AES CORP
Form 10-Q
August 08, 2017

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12291
THE AES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	54 1163725
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4300 Wilson Boulevard Arlington, Virginia	22203
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x Accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

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

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The number of shares outstanding of Registrant's Common Stock, par value $0.01 per share, on July 31, 2017 was 660,256,748.

THE AES CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
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GLOSSARY OF TERMS

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

Adjusted EPS	Adjusted Earnings Per Share, a non-GAAP measure
Adjusted PTC	Adjusted Pretax Contribution, a non-GAAP measure of operating performance
AFS	Available For Sale
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BNDES	Brazilian Development Bank
CAA	United States Clean Air Act
CAMMESA	Wholesale Electric Market Administrator in Argentina
CCGT	Combined Cycle Gas Turbine
CCR	Coal Combustion Residuals
CDPQ	La Caisse de depot et placement du Quebec
CHP	Combined Heat and Power
COFINS	Contribuição para o Financiamento da Seguridade Social
DP&L	The Dayton Power & Light Company
DPL	DPL Inc.
DPLER	DPL Energy Resources, Inc.
DPP	Dominican Power Partners, LDC
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement and Construction
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
IPALCO	IPALCO Enterprises, Inc.
IPL	Indianapolis Power & Light Company
kWh	Kilowatt Hours
LIBOR	London Interbank Offered Rate
LNG	Liquid Natural Gas
MATS	Mercury and Air Toxics Standards
MMI	Mini Maritsa Iztok (state-owned electricity public supplier in Bulgaria)
MW	Megawatts
MWh	Megawatt Hours
NCI	Noncontrolling Interest
NEK	Natsionalna Elektricheska Kompania (state-owned electricity public supplier in Bulgaria)
NM	Not Meaningful
NOV	Notice of Violation
NO_X	Nitrogen Oxides
NPDES	National Pollutant Discharge Elimination System
PIS	Partially Integrated System
PJM	PJM Interconnection, LLC
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
U.S.	United States
USD	United States Dollar
VAT	Value-Added Tax
VIE	Variable Interest Entity

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2017	December 31, 2016
	(in millions, except share and per share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$1,213	$ 1,305
Restricted cash	313	278
Short-term investments	740	798
Accounts receivable, net of allowance for doubtful accounts of $112 and $111, respectively	2,173	2,166
Inventory	633	630
Prepaid expenses	83	83
Other current assets	1,061	1,151
Current assets of held-for-sale businesses	102	—
Total current assets	6,318	6,411
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	776	779
Electric generation, distribution assets and other	28,697	28,539
Accumulated depreciation	(9,841)	(9,528)
Construction in progress	3,560	3,057
Property, plant and equipment, net	23,192	22,847
Other Assets:		
Investments in and advances to affiliates	683	621
Debt service reserves and other deposits	578	593
Goodwill	1,157	1,157
Other intangible assets, net of accumulated amortization of $543 and $519, respectively	397	359
Deferred income taxes	757	781
Service concession assets, net of accumulated amortization of $159 and $114, respectively	1,404	1,445
Other noncurrent assets	1,983	1,905
Total other assets	6,959	6,861
TOTAL ASSETS	$36,469	$ 36,119
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$1,684	$ 1,656
Accrued interest	225	247
Accrued and other liabilities	1,893	2,066
Non-recourse debt, includes $454 and $273, respectively, related to variable interest entities	2,572	1,303
Current liabilities of held-for-sale businesses	37	—
Total current liabilities	6,411	5,272

NONCURRENT LIABILITIES		
Recourse debt	4,380	4,671
Non-recourse debt, includes $1,292 and $1,502, respectively, related to variable interest entities	13,815	14,489
Deferred income taxes	746	804
Pension and other postretirement liabilities	1,347	1,396
Other noncurrent liabilities	2,905	3,005
Total noncurrent liabilities	23,193	24,365
Commitments and Contingencies (see Note 8)		
Redeemable stock of subsidiaries	791	782
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 816,126,361 issued and 660,191,726 outstanding at June 30, 2017 and 816,061,123 issued and 659,182,232 outstanding at December 31, 2016)	8	8
Additional paid-in capital	8,732	8,592
Accumulated deficit	(1,086)	(1,146)
Accumulated other comprehensive loss	(2,741)	(2,756)
Treasury stock, at cost (155,934,635 and 156,878,891 shares at June 30, 2017 and December 31, 2016, respectively)	(1,892)	(1,904)
Total AES Corporation stockholders' equity	3,021	2,794
NONCONTROLLING INTERESTS	3,053	2,906
Total equity	6,074	5,700
TOTAL LIABILITIES AND EQUITY	$36,469	$ 36,119

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(in millions, except per share data)			
Revenue:				
Regulated	$1,637	$1,565	$3,364	$3,141
Non-Regulated	1,833	1,664	3,598	3,359
Total revenue	3,470	3,229	6,962	6,500
Cost of Sales:				
Regulated	(1,488)	(1,431)	(3,066)	(2,898)
Non-Regulated	(1,312)	(1,224)	(2,633)	(2,519)
Total cost of sales	(2,800)	(2,655)	(5,699)	(5,417)
Operating margin	670	574	1,263	1,083
General and administrative expenses	(49)	(47)	(103)	(95)
Interest expense	(333)	(390)	(681)	(732)
Interest income	93	138	190	255
Gain (loss) on extinguishment of debt	(12)	—	5	4
Other expense	(18)	(21)	(48)	(29)
Other income	15	12	87	25
Gain (loss) on disposal and sale of businesses	(48)	(17)	(48)	30
Asset impairment expense	(90)	(235)	(258)	(394)
Foreign currency transaction gains (losses)	12	(36)	(8)	4
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	240	(22)	399	151
Income tax benefit (expense)	(92)	7	(160)	(90)
Net equity in earnings of affiliates	2	7	9	14
INCOME (LOSS) FROM CONTINUING OPERATIONS	150	(8)	248	75
Income (loss) from operations of discontinued businesses, net of income tax (expense) benefit of $0, $(1), $0 and $3, respectively	—	3	—	(6)
Net loss from disposal and impairments of discontinued businesses, net of income tax benefit of $0, $401, $0 and $401, respectively	—	(382)	—	(382)
NET INCOME (LOSS)	150	(387)	248	(313)
Less: Net income attributable to noncontrolling interests and redeemable stock of subsidiaries	(97)	(95)	(219)	(43)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$53	$(482)	$29	$(356)
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income (loss) from continuing operations, net of tax	$53	$(103)	$29	$32
Loss from discontinued operations, net of tax	—	(379)	—	(388)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$53	$(482)	$29	$(356)
BASIC EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$0.08	$(0.16)	$0.04	$0.05
	—	(0.57)	—	(0.59)

Loss from discontinued operations attributable to The AES Corporation common stockholders, net of tax				
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$0.08	$(0.73)	$0.04	$(0.54)
DILUTED EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$0.08	$(0.16)	$0.04	$0.05
Loss from discontinued operations attributable to The AES Corporation common stockholders, net of tax	—	(0.57)	—	(0.59)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$0.08	$(0.73)	$0.04	$(0.54)
DILUTED SHARES OUTSTANDING	662	659	662	662
DIVIDENDS DECLARED PER COMMON SHARE	$—	$—	$0.12	$0.11

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
NET INCOME (LOSS)	$150	$(387)	$248	$(313)
Foreign currency translation activity:				
Foreign currency translation adjustments, net of income tax benefit (expense) of $0, $1, $(1) and $1, respectively	(119)	120	(51)	248
Reclassification to earnings, net of $0 income tax for all the periods	95	—	98	—
Total foreign currency translation adjustments	(24)	120	47	248
Derivative activity:				
Change in derivative fair value, net of income tax benefit of $13, $25, $21 and $46, respectively	(42)	(93)	(47)	(157)
Reclassification to earnings, net of income tax expense of $10, $4, $11 and $1, respectively	29	3	49	2
Total change in fair value of derivatives	(13)	(90)	2	(155)
Pension activity:				
Reclassification to earnings due to amortization of net actuarial loss, net of income tax expense of $3, $1, $6 and $2, respectively	7	4	13	7
Total pension adjustments	7	4	13	7
OTHER COMPREHENSIVE INCOME (LOSS)	(30)	34	62	100
COMPREHENSIVE INCOME (LOSS)	120	(353)	310	(213)
Less: Comprehensive loss attributable to noncontrolling interests	(91)	(90)	(233)	(28)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$29	$(443)	$77	$(241)

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2017	2016
	(in millions)	
OPERATING ACTIVITIES:		
Net income (loss)	$248	$(313)
Adjustments to net income:		
Depreciation and amortization	581	586
Loss (gain) on sales and disposals of businesses	48	(30)
Impairment expenses	258	396
Deferred income taxes	(18)	(443)
Provisions for contingencies	23	21
Gain on extinguishment of debt	(5)	(4)
Loss on sales of assets	19	14
Impairments of discontinued operations	—	783
Other	94	79
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(120)	366
(Increase) decrease in inventory	(43)	12
(Increase) decrease in prepaid expenses and other current assets	156	473
(Increase) decrease in other assets	(155)	(172)
Increase (decrease) in accounts payable and other current liabilities	(134)	(557)
Increase (decrease) in income tax payables, net and other tax payables	(61)	(255)
Increase (decrease) in other liabilities	63	407
Net cash provided by operating activities	954	1,363
INVESTING ACTIVITIES:		
Capital expenditures	(1,123)	(1,255)
Acquisitions, net of cash acquired	(2)	(11)
Proceeds from the sale of businesses, net of cash sold, and equity method investments	33	156
Sale of short-term investments	1,930	2,762
Purchase of short-term investments	(1,876)	(2,806)
Increase in restricted cash, debt service reserves and other assets	(12)	(142)
Other investing	(58)	(30)
Net cash used in investing activities	(1,108)	(1,326)
FINANCING ACTIVITIES:		
Borrowings under the revolving credit facilities	538	664
Repayments under the revolving credit facilities	(524)	(681)
Issuance of recourse debt	525	500
Repayments of recourse debt	(860)	(611)
Issuance of non-recourse debt	1,832	1,534
Repayments of non-recourse debt	(982)	(1,054)
Payments for financing fees	(80)	(55)
Distributions to noncontrolling interests	(184)	(236)
Contributions from noncontrolling interests and redeemable security holders	44	94

Proceeds from the sale of redeemable stock of subsidiaries	—	134
Dividends paid on AES common stock	(158)	(145)
Payments for financed capital expenditures	(61)	(87)
Purchase of treasury stock	—	(79)
Other financing	(26)	(21)
Net cash provided by (used in) financing activities	64	(43)
Effect of exchange rate changes on cash	6	8
(Increase) decrease in cash of discontinued operations and held-for-sale businesses	(8)	6
Total increase (decrease) in cash and cash equivalents	(92)	8
Cash and cash equivalents, beginning	1,305	1,257
Cash and cash equivalents, ending	$1,213	$1,265
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$612	$615
Cash payments for income taxes, net of refunds	$218	$347
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired through capital lease and other liabilities	$—	$5
Reclassification of Alto Maipo loans and accounts payable into equity (see Note 11—Equity)	$279	$—

See Notes to Condensed Consolidated Financial Statements.

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THE AES CORPORATION
Notes to Condensed Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2017 and 2016
1. FINANCIAL STATEMENT PRESENTATION
Consolidation — In this Quarterly Report the terms “AES,” “the Company,” “us” or “we” refer to the consolidated entity, including its subsidiaries and affiliates. The terms “The AES Corporation” or “the Parent Company” refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, VIEs in which the Company has a variable interest have been consolidated where the Company is the primary beneficiary. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.
Interim Financial Presentation — The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with GAAP, as contained in the FASB ASC, for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income and cash flows. The results of operations for the three and six months ended June 30, 2017, are not necessarily indicative of results that may be expected for the year ending December 31, 2017. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2016 audited consolidated financial statements and notes thereto, which are included in the 2016 Form 10-K filed with the SEC on February 27, 2017 (the “2016 Form 10-K”).
New Accounting Pronouncements — The following table provides a brief description of recent accounting pronouncements that had and/or could have a material impact on the Company’s consolidated financial statements. 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 Adopted

ASU Number and Name	Description	Date of Adoption	Effect on the financial statements upon adoption
2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	The standard simplifies the following aspects of accounting for share-based payments awards: accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. Transition method: The recognition of excess tax benefits and tax deficiencies arising from vesting or settlement were applied retrospectively. The elimination of the requirement that excess tax benefits be realized before they are recognized was adopted on a modified retrospective basis.	January 1, 2017	The recognition of excess tax benefits in the provision for income taxes in the period when the awards vest or are settled, rather than in paid-in-capital in the period when the excess tax benefits are realized, resulted in a decrease of \$31 million to deferred tax liabilities, offset by an increase to retained earnings.

New Accounting Standards Issued But Not Yet Effective

ASU Number and Name	Description	Date of Adoption	Effect on the financial statements upon adoption
2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): Accounting for Certain Financial Instruments and Certain Mandatorily Redeemable Noncontrolling Interests	Part 1 of this standard changes the classification analysis of certain equity-linked financial instruments when assessing whether the instrument is indexed to an entity's own stock. Transition method: retrospective.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	This standard shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. Transition method: modified retrospective.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the presentation of non-service cost expense associated with defined benefit plans and updates the guidance so that only the service cost component will be eligible for capitalization. Transition method: Retrospective for presentation of non-service cost expense. Prospective for the change in capitalization.	January 1, 2018. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements and does not plan to early adopt.
2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This standard simplifies the accounting for goodwill impairment by removing the requirement to calculate the implied fair value. Instead, it requires that an entity records an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. Transition method: prospective.	January 1, 2020. Early adoption is permitted as of January 1, 2017.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. Transition method: prospective.	January 1, 2018. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be	January 1, 2018. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.

	included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Transition method: retrospective.		
2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	This standard requires that an entity recognizes the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Transition method: modified retrospective.	January 1, 2018. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard updates the impairment model for financial assets measured at amortized cost to an expected loss model rather than an incurred loss model. It also allows for the presentation of credit losses on available-for-sale debt securities as an allowance rather than a write down. Transition method: various.	January 1, 2020. Early adoption is permitted only as of January 1, 2019.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2016-02, Leases (Topic 842)	The standard creates Topic 842, Leases, which supersedes Topic 840, Leases. It introduces a lessee model that brings substantially all leases onto the balance sheet while retaining most of the principles of the existing lessor model in U.S. GAAP and aligning many of those principles with ASC 606, Revenue from Contracts with Customers. Transition method: modified retrospective approach with certain practical expedients.	January 1, 2019. Early adoption is permitted.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. The Company intends to adopt the standard as of January 1, 2019.
2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20, 2017-05, Revenue from Contracts with Customers (Topic 606)	See discussion of the ASU below.	January 1, 2018. Earlier application is permitted only as of January 1, 2017.	The Company will adopt the standard on January 1, 2018; see below for the evaluation of the impact of its adoption on the consolidated financial statements.

ASU 2014-09 and its subsequent corresponding updates provide the principles an entity must apply to measure and recognize revenue. The core principle is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amendments to the standard were issued that provide further clarification of the principle and to provide certain transition expedients. The standard will replace most existing revenue recognition guidance in GAAP, including the guidance on recognizing other income upon the sale or transfer of non-financial assets (including in-substance real estate).

The standard requires retrospective application and allows either a full retrospective adoption in which all of the periods are presented under the new standard or a modified retrospective approach in which the cumulative effect of initially applying the guidance is recognized at the date of initial application. We are currently working toward adopting the standard using the full retrospective method. However, the Company will continue to assess this conclusion which is dependent on the final impact to the financial statements.

In 2016, the Company established a cross-functional implementation team and is in the process of evaluating changes to our business processes, systems and controls to support recognition and disclosure under the new standard. At this time, we do not expect any significant impact on our financial systems or a material change to controls as a result of the implementation of the new revenue recognition standard.

Given the complexity and diversity of our non-regulated arrangements, the Company is assessing the standard on a contract-by-contract basis and is in the process of completing the contract assessments by applying interpretations reached during 2017 on key issues. These issues include the application of the practical expedient for measuring progress towards satisfaction of a performance obligation, when variable quantities would be considered variable consideration versus an option to acquire additional goods and services and how to allocate variable consideration to one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation. Additionally, the Company is working on the application of the standard to contracts that are under the scope of Service Concession Arrangements (Topic 853) and assessing the gross versus net presentation for spot energy sale and purchases. Through this assessment, the Company to date has identified limited situations where revenue recognized under ASC 606 could differ from that recognized under ASC 605. The Company will continue its work to complete the assessment of the full population of contracts and determine the overall impact to the consolidated financial statements. We are continuing to work with various non-authoritative industry groups, and monitoring the FASB and Transition Resource Group activity, as we finalize our accounting policy on these and other industry specific interpretative issues which is expected in 2017.

2. INVENTORY

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

	June 30, 2017	December 31, 2016
Fuel and other raw materials	$ 330	$ 302
Spare parts and supplies	303	328
Total	$ 633	$ 630

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. By virtue of these amounts being estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The Company made no changes during the period to the fair valuation techniques described in Note 4—Fair Value in Item 8.—Financial Statements and Supplementary Data of its 2016 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 and equity securities, the security classes presented are 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, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
AVAILABLE FOR SALE:								
Debt securities:								
Unsecured debentures	$—	$ 271	$ —	$271	$—	$ 360	$ —	$360
Certificates of deposit	—	407	—	407	—	372	—	372
Government debt securities	—	—	—	—	—	9	—	9
Subtotal	—	678	—	678	—	741	—	741
Equity securities:								
Mutual funds	—	51	—	51	—	49	—	49
Subtotal	—	51	—	51	—	49	—	49
Total available for sale	—	729	—	729	—	790	—	790
TRADING:								
Equity securities:								
Mutual funds	19	—	—	19	16	—	—	16
Total trading	19	—	—	19	16	—	—	16
DERIVATIVES:								
Interest rate derivatives	—	13	—	13	—	18	—	18
Cross-currency derivatives	—	5	—	5	—	4	—	4
Foreign currency derivatives	—	31	239	270	—	54	255	309
Commodity derivatives	—	42	11	53	—	38	7	45
Total derivatives — assets	—	91	250	341	—	114	262	376
TOTAL ASSETS	$19	$ 820	$ 250	$1,089	$16	$ 904	$ 262	$1,182
Liabilities								
DERIVATIVES:								
Interest rate derivatives	$—	$ 106	$ 195	$301	$—	$ 121	$ 179	$300
Cross-currency derivatives	—	14	—	14	—	18	—	18
Foreign currency derivatives	—	29	—	29	—	64	—	64
Commodity derivatives	—	17	2	19	—	40	2	42
Total derivatives — liabilities	—	166	197	363	—	243	181	424
TOTAL LIABILITIES	$—	$ 166	$ 197	$363	$—	$ 243	$ 181	$424

As of June 30, 2017, all AFS debt securities had stated maturities within one year. For the three and six months ended June 30, 2017 and 2016, no other-than-temporary impairments of marketable securities were recognized in earnings or Other Comprehensive Income (Loss). 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 AFS securities during the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross proceeds from sale of AFS securities	$1,041	$1,044	$1,962	$2,404

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, 2017 and 2016 (presented net by type of derivative in millions). Transfers between Level 3 and Level 2 are determined as of the end of the reporting period and principally result from changes in the significance of unobservable inputs used to calculate the credit valuation adjustment.

Three Months Ended June 30, 2017	Interest Rate	Foreign Currency	Commodity	Total

Balance at April 1	$(183)	$ 231	$ 2	$50
Total realized and unrealized gains (losses):				
Included in earnings	—	16	(1)	15
Included in other comprehensive income — derivative activity	(17)	—	—	(17)
Included in regulatory (assets) liabilities	—	—	10	10
Settlements	9	(8)	(2)	(1)
Transfers of liabilities into Level 3	(4)	—	—	(4)
Balance at June 30	$(195)	$ 239	$ 9	$53
Total gains 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	$—	$ 8	$ —	$8

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Three Months Ended June 30, 2016	Interest Rate	Foreign Currency	Commodity	Total
Balance at April 1	$(416)	$ 290	$ —	$(126)
Total realized and unrealized gains (losses):				
Included in earnings	—	(31)	2	(29)
Included in other comprehensive income — derivative activity	(80)	—	—	(80)
Included in other comprehensive income — foreign currency translation activity	1	(4)	—	(3)
Included in regulatory (assets) liabilities	—	—	11	11
Settlements	21	(3)	(2)	16
Transfers of liabilities into Level 3	(17)	—	—	(17)
Transfers of liabilities out of Level 3	70	19	—	89
Balance at June 30	$(421)	$ 271	$ 11	$(139)
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	$ (28)	$ 2	$(25)

Six Months Ended June 30, 2017	Interest Rate	Foreign Currency	Commodity	Total
Balance at January 1	$(179)	$ 255	$ 5	$81
Total realized and unrealized gains (losses):				
Included in earnings	—	—	(1)	(1)
Included in other comprehensive income — derivative activity	(28)	—	—	(28)
Included in regulatory (assets) liabilities	—	—	10	10
Settlements	19	(16)	(5)	(2)
Transfers of liabilities into Level 3	(7)	—	—	(7)
Balance at June 30	$(195)	$ 239	$ 9	$53
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	$2	$ (16)	$ —	$(14)

Six Months Ended June 30, 2016	Interest Rate	Foreign Currency	Commodity	Total
Balance at January 1	$(304)	$ 277	$ 3	$(24)
Total realized and unrealized gains (losses):				
Included in earnings	2	16	2	20
Included in other comprehensive income — derivative activity	(174)	5	—	(169)
Included in other comprehensive income — foreign currency translation activity	(1)	(38)	—	(39)
Included in regulatory (assets) liabilities	—	—	11	11
Settlements	37	(5)	(5)	27
Transfers of liabilities into Level 3	(51)	—	—	(51)
Transfers of assets out of Level 3	70	16	—	86
Balance at June 30	$(421)	$ 271	$ 11	$(139)
Total gains 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	$5	$ 17	$ 2	$24

The following table summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of June 30, 2017 (in millions, except range amounts):

Type of Derivative	Fair Value	Unobservable Input	Amount or Range (Weighted Average)
Interest rate	$ (195)	Subsidiaries’ credit spreads	2.4% to 5.1% (4.8%)

Foreign currency:			
Argentine Peso	239	Argentine Peso to USD currency exchange rate after one year [1]	19.7 to 43.1 (30.9)
Commodity:			
Other	9		
Total	$ 53		

(1) During the three months ended June 30, 2017, the Company began utilizing the interest rate differential approach to construct the remaining portion of the forward curve after one year (beyond the traded points). In previous periods, the Company used the purchasing price parity approach to construct the forward curve.

Changes in the above significant unobservable inputs that lead to a significant and unusual impact to current period earnings are disclosed to the Financial Audit Committee. For interest rate derivatives, 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

When evaluating impairment of long-lived assets and equity method investments, the Company measures fair value using the applicable fair value measurement guidance. Impairment expense is measured by comparing the fair value at the evaluation date to the then-latest available carrying amount. The following table summarizes our major categories of assets and liabilities measured at fair value on a nonrecurring basis and their level within the fair value hierarchy (in millions):

Six Months Ended June 30, 2017			Fair Value			
Assets	Measurement Date	Carrying Amount (1)	Level 1	Level 2	Level 3	Pretax Loss
Long-lived assets held and used: [2]						
DPL	02/28/2017	$ 77	$ —	$ —	$ 11	$ 66
Tait Energy Storage	02/28/2017	15	—	—	7	8
Dispositions and held-for-sale businesses: [3]						
Kazakhstan Hydroelectric	06/30/2017	190	—	92	—	90
Kazakhstan CHPs	03/31/2017	171	—	29	—	94

Six Months Ended June 30, 2016			Fair Value			
Assets	Measurement Date	Carrying Amount (1)	Level 1	Level 2	Level 3	Pretax Loss
Long-lived assets held and used: [2]						
DPL	06/30/2016	$ 324	$ —	$ —	$ 89	$ 235
Buffalo Gap II	03/31/2016	251	—	—	92	159
Discontinued operations and held-for-sale businesses: [3]						
Sul	06/30/2016	1,581	—	470	—	783

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

(2) See Note 14—Asset Impairment Expense for further information.

(3) Per the Company's policy, pretax loss is limited to the impairment of long-lived assets. Any additional loss will be recognized on completion of the sale. See Note 16—Held-for-Sale Businesses and Dispositions for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement on a nonrecurring basis during the six months ended June 30, 2017 (in millions, except range amounts):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Long-lived assets held and used:				
DPL	$ 11	Discounted cash flow	Pretax operating margin (through remaining life)	10% to 22% (15%)
			Weighted average cost of capital	7%
Tait Energy Storage	7	Discounted cash flow	Annual pretax operating margin	46% to 85% (80%)
			Weighted average cost of capital	9%

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 June 30, 2017 and December 31, 2016, but for which fair value is disclosed:

		June 30, 2017				
			Fair Value			
		Carrying Amount	Total	Level 1	Level 2	Level 3
Assets:	Accounts receivable — noncurrent [1]	$ 244	$ 312	$ —	$ 19	$ 293
Liabilities:	Non-recourse debt	16,387	16,905	—	14,942	1,963
	Recourse debt	4,384	4,687	—	4,687	—

		December 31, 2016		
			Fair Value	
		Carrying Amount	Total	Level 1

					Level 2	Level 3
Assets:	Accounts receivable — noncurrent [1]	$264	$350	$ —	$ 20	$330
Liabilities:	Non-recourse debt	15,792	16,188	—	15,120	1,068
	Recourse debt	4,671	4,899	—	4,899	—

(1) These amounts primarily relate to amounts due from CAMMESA, the administrator of the wholesale electricity market in Argentina, 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 $35 million and $24 million as of June 30, 2017 and December 31, 2016, respectively.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

There are no changes to the information disclosed in Note 1—General and Summary of Significant Accounting Policies—Derivatives and Hedging Activities of Item 8.—Financial Statements and Supplementary Data in the 2016 Form 10-K.

Volume of Activity — The following table presents the Company’s maximum notional (in millions) over the remaining contractual period by type of derivative as of June 30, 2017, regardless of whether they are in qualifying cash flow hedging relationships, and the dates through which the maturities for each type of derivative range:

Derivatives	Maximum Notional Translated to USD	Latest Maturity
Interest Rate (LIBOR and EURIBOR)	$ 4,168	2035
Cross-Currency Swaps (Chilean Unidad de Fomento and Chilean Peso)	379	2029
Foreign Currency:		
Argentine Peso	155	2026
Colombian Peso	239	2019
Euro	192	2019
Others, primarily with weighted average remaining maturities of a year or less	290	2019

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 June 30, 2017 and December 31, 2016 (in millions):

Fair Value	June 30, 2017			December 31, 2016		
Assets	Designated	Not Designated	Total	Designated	Not Designated	Total
Interest rate derivatives	$13	$ —	$13	$18	$ —	$18
Cross-currency derivatives	5	—	5	4	—	4
Foreign currency derivatives	—	270	270	9	300	309
Commodity derivatives	10	43	53	20	25	45
Total assets	$28	$ 313	$341	$51	$ 325	$376
Liabilities						
Interest rate derivatives	$157	$ 144	$301	$295	$ 5	$300
Cross-currency derivatives	14	—	14	18	—	18
Foreign currency derivatives	—	29	29	19	45	64
Commodity derivatives	5	14	19	26	16	42
Total liabilities	$176	$ 187	$363	$358	$ 66	$424

	June 30, 2017		December 31, 2016	
Fair Value	Assets	Liabilities	Assets	Liabilities
Current	$94	$ 223	$99	$ 155
Noncurrent	247	140	277	269
Total	$341	$ 363	$376	$ 424

Credit Risk-Related Contingent Features [(1)]	June 30, 2017	December 31, 2016
Present value of liabilities subject to collateralization	$20	$ 41
Cash collateral held by third parties or in escrow	10	18

(1) Based on the credit rating of certain subsidiaries

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

	Three Months Ended June 30,	Six Months Ended June 30,

	2017	2016	2017	2016
Effective portion of cash flow hedges				
Gains (losses) recognized in AOCL				
Interest rate derivatives	$(51)	$(90)	$(73)	$(220)
Cross-currency derivatives	(10)	(11)	2	(3)
Foreign currency derivatives	4	(5)	(11)	(5)
Commodity derivatives	2	(12)	14	25
Total	$(55)	$(118)	$(68)	$(203)
Gains (losses) reclassified from AOCL into earnings				
Interest rate derivatives	$(20)	$(26)	$(44)	$(55)
Cross-currency derivatives	—	1	4	10
Foreign currency derivatives	(21)	2	(23)	4
Commodity derivatives	2	16	3	38
Total	$(39)	$(7)	$(60)	$(3)
Gains (losses) recognized in earnings related to				
Ineffective portion of cash flow hedges	$—	$—	$—	$2
Not designated as hedging instruments:				
Foreign currency derivatives	$14	$(24)	$(18)	$15
Commodity derivatives and other	8	(9)	6	(17)
Total	$22	$(33)	$(12)	$(2)
Pretax gains (losses) reclassified to earnings as a result of discontinuance of cash flow hedge because it was probable that the forecasted transaction would not occur	$(19)	$—	$(16)	$—

The AOCL expected to decrease pretax income from continuing operations, primarily due to interest rate derivatives, for the twelve months ended June 30, 2018, is $63 million.

5. FINANCING RECEIVABLES

Financing receivables are defined as receivables with contractual maturities of greater than one year. The Company’s financing receivables are primarily related to amended agreements or government resolutions that are due from CAMMESA, the administrator of the wholesale electricity market in Argentina. The following table presents financing receivables by country as of the dates indicated (in millions):

	June 30, 2017	December 31, 2016
Argentina	$241	$ 236
United States	19	20
Brazil	8	8
Other	11	—
Total	$279	$ 264

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. The increase in Argentina financing receivables was primarily due to increased VAT invoiced by CAMMESA as well as foreign currency movements.

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

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

	Six Months Ended June 30,	
50%-or-less-Owned Affiliates	2017	2016
Revenue	$341	$286
Operating margin	65	69
Net income	23	30

7. DEBT

Recourse Debt

In May 2017, the Company closed on $525 million aggregate principal LIBOR + 2.00% secured term loan due in 2022. In June 2017, the Company used these proceeds to redeem at par all $517 million aggregate principal of its existing Term Convertible Securities. As a result of the latter transaction, the Company recognized a net loss on extinguishment of debt of $6 million for the three and six months ended June 30, 2017, that is included in the Condensed Consolidated Statement of Operations.

In March 2017, the Company redeemed via tender offers $276 million aggregate principal of its existing 7.375% senior unsecured notes due in 2021 and $24 million of its existing 8.00% senior unsecured notes due in 2020. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $47 million for the six months ended June 30, 2017, that is included in the Condensed Consolidated Statement of Operations.

In May 2016, the Company issued $500 million aggregate principal amount of 6.00% senior notes due in 2026. The Company used these proceeds to redeem at par $495 million aggregate principal of its existing LIBOR + 3.00% senior unsecured notes due 2019. As a result of the latter transaction, the Company recognized a net loss on extinguishment of debt of $4 million for the three and six months ended June 30, 2016, that is included in the Condensed Consolidated Statement of Operations.

In January 2016, the Company redeemed $125 million of its senior unsecured notes outstanding. The repayment included a portion of the 7.375% senior notes due in 2021, the 4.875% senior notes due in 2023, the 5.5% senior notes due in 2024, the 5.5% senior notes due in 2025 and the floating rate senior notes due in 2019. As a result of these transactions, the Company recognized a net gain on extinguishment of debt of $7 million for the six months ended June 30, 2016, that is included in the Condensed Consolidated Statement of Operations.

Non-Recourse Debt
During the six months ended June 30, 2017, the Company's subsidiaries had the following significant debt transactions:

Subsidiary	Issuances	Repayments	Gain (Loss) on Extinguishment of Debt
Tietê	$ 585	$ (293)	$ (5)
Alicura	307	(181)	65
Gener	243	(79)	—
Los Mina	193	(175)	(2)
Southland	188	—	—
Colon	150	—	—
Eletropaulo	103	(86)	—
Other	194	(343)	—
Total	$ 1,963	$ (1,157)	$ 58

Southland — In June 2017, AES Southland Energy LLC closed on $2 billion of aggregate principal long-term non-recourse debt financing to fund the Southland re-powering construction projects ("the Southland financing"). The Southland financing consists of $1.5 billion senior secured notes, amortizing through 2040, and $492 million senior secured term loan, amortizing through 2027. The long term debt financing has a combined weighted average cost of approximately 4.5%. During the three and six months ended June 30, 2017, $188 million of the senior secured notes were drawn under the Southland financing.
Alicura — In February 2017, Alicura issued $300 million aggregate principal of unsecured and unsubordinated notes due in 2024. The net proceeds from this issuance were used for the prepayment of $75 million of non-recourse debt related to the construction of the San Nicolas Plant resulting in a gain on extinguishment of debt of approximately $65 million.
Non-Recourse Debt in Default — The following table summarizes the Company's subsidiary non-recourse debt in default as of June 30, 2017 (in millions). Due to the defaults, these amounts are included in the current portion of non-recourse debt:

Subsidiary	Primary Nature of Default	Debt in Default	Net Assets
Alto Maipo (Chile)	Covenant	$ 613	$ 341
Puerto Rico	Covenant	381	631
		$ 994	

The above defaults are not payment defaults. All of the subsidiary non-recourse debt defaults were triggered by failure to comply with covenants and/or other conditions such as (but not limited to) failure to meet information covenants, complete construction or other milestones in an allocated time, meet certain minimum or maximum financial ratios, or other requirements contained in the non-recourse debt documents of the applicable subsidiary.
In the event that there is a default, bankruptcy or maturity acceleration at a subsidiary or group of subsidiaries that meets the applicable definition of materiality under the corporate debt agreements of The AES Corporation, there could be a cross-default to the Company's recourse debt. Materiality is defined in the Parent Company's senior secured credit facility as a business that has provided 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, 2017, the Company has no defaults which result in or are at risk of triggering a cross-default under the recourse debt of the Parent Company. In the event the Parent Company is not in compliance with the financial covenants of its senior secured 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 more than 17 years.
The following table summarizes the Parent Company's contingent contractual obligations as of June 30, 2017. 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	$ 799	19	$8 — 272
Letters of credit under the unsecured credit facility	245	8	$2 — 73
Asset sale related indemnities [1]	27	1	$27
Letters of credit under the senior secured credit facility	7	16	<$1 — 1
Cash collateralized letters of credit	3	1	$3
Total	$ 1,081	45	

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(1) Excludes normal and customary representations and warranties in agreements for the sale of assets (including ownership in associated legal entities) where the associated risk is considered to be nominal.

During the six months ended June 30, 2017, the Company paid letter of credit fees ranging from 0.25% to 2.25% per annum on the outstanding amounts of letters of credit.

Contingencies

Environmental — The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of June 30, 2017 and December 31, 2016, the Company had recognized liabilities of $9 million and $12 million, respectively, 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, 2017. In aggregate, the Company estimates the range of potential losses related to environmental matters, where estimable, to be up to $22 million. The amounts considered reasonably possible do not include amounts accrued as discussed above.

Litigation — The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has evaluated claims in accordance with the accounting guidance for contingencies that it deems both probable and reasonably estimable and, accordingly, has recognized aggregate liabilities for all claims of approximately $173 million and $179 million as of June 30, 2017 and December 31, 2016, 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 labor and employment, non-income tax and customer disputes in international jurisdictions. Certain of the Company's subsidiaries, principally in Brazil, are defendants in a number of labor and employment lawsuits. The complaints generally seek unspecified monetary damages, injunctive relief, or other relief. The subsidiaries have denied any liability and intend to vigorously defend themselves in all of these proceedings. There can be no assurance that these 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, 2017. The material contingencies where a loss is reasonably possible primarily include claims under financing agreements, including the Eletrobrás case; disputes with offtakers, suppliers and EPC contractors; alleged violation of monopoly laws and regulations; income tax and non-income tax matters with tax authorities; and regulatory matters. In aggregate, the Company estimates that the range of potential losses, where estimable, related to these reasonably possible material contingencies to be between $1.5 billion and $1.8 billion. 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.

9. PENSION PLANS

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Service cost	$3	$ 4	$3	$ 3	$7	$ 8	$6	$ 6
Interest cost	10	97	10	86	20	196	20	163
Expected return on plan assets	(17)	(72)	(16)	(55)	(35)	(145)	(33)	(105)
Amortization of prior service cost	1	—	2	—	3	—	4	—
Amortization of net loss	5	10	4	4	9	21	9	9
Curtailment loss recognized	—	—	—	—	4			