

AES CORP
Form 10-Q
May 08, 2014

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 March 31, 2014

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 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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of Registrant's Common Stock, par value \$0.01 per share, on May 1, 2014 was 725,334,337

THE AES CORPORATION
 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014
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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION

Condensed Consolidated Balance Sheets

(Unaudited)

	March 31, 2014	December 31, 2013
	(in millions, except share and per share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1,413	\$1,642
Restricted cash	589	597
Short-term investments	621	668
Accounts receivable, net of allowance for doubtful accounts of \$124 and \$134, respectively	2,586	2,363
Inventory	687	684
Deferred income taxes	181	166
Prepaid expenses	199	179
Other current assets	1,252	976
Current assets of discontinued operations and held-for-sale assets	461	464
Total current assets	7,989	7,739
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	942	922
Electric generation, distribution assets and other	31,151	30,596
Accumulated depreciation	(9,943	) (9,604
Construction in progress	3,203	3,198
Property, plant and equipment, net	25,353	25,112
Other Assets:		
Investments in and advances to affiliates	1,030	1,010
Debt service reserves and other deposits	586	541
Goodwill	1,468	1,622
Other intangible assets, net of accumulated amortization of \$149 and \$153, respectively	293	297
Deferred income taxes	680	666
Other noncurrent assets	2,445	2,170
Noncurrent assets of discontinued operations and held-for-sale assets	1,129	1,254
Total other assets	7,631	7,560
TOTAL ASSETS	\$40,973	\$40,411
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$2,632	\$2,259
Accrued interest	395	263
Accrued and other liabilities	1,926	2,114
Non-recourse debt, including \$259 and \$267, respectively, related to variable interest entities	2,067	2,062

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Recourse debt	8	118
Current liabilities of discontinued operations and held-for-sale businesses	812	837
Total current liabilities	7,840	7,653
NONCURRENT LIABILITIES		
Non-recourse debt, including \$1,022 and \$979, respectively, related to variable interest entities	13,735	13,318
Recourse debt	5,675	5,551
Deferred income taxes	1,145	1,119
Pension and other post-retirement liabilities	1,290	1,310
Other noncurrent liabilities	3,191	3,299
Noncurrent liabilities of discontinued operations and held-for-sale businesses	378	432
Total noncurrent liabilities	25,414	25,029
Contingencies and Commitments (see Note 8)		
Cumulative preferred stock of subsidiaries	78	78
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Common stock (\$0.01 par value, 1,200,000,000 shares authorized; 814,143,636 issued and 725,308,630 outstanding at March 31, 2014 and 813,316,510 issued and 722,508,342 outstanding at December 31, 2013)	8	8
Additional paid-in capital	8,424	8,443
Accumulated deficit	(208	) (150)
Accumulated other comprehensive loss	(2,967	) (2,882)
Treasury stock, at cost (88,835,006 shares at March 31, 2014 and 90,808,168 shares at December 31, 2013)	(1,064	) (1,089)
Total AES Corporation stockholders' equity	4,193	4,330
NONCONTROLLING INTERESTS		
Total equity	7,641	7,651
TOTAL LIABILITIES AND EQUITY	\$40,973	\$40,411
See Notes to Condensed Consolidated Financial Statements.		

THE AES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in millions, except per share amounts)	
Revenue:		
Regulated	\$2,142	\$2,139
Non-Regulated	2,120	2,011
Total revenue	4,262	4,150
Cost of Sales:		
Regulated	(1,932	) (1,787
Non-Regulated	(1,536	) (1,614
Total cost of sales	(3,468	) (3,401
Operating margin	794	749
General and administrative expenses	(51	) (54
Interest expense	(373	) (370
Interest income	63	65
Loss on extinguishment of debt	(134	) (47
Other expense	(8	) (26
Other income	11	68
Gain on sale of investments	1	3
Goodwill impairment expense	(154) —
Asset impairment expense	(12	) (48
Foreign currency transaction losses	(19	) (30
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	118	310
Income tax expense	(54	) (83
Net equity in earnings of affiliates	25	4
INCOME FROM CONTINUING OPERATIONS	89	231
Income from operations of discontinued businesses, net of income tax expense (benefit) of \$14 and \$(2), respectively	20	4
Net loss from disposal and impairments of discontinued businesses, net of income tax benefit of \$(1) and \$(1), respectively	(43	) (36
NET INCOME	66	199
Noncontrolling interests:		
Less: Income from continuing operations attributable to noncontrolling interests	(136	) (119
Less: Loss from discontinued operations attributable to noncontrolling interests	12	2
Total net income attributable to noncontrolling interests	(124	) (117
NET (LOSS) INCOME ATTRIBUTABLE TO THE AES CORPORATION	\$(58	) \$82
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:		
(Loss) income from continuing operations, net of tax	\$(47	) \$112
Loss from discontinued operations, net of tax	(11) (30
Net (loss) income	\$(58) \$82
BASIC EARNINGS PER SHARE:		

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(Loss) Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$(0.07)	\$0.15
Loss from discontinued operations attributable to The AES Corporation common stockholders, net of tax	(0.01	)	(0.04)
NET (LOSS) INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$(0.08	)	\$0.11
DILUTED EARNINGS PER SHARE:			
(Loss) Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$(0.07	)	\$0.15
Loss from discontinued operations attributable to The AES Corporation common stockholders, net of tax	(0.01	)	(0.04)
NET (LOSS) INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$(0.08	)	\$0.11
DILUTED SHARES OUTSTANDING	724		749
DIVIDENDS DECLARED PER COMMON SHARE	\$—		\$—

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
NET INCOME	\$66	\$199
Foreign currency translation activity:		
Foreign currency translation adjustments, net of income tax (expense) benefit of \$(1) and \$0, respectively	5	(32)
Reclassification to earnings, net of income tax (expense) benefit of \$0 and \$0, respectively	6	(3)
Total foreign currency translation adjustments	11	(35)
Derivative activity:		
Change in derivative fair value, net of income tax (expense) benefit of \$24 and \$0, respectively	(120)	(16)
Reclassification to earnings, net of income tax (expense) of \$(3) and \$(7), respectively	19	24
Total change in fair value of derivatives	(101)	8
Pension activity:		
Reclassification to earnings due to amortization of net actuarial loss, net of income tax (expense) of \$(3) and \$(7), respectively	6	14
Total pension adjustments	6	14
OTHER COMPREHENSIVE (LOSS)	(84)	(13)
COMPREHENSIVE INCOME (LOSS)	(18)	186
Less: Comprehensive (income) attributable to noncontrolling interests	(125)	(136)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$(143)	\$50

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,		
	2014	2013	
	(in millions)		
OPERATING ACTIVITIES:			
Net income	\$66	\$199	
Adjustments to net income:			
Depreciation and amortization	306	329	
Loss (gain) on sale of assets and investments	4	11	
Impairment expenses	166	48	
Deferred income taxes	56	13	
Provisions for contingencies	12	26	
Loss on the extinguishment of debt	134	47	
Loss on disposals and impairments - discontinued operations	44	38	
Other	35	56	
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	(219	) 42
(Increase) decrease in inventory	(12) (4)
(Increase) decrease in prepaid expenses and other current assets	(74) (192)
(Increase) decrease in other assets	(444) (45)
Increase (decrease) in accounts payable and other current liabilities	415	174	
Increase (decrease) in income tax payables, net and other tax payables	(206) (123)
Increase (decrease) in other liabilities	(62) (1)
Net cash provided by operating activities	221	618	
INVESTING ACTIVITIES:			
Capital expenditures	(399) (401)
Proceeds from the sale of businesses, net of cash sold	29	1	
Proceeds from the sale of assets	4	6	
Sale of short-term investments	1,049	1,335	
Purchase of short-term investments	(993) (1,492)
Increase in restricted cash, debt service reserves and other assets	(19) (45)
Other investing	3	15	
Net cash used in investing activities	(326) (581)
FINANCING ACTIVITIES:			
Borrowings under the revolving credit facilities, net	65	15	
Issuance of recourse debt	750	—	
Issuance of non-recourse debt	554	1,491	
Repayments of recourse debt	(866) (2)
Repayments of non-recourse debt	(349) (1,007)
Payments for financing fees	(78) (33)
Distributions to noncontrolling interests	(26) (31)
Contributions from noncontrolling interests	32	55	
Dividends paid on AES common stock	(36) (30)
Payments for financed capital expenditures	(178) (152)
Other financing	—	4	

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Net cash (used in) provided by financing activities	(132) 310	
Effect of exchange rate changes on cash	(22) (8)
Decrease in cash of discontinued and held-for-sale businesses	30	17	
Total (decrease) increase in cash and cash equivalents	(229	) 356	
Cash and cash equivalents, beginning	1,642	1,900	
Cash and cash equivalents, ending	\$1,413	\$2,256	
SUPPLEMENTAL DISCLOSURES:			
Cash payments for interest, net of amounts capitalized	\$226	\$234	
Cash payments for income taxes, net of refunds	\$237	\$295	

See Notes to Condensed Consolidated Financial Statements.

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THE AES CORPORATION

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2014 and 2013

1. FINANCIAL STATEMENT PRESENTATION

The prior-period condensed consolidated financial statements in this Quarterly Report on Form 10-Q ("Form 10-Q") have been reclassified to reflect the businesses held-for-sale and discontinued operations as discussed in Note 16 — Discontinued Operations and Held-for-Sale Businesses.

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

Correction of an error

Certain amounts related to the payment of costs for the construction of our Mong Duong facility in Vietnam were misclassified as an investing activity on the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2013. The error was related to costs that were paid under extended payment terms as allowed by the construction contract, and therefore should have been reflected as financing activities in accordance with the accounting guidance for cash flows. As a result, cash flows used in investing activities were overstated by \$145 million and cash flows used in financing activities were understated by \$145 million for the three months ended March 31, 2013. Cash flows used in investing activities were previously reported as \$726 million and have now been restated to \$581 million. Cash flows provided by financing activities were previously reported as \$455 million and have now been restated to \$310 million. There was no impact on amounts presented on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2013.

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income and cash flows. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of results that may be expected for the year ending December 31, 2014. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2013 audited consolidated financial statements and notes thereto, which are included in the 2013 Form 10-K filed with the SEC on February 25, 2014 (the "2013 Form 10-K").

New Accounting Pronouncements Adopted

ASU No. 2013-11, Income Taxes (Topic 740), "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)."

Effective January 1, 2014, the Company prospectively adopted ASU No. 2013-11, which requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of uncertain tax positions. Under ASU No. 2013-11, UTBs are netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The impact to the Company's Condensed Consolidated Balance Sheet as of March 31, 2014 was a reduction of

\$66 million to “Other noncurrent liabilities” and an offsetting increase to “Deferred income taxes” under “Noncurrent Liabilities.” There were no impacts on the results of operations and cash flows.

Accounting Pronouncements Issued But Not Yet Effective

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

ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued ASU No. 2014-08, which significantly changes the existing accounting guidance on discontinued operations. Under ASU No. 2014-08, only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations. Amongst other changes: equity method investments that were previously scoped-out of the discontinued operations accounting guidance are now included in the scope; a business can meet the criteria to be classified as held for sale upon acquisition and can be reported in discontinued operations; and components where an entity retains significant continuing involvement or where operations and cash flows will not be eliminated from ongoing operations as a result of a disposal transaction can meet the definition of discontinued operations. Additionally, where summarized amounts are presented on the face of financial statements, reconciliations of those amounts to major classes of line items are also required. ASU No. 2014-08 requires additional disclosures for individually material components that do not meet the definition of discontinued operations. ASU No. 2014-08 is effective for annual reporting periods beginning after December 15, 2014 and interim periods therein. ASU No. 2014-08 should be applied to components classified as held for sale after its effective date. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The Company is currently evaluating the impact of adopting ASU No. 2014-08 on its financial position and results of operations. The adoption is expected to reduce the number of disposals that meet the definition of a discontinued operations.

2. INVENTORY

The following table summarizes the Company's inventory balances as of the periods indicated:

	March 31, 2014	December 31, 2013
	(in millions)	
Coal, fuel oil and other raw materials	\$324	\$334
Spare parts and supplies	363	350
Total	\$687	\$684

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 value 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. There were no changes in fair valuation techniques during the period and the Company continues to follow the valuation techniques described in Note 4. — Fair Value in Item 8. — Financial Statements and Supplementary Data of its 2013 Form 10-K.

Recurring Measurements

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of the periods indicated:

	March 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in millions)								
Assets								
AVAILABLE-FOR-SALE: ⁽¹⁾								
Debt securities:								
Unsecured debentures	\$—	\$427	\$—	\$427	\$—	\$435	\$—	\$435
Certificates of deposit	—	109	—	109	—	151	—	151
Government debt securities	—	26	—	26	—	25	—	25
Subtotal	—	562	—	562	—	611	—	611
Equity securities:								
Mutual funds	—	45	—	45	—	44	—	44
Subtotal	—	45	—	45	—	44	—	44
Total available-for-sale	—	607	—	607	—	655	—	655
TRADING:								
Equity securities:								
Mutual funds	13	—	—	13	13	—	—	13
Total trading	13	—	—	13	13	—	—	13
DERIVATIVES:								
Interest rate derivatives	—	46	—	46	—	98	—	98
Cross currency derivatives	—	4	—	4	—	5	—	5
Foreign currency derivatives	—	18	105	123	—	15	98	113
Commodity derivatives	—	46	3	49	—	18	6	24
Total derivatives	—	114	108	222	—	136	104	240
TOTAL ASSETS	\$13	\$721	\$108	\$842	\$13	\$791	\$104	\$908
Liabilities								
DERIVATIVES:								
Interest rate derivatives	\$—	\$289	\$87	\$376	\$—	\$221	\$101	\$322
Cross currency derivatives	—	11	—	11	—	11	—	11
Foreign currency derivatives	—	40	4	44	—	16	5	21
Commodity derivatives	—	41	3	44	—	15	2	17
Total derivatives	—	381	94	475	—	263		