures will prevent future cyber-attacks and security breaches or that our insurance coverage will adequately cover any losses we may experience. Further, we do not control certain of joint ventures or our equity method investments and cannot guarantee that their efforts will be effective.

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, 2022, \$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 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Andrés Gluski \(filed herewith\).](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Stephen Coughlin \(filed herewith\).](#)
- 32.1 [Section 1350 Certification of Andrés Gluski \(filed herewith\).](#)
- 32.2 [Section 1350 Certification of Stephen Coughlin \(filed herewith\).](#)
- 101 The AES Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, 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 4, 2022

By: /s/ STEPHEN COUGHLIN

Name: Stephen Coughlin

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)*