AES CORP
Form 10-Q
August 09, 2007

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, 2007

or

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

Commission file number 0-19281

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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 o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, at July 31, 2007, was 668,613,428.

EXPLANATORY NOTE

As previously disclosed in the Company s Form 8-K dated February 26, 2007 and 10-K/A dated August 7, 2007, the financial statements presented in Item 1 and the accompanying management s discussion and analysis of financial condition and results of operations set forth in Item 2 are restated to reflect the correction of errors that were contained in the Company s condensed consolidated financial statements and other financial information for the three and six months ended June 30, 2006. In addition, the prior period financial statements have been restated to reflect the change in the Company s segments as discussed in Note 9 and discontinued operations as discussed in Note 6 of the condensed consolidated financial statements.

THE AES CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007
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PART I: FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

THE AES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Restated)(1)	2007 (Restated)(1)	2006 (Restated)(1)
	(in millions, except per share data)		(in millions, except per share data)	
Revenues:				
Regulated	$ 1,708	$ 1,543	$ 3,314	$ 3,054
Non-Regulated	1,636	1,319	3,139	2,614
Total revenues	3,344	2,862	6,453	5,668
Cost of Sales:				
Regulated	(1,117)	(992)	(2,207)	(1,977)
Non-Regulated	(1,339)	(1,003)	(2,502)	(1,919)
Total cost of sales	(2,456)	(1,995)	(4,709)	(3,896)
Gross margin	888	867	1,744	1,772
General and administrative expenses	(88)	(58)	(171)	(114)
Interest expense	(411)	(432)	(833)	(850)
Interest income	141	87	241	201
Other expense	(24)	(31)	(65)	(109)
Other income	262	24	299	43
Gain on sale of investments	9	2	10	89
Asset impairment expense		(16)		(16)
Foreign currency transaction losses on net monetary position	(4)	(4)	(4)	(27)
Equity in earnings of affiliates	21	11	41	46
Other non-operating expense	(6)		(45)	
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	788	450	1,217	1,035
Income tax expense	(274)	(88)	(455)	(275)
Minority interest expense	(235)	(169)	(371)	(243)
INCOME FROM CONTINUING OPERATIONS	279	193	391	517
Income from operations of discontinued businesses net of income tax expense of $11, $26, $23 and $39, respectively	9	27	71	45
Loss from disposal of discontinued businesses net of income tax expense of $	(41)	(66)	(677)	(66)
Income from extraordinary item net of income tax expense of $		21		21
NET INCOME (LOSS)	$ 247	$ 175	$ (215)	$ 517
BASIC EARNINGS (LOSS) PER SHARE:				
Income from continuing operations	$ 0.42	$ 0.30	$ 0.59	$ 0.79
Discontinued operations	(0.05)	(0.06)	(0.91)	(0.03)
Extraordinary item		0.03		0.03
BASIC EARNINGS (LOSS) PER SHARE:	$ 0.37	$ 0.27	$ (0.32)	$ 0.79
DILUTED EARNINGS (LOSS) PER SHARE:				
Income from continuing operations	$ 0.41	$ 0.29	$ 0.58	$ 0.77
Discontinued operations	(0.05)	(0.06)	(0.90)	(0.03)
Extraordinary item		0.03		0.03
DILUTED EARNINGS (LOSS) PER SHARE:	$ 0.36	$ 0.26	$ (0.32)	$ 0.77

(1) See Note 1 related to the restated condensed consolidated financial statements

See Notes to Condensed Consolidated Financial Statements.

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THE AES CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2007 (in millions)	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,478	$ 1,379
Restricted cash	662	548
Short-term investments	1,204	640
Accounts receivable, net of reserves of $242 and $233, respectively	2,036	1,769
Inventory	497	471
Receivable from affiliates	94	76
Deferred income taxes current	251	208
Prepaid expenses	147	109
Other current assets	1,168	927
Current assets of held for sale and discontinued businesses	18	438
Total current assets	7,555	6,565
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	996	928
Electric generation and distribution assets	24,216	21,835
Accumulated depreciation	(7,106)	(6,545)
Construction in progress	1,133	979
Property, plant and equipment, net	19,239	17,197
Other assets:		
Deferred financing costs, net of accumulated amortization of $202 and $188, respectively	282	279
Investments in and advances to affiliates	721	595
Debt service reserves and other deposits	549	524
Goodwill, net	1,468	1,416
Other intangible assets, net of accumulated amortization of $201 and $172, respectively	341	298
Deferred income taxes noncurrent	691	602
Other assets	1,739	1,634
Noncurrent assets of held for sale and discontinued businesses	37	2,091
Total other assets	5,828	7,439
TOTAL ASSETS	$ 32,622	$ 31,201
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 913	$ 795
Accrued interest	299	404
Accrued and other liabilities	2,314	2,131
Non-recourse debt-current portion	1,515	1,411
Recourse debt-current portion	615	
Current liabilities of held for sale and discontinued businesses	4	288
Total current liabilities	5,660	5,029
LONG-TERM LIABILITIES		
Non-recourse debt	10,829	9,834
Recourse debt	4,180	4,790
Deferred income taxes-noncurrent	1,185	803
Pension liabilities and other post-retirement liabilities	898	844
Other long-term liabilities	3,544	3,554
Long-term liabilities of held for sale and discontinued businesses	2	434
Total long-term liabilities	20,638	20,259
Minority Interest (including discontinued businesses of $- and $175, respectively)	3,263	2,948
Commitments and Contingent Liabilities (see Note 7)		
STOCKHOLDERS EQUITY		
Common stock ($.01 par value, 1,200,000,000 shares authorized; 668,336,299 and 665,126,309 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively)	7	7
Additional paid-in capital	6,791	6,654
Accumulated deficit	(1,364)	(1,096)
Accumulated other comprehensive loss	(2,373)	(2,600)
Total stockholders equity	3,061	2,965
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 32,622	$ 31,201

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2007	2006 (Restated)(1)
	(in millions)	
OPERATING ACTIVITIES:		
Net cash provided by operating activities	$ 1,107	$ 951
INVESTING ACTIVITIES:		
Capital Expenditures	(1,190)	(552)
Acquisitions net of cash acquired	(256)	(13)
Proceeds from the sales of businesses	781	234
Proceeds from the sales of assets	5	7
Sale of short-term investments	754	758
Purchase of short-term investments	(1,167)	(945)
Increase in restricted cash	(179)	(124)
Purchase of emission allowances	(2)	(48)
Proceeds from the sales of emission allowances	10	67
Decrease (increase) in debt service reserves and other assets	109	(10)
Purchase of long-term available-for-sale securities	(23)	(52)
Other investing	11	(1)
Net cash used in investing activities	(1,147)	(679)
FINANCING ACTIVITIES:		
(Repayments) borrowings under the revolving credit facilities, net	(183)	143
Issuance of non-recourse debt	798	1,200
Repayments of recourse debt		(150)
Repayments of non-recourse debt	(597)	(1,581)
Payments for deferred financing costs	(21)	(55)
Distributions to minority interests	(266)	(125)
Contributions from minority interests	336	117
Issuance of common stock	29	28
Financed capital expenditures	(8)	(17)
Other financing	1	(3)
Net cash provided by (used in) financing activities	89	(443)
Effect of exchange rate changes on cash	50	27
Total increase (decrease) in cash and cash equivalents	99	(144)
Cash and cash equivalents, beginning	1,379	1,176
Cash and cash equivalents, ending	$ 1,478	$ 1,032
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 919	$ 846
Cash payments for income taxes, net of refunds	$ 350	$ 258
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Assets acquired in acquisition	$ 392	$
Non-recourse debt assumed in acquisitions	$ 657	$
Liabilities relieved due to sale of assets	$ 39	$
Liabilities assumed in acquisition	$ 134	$

(1) See Note 1 related to the restated condensed consolidated financial statements

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Notes to Condensed Consolidated Financial Statements

1. FINANCIAL STATEMENT PRESENTATION

As previously disclosed in the Form 8-K of The AES Corporation (the Company) dated February 26, 2007 and Form 10-K/A dated August 7, 2007, the financial statements presented in Item 1 and the accompanying management s discussion and analysis of financial condition and results of operations set forth in Item 2 of this Form 10-Q are restated to reflect the correction of errors that were contained in the Company s condensed consolidated financial statements and other financial information for the three and six months ended June 30, 2006. In addition, the prior period financial statements have been restated to reflect the change in the Company s segments as discussed in Note 9 and discontinued operations as discussed in Note 6 of these condensed consolidated financial statements.

Consolidation

In this Quarterly Report the terms AES , the Company , us or we refer to the consolidated entity including its subsidiaries and affiliates. The ter The AES Corporation or the Parent refers only to the publicly-held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, variable interest entities in which the Company has an interest have been consolidated where the Company is identified as 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. All intercompany transactions and balances have been eliminated in consolidation.

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission (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 statement of the results of operations, financial position and cash flows for the interim periods. The results of operations for the three and six months ended June 30, 2007, are not necessarily indicative of results that may be expected for the year ending December 31, 2007. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the restated audited 2006 consolidated financial statements and notes thereto, which are included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2006, as filed with the SEC on August 7, 2007.

Restatement of Consolidated Financial Statements

The Company restated its consolidated financial statements for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 in its 2006 Form 10-K/A filed with the SEC on August 7, 2007. The adjustments presented in the restatement are the result of the identification of certain financial statement errors relating to these years which, had they been corrected on a cumulative basis in the 2006 consolidated financial statements, would have materially misstated the results of prior periods. The Company is also restating the previously issued interim periods ending March 31, 2006, June 30, 2006 and September 30, 2006. The errors that were identified related to accounting for derivative instruments, leases, income taxes, share-based compensation and certain items in our Brazil and La Electricidad de Caracas (EDC) subsidiaries.

The condensed consolidated financial statements have been restated in this Form 10-Q to reflect the impact of correcting these errors for the three and six months ended June 30, 2006 and resulted in an increase to net income of $6 million and a decrease to net income of $3 million, respectively. The impact of the restatement resulted in a decrease of previously reported net income of $57 million for the full year ended December 31, 2006. The Company also plans to amend its previously filed Form 10-Q for the three months ended March 31, 2007 to reflect the impact of certain additional errors noted in the aforementioned restatement adjustments that were not previously reflected in the Form 10-Q filed with the SEC on June 21, 2007. The impact of all adjustments on net income for the three months ended March 31, 2007 and 2006 is a decrease of $7 million and $6 million, respectively, and is reflected in the condensed consolidated statement of operations balances for the six months ended June 30, 2007.

The restatement adjustments reflect the correction of errors included in the May 23, 2007 Form 10-K and the August 7, 2007 Form 10-K/A. Significant adjustments included:

Revenue The determination that modification of power sales agreements contained leases in our AES Pakistan subsidiaries and the correction of unbilled revenues in Venezuela decreased revenue by $12 million and $23 million for the three and six months ended June 30, 2006, respectively. The $12 million decrease for the three months ended June 30, 2006 was offset by an $8 million Sul tariff adjustment.

Cost of Sales Decrease of the US GAAP fixed asset basis and related depreciation at Eletropaulo of $6 million and $11 million for the three and six months ended June 30, 2006, respectively.

Equity in Earnings of Affiliates The deconsolidation of the Cartegena business, due to application of Financial Accounting Standards Board Interpretation No. 46, *Variable Interest Entities*, reduced earnings of equity affiliates by $10 million and $11 million for the three and six months ended June 30, 2006, respectively.

Income Tax Expense The tax effect of other adjustments increased income tax expense by $6 million and $10 million for the three and six months ended June 30, 2006, respectively.

Other Expense The deconsolidation of the Cartegena business and the correction of the timing of impairment of the Totem investment reduced other expense by $28 million for the three and six months ended June 30, 2006.

The following table details the impact of the restatement adjustments on the condensed consolidated statement of operations for the three months ended June 30, 2006:

	Three Months Ended June 30, 2006				
		Discontinued Operations			
Revenues:	**As Originally Filed**	**EDC**	**Central Valley**	**Restatement Adjustments**	**2007 2Q Form 10-Q**
Regulated	$ 1,506	$ (161)	$	$ 198	1,543
Non-Regulated	1,532		(9)	(204)	1,319
Total revenues	3,038	(161)	(9)	(6)	2,862
Cost of Sales:					
Regulated	(1,098)	104		2	(992)
Non-Regulated	(1,021)		12	6	(1,003)
Total cost of sales	(2,119)	104	12	8	(1,995)
Gross margin	919	(57)	3	2	867
General and administrative expenses	(59)			1	(58)
Interest expense	(442)	12		(2)	(432)
Interest income	90	(5)		2	87
Other expense	(61)	1		29	(31)
Other income	26	(3)		1	24
Gain (loss) on sale of investments	2				2
Loss on sale of subsidiary stock					
Asset impairment expense	(16)				(16)
Foreign currency transaction losses on net monetary position	1	(3)		(2)	(4)
Equity in earnings of affiliates	23			(12)	11
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	483	(55)	3	19	450
Income tax expense	(106)	25	(1)	(6)	(88)
Minority interest expense	(166)	6		(9)	(169)
INCOME FROM CONTINUING OPERATIONS	211	(24)	2	4	193
Income (loss) from operations of discontinued businesses net of income tax		24	(2)	5	27
(Loss) gain from disposal of discontinued businesses net of income tax	(63)			(3)	(66)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	148			6	154
Income from extraordinary items net of income tax	21				21
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	169			6	175
Cumulative effect of change in accounting principle net of income tax					
Net income	$ 169	$		$ 6	$ 175
BASIC EARNINGS (LOSS) PER SHARE:					
Income from continuing operations	0.32	(0.04)		0.02	0.30
Discontinued Operations	(0.09)	0.04		(0.01)	(0.06)
Extraordinary item	0.03				0.03
BASIC EARNINGS (LOSS) PER SHARE:	0.26			0.01	0.27
DILUTED EARNINGS (LOSS) PER SHARE					
Income from continuing operations	0.31	(0.04)		0.02	0.29
Discontinued Operations	(0.09)	0.04		(0.01)	(0.06)
Extraordinary item	0.03				0.03
DILUTED EARNINGS (LOSS) PER SHARE	0.25			0.01	0.26

The following table details the impact of the restatement adjustments on the condensed consolidated statement of operations for the six months ended June 30, 2006:

	Six Months Ended June 30, 2006				
		Discontinued Operations			
Revenues:	**As Originally Filed**	**EDC**	**Central Valley**	**Restatement Adjustments**	**2007 2Q Form 10-Q**
Regulated	$ 2,976	$ (309)	$	$ 387	3,054
Non-Regulated	3,044		(16)	(414)	2,614
Total revenues	6,020	(309)	(16)	(27)	5,668
Cost of Sales:					
Regulated	(2,202)	212		13	(1,977)
Non-Regulated	(1,948)		20	9	(1,919)
Total cost of sales	(4,150)	212	20	22	(3,896)
Gross margin	1,870	(97)	4	(5)	1,772
General and administrative expenses	(114)				(114)
Interest expense	(874)	22		2	(850)
Interest income	206	(8)		3	201
Other expense	(138)	1		28	(109)
Other income	57	(4)		(10)	43
Gain (loss) on sale of investments	87			2	89
Loss on sale of subsidiary stock					
Asset impairment expense	(16)				(16)
Foreign currency transaction losses on net monetary position	(21)	(3)		(3)	(27)
Equity in earnings of affiliates	59			(13)	46
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	1,116	(89)	4	4	1,035
Income tax expense	(296)	32	(1)	(10)	(275)
Minority interest expense	(254)	10		1	(243)
INCOME FROM CONTINUING OPERATIONS	566	(47)	3	(5)	517
Income (loss) from operations of discontinued businesses net of income tax		47	(3)	1	45
(Loss) gain from disposal of discontinued businesses net of income tax	(67)			1	(66)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	499			(3)	496
Income from extraordinary items net of income tax	21				21
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	520			(3)	517
Cumulative effect of change in accounting principle net of income tax					
Net income	$ 520	$	$	$ (3)	$ 517
BASIC EARNINGS (LOSS) PER SHARE:					
Income from continuing operations	0.86	(0.07)			0.79
Discontinued Operations	(0.10)	0.07			(0.03)
Extraordinary item	0.03				0.03
BASIC EARNINGS (LOSS) PER SHARE:	0.79				0.79
DILUTED EARNINGS (LOSS) PER SHARE					
Income from continuing operations	0.85	(0.07)		(0.01)	0.77
Discontinued Operations	(0.10)	0.07			(0.03)
Extraordinary item	0.03				0.03
DILUTED EARNINGS (LOSS) PER SHARE	0.78			(0.01)	0.77

Cash Flow Information

The effects of the restatement adjustments, primarily due to the Cartegena deconsolidation, was a reduction of cash provided by operating activities of $26 million, a reduction in cash used in investing activities of $16 million and a reduction in cash used in financing activities of $76 million.

The Company has been cooperating with an informal inquiry by the Staff of the Securities Exchange Commission (SEC Staff) concerning the Company s restatement of its consolidated financial statements and related matters, and has been providing information and documents to the SEC Staff on a voluntary basis. Because the Company is unable to predict the outcome of this inquiry and the SEC Staff may disagree with the manner in which the Company has accounted for and reported the financial impact of the adjustments to previously filed consolidated financial statements, there is the risk that the inquiry by the SEC could lead to circumstances in which the Company may have to further restate previously filed financial statements, amend prior filings or take other actions not currently contemplated.

For further discussion of other aspects of the Company s restatement of its financial statements, see Part I Restatement of Consolidated Financial Statements in the Company s 2006 Form 10-K/A.

2. INVENTORY

Inventory consists of the following:

	June 30, 2007 (in millions)	December 31, 2006
Coal, fuel oil and other raw materials	$ 245	$ 242
Spare parts and supplies	255	276
Less: Inventory of discontinued operations.	(3)	(47)
Total	$ 497	$ 471

3. LONG-TERM DEBT

Non-Recourse Debt

Debt Defaults

Subsidiary non-recourse debt in default, classified as current debt in the accompanying condensed consolidated balance sheet, as of June 30, 2007 is as follows:

Subsidiary	Primary Nature of Default	June 30, 2007 Default (in millions)	Net Assets
Ekibastuz	Covenant	$ 1	$ (113)
Hefei	Payment	4	17
Kelanitissa (1)	Covenant	61	41
TEG/TEP	Covenant	441	192
Tisza II	Material adverse change	93	150
Total		$600	

(1) Kelanitissa is in violation of a covenant under its $65 million credit facility because of a cross default to a material agreement for the plant. The outstanding debt balance as of June 30, 2007 was $61 million.

None of the subsidiaries listed above that are currently in default are considered to be a material subsidiary under AES s corporate debt agreements; defaults by a material subsidiary would trigger an event of default or permit acceleration under such 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, it is possible that one or more of these subsidiaries could fall within the definition of a material subsidiary and thereby, upon an acceleration,

trigger an event of default and possible acceleration of the indebtedness under the AES Parent Company s outstanding debt securities.

Recourse Debt

Debt Defaults

As of the date of this filing, we are in default under our secured and unsecured credit facilities as a result of the recent restatement as discussed in Part I of the Company's 2006 10-K/A filed August 7, 2007. In addition, we need to obtain waivers of this default relating to our previously delivered financial statements before we will be able to borrow additional funds under our credit facilities. The Company is pursuing waivers with its senior bank lenders and expects to obtain them in the near term. As a result, the senior secured term loan was classified as a current maturity as of June 30, 2007.

4. 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, after giving effect to stock splits. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive stock options, warrants, deferred compensation arrangements and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable. The following table presents a reconciliation (in millions, except per share amounts) of the numerators and denominators of the basic and diluted earnings per share computation. In the table below, income represents the numerator and shares represent the denominator:

	Three Months Ended June 30, 2007			2006		
	Income	**Shares**	**$ per Share**	**Income (Restated)**	**Shares**	**$ per Share (Restated)**
BASIC EARNINGS PER SHARE						
Income from continuing operations	$ 279	667	$ 0.42	$ 193	658	$ 0.30
EFFECT OF DILUTIVE SECURITIES						
Convertible securities	5	15	(0.01)			
Stock options and warrants		9			9	(0.01)
Restricted stock units		1			2	
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	$ 284	692	$ 0.41	$ 193	669	$ 0.29

There were approximately 6,273,271 and 7,709,112 options outstanding at June 30, 2007 and 2006, respectively, that could potentially dilute basic earnings per share. Those options were not included in the computation of diluted earnings per share because the exercise price exceeded the average market price during the related periods. For the three months ended June 30, 2007, there was one anti-dilutive convertible debenture omitted from the calculation because it was anti-dilutive and for the three months ended June 30, 2006 all convertible debentures were omitted from the earnings per share calculation because they were anti-dilutive.

	Six Months Ended June 30, 2007			2006		
	Income (Restated)	Shares	$ per Share (Restated)	Income (Restated)	Shares	$ per Share (Restated)
BASIC EARNINGS PER SHARE						
Income from continuing operations	$ 391	667	$ 0.59	$ 517	658	$ 0.79
EFFECT OF DILUTIVE SECURITIES						
Convertible securities				11	15	(0.02)
Stock options and warrants		9	(0.01)		9	
Restricted stock units		2			2	
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	$ 391	678	$ 0.58	$ 528	684	$ 0.77

There were approximately 6,273,271 and 7,709,112 options outstanding at June 30, 2007 and 2006, respectively, that could potentially dilute basic earnings per share. Those options were not included in the computation of diluted earnings per share because the exercise price exceeded the average market price during the related periods. For the six months ended June 30, 2007, all convertible debentures were omitted from the earnings per share calculation because they were anti-dilutive and for the six months ended June 30, 2006 there was one anti-dilutive convertible debenture omitted from the calculation because it was anti-dilutive.

5. OTHER INCOME (EXPENSE)

The components of other income are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Restated)	2007 (Restated)	2006 (Restated)
	(in millions)		(in millions)	
Contract settlement gain	$ 137	$	$ 137	$
Gross receipts tax recovery	93		93	
Gain on sale of assets	4	2	8	2
Gain on extinguishment of liabilities			2	14
Legal/dispute settlement		1	17	1
Other	28	21	42	26
Total other income	$ 262	$ 24	$ 299	$ 43

The components of other expenses are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Restated)	2007 (Restated)	2006 (Restated)
	(in millions)		(in millions)	
Loss on sale and disposal of assets	$ (9)	$ (6)	$ (14)	$ (12)
Loss on extinguishment of liabilities			(3)	(61)
Legal/dispute settlement		(5)	(22)	(5)
Marked-to-market loss on commodity derivatives	1	1	1	1
Other	(16)	(21)	(27)	(32)
Total other expense	$ (24)	$ (31)	$ (65)	$ (109)

6. SUMMARIZED INCOME STATEMENT INFORMATION OF AFFILIATES

The following table summarizes financial information of the entities in which the Company has the ability to exercise significant influence but does not control, and that are accounted for using the equity method. It excludes information related to Barry, Cartagena and IC ICTAS Energy Group, unconsolidated majority-owned subsidiaries, and the CEMIG business because the Company has discontinued the application of the equity method in accordance with its accounting policy regarding equity method investments, as discussed below. As variable interest entities, Cartagena and IC ICTAS Energy Group are precluded from consolidation under the provisions of FIN 46R, *Variable Interest Entities* as the Company is not the primary beneficiary of either entities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Restated)	2007 (Restated)	2006 (Restated)
	(in millions)		(in millions)	
Revenues	$ 233	$ 243	$ 461	$ 475
Gross Margin	$ 59	$ 63	$ 125	$ 119
Net Income	$ 45	$ 48	$ 77	$ 88

In accordance with APB No. 18 *The Equity Method of Accounting for Investments in Common Stock* (APB 18), the Company discontinues the application of the equity method when an investment is reduced to zero and does not provide for additional losses when the Company does not guarantee the obligations of the investee, or is not otherwise committed to provide further financial support for the investee. The above table excludes income statement information for the Company s investments in which the Company has discontinued the application of the equity method. Furthermore, in accordance with APB 18, the Company s policy is to resume the application of the equity method if the investee subsequently reports net income only after the Company s share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

In March 2006, the Company s wholly-owned subsidiary, AES Kingston Holdings, B.V., sold its 50% indirect ownership interest in Kingston Cogeneration Limited Partnership (KCLP), a 110 MW cogeneration plant located in Ontario, Canada. AES received $110 million in net proceeds for the sale of its investment and recognized a pre-tax gain of $87 million on the sale.

In May 2006, the Company, through its wholly-owned subsidiary, AES Grand Itabo, purchased an additional 25% interest in Empresa Generadora de Electricidad Itabo S.A. (Itabo), a power generation business located in the Dominican Republic for approximately $23 million. Prior to May, the Company held a 25% interest in Itabo indirectly through its Gener subsidiary in Chile and had accounted for the investment using the equity method of accounting. As a result of the transaction, AES now has a 48% economic interest in Itabo, and a majority voting interest, thus requiring consolidation. Through the purchase date in May, the Company s initial 25% share in Itabo s net income is included in the Equity in earnings from affiliates line item on the consolidated income statements. Subsequent to the Company s purchase of the additional 25% interest, Itabo is reflected as a consolidated entity included at 100% in the consolidated financial statements, with an offsetting charge to minority interest expense for the minority shareholders interest. The Company engaged a third-party valuation specialist to determine the purchase price allocation for the additional 25% investment. The valuation resulted in fair values of current assets and total liabilities in excess of the purchase price. Therefore, the Company recognized a $21 million after-tax extraordinary gain on the transaction in the second quarter of 2006.

7. DISCONTINUED OPERATIONS

On February 22, 2007, the Company entered into a definitive agreement with Petróleos de Venezuela, S.A., (PDVSA) dated February 15, 2007, to sell all of its shares of EDC, a Latin America distribution

business reported in the Latin America Utilities segment, for $739 million net of any withholding taxes. In addition, the agreement provided for the payment of a US$120 million dividend in 2007. On March 1, 2007, the shareholders of EDC approved and declared a US$120 million dividend, payable on March 16, 2007, to all shareholders on record as of March 9, 2007. A wholly-owned subsidiary of the Company was the owner of 82.14% of the outstanding shares of EDC, and therefore, on May 31, 2007, this subsidiary received approximately US$97 million in dividends (representing approximately $99 million in gross dividends offset by fees). The sale of EDC and the payment of the purchase price occurred on May 16, 2007. During the first quarter of 2007, the Company recognized an impairment charge of approximately $638 million related to this sale. As a result of the final disposition of EDC in May 2007, the Company recognized an additional impairment charge of approximately $38 million net of income and withholding taxes. The total impairment charge of $676 million represented the net book value of the Company s investment in EDC less the selling price. The impairment expense is included in the loss from disposal of discontinued businesses line item on the condensed consolidated statements of operations for the six months ended June 30, 2007.

In May 2007, the Company s wholly-owned subsidiary, Central Valley, reached an agreement to sell 100% of its indirect interest in two biomass fired power plants located in central California (the 50MW Delano facility and the 25MW Mendota facility) for $51 million, subject to regulatory approvals. These facilities, along with an associated management company (together, the Central Valley Businesses) were included in the North America Generation segment. The AES Board of Directors approved the sale of the Central Valley Businesses in February 2007. The closing of the sale occurred on July 16, 2007. As a result, Central Valley is reported as held for sale and the results of its operations and financial position are reflected in the discontinued operations line items in the Company s condensed consolidated financial statements as of June 30, 2007.

In May 2006, the Company reached an agreement to sell 100% of its interest in Eden, a Latin America Utilities business located in Argentina. The Buenos Aires Province in Argentina approved the transaction in May 2007. Therefore, Eden, a consolidated subsidiary of AES, has been classified as held for sale and reflected as such on the condensed consolidated financial statements. In addition to the results of its operations, Eden has also recognized a $1 million unfavorable adjustment during the six months ended June 30, 2007, to the originally recorded net loss on the sale as a result of the finalization of the sale transaction.

In May 2006, the Company reached an agreement to sell AES Indian Queens Power Limited and AES Indian Queens Operations Limited, collectively IQP , which is part of the Europe & Africa Generation segment. IQP is an open cycle gas turbine, located in the U.K. In September 2006, the Company completed the sale of IQP. Proceeds from the sale were $28 million in cash and the buyer assumed $30 million of IQP s debt. The results of operations and financial position of IQP for the three and six months ended June 30, 2006 are reflected in the discontinued operations line items on the condensed consolidated financial statements.

The following table summarizes the revenue and net income (loss) for these discontinued operations for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006 (Restated)**	**2007 (Restated)**	**2006 (Restated)**
	(in millions)		**(in millions)**	
Revenues	$ 115	$ 197	$ 308	$ 384
Gain from operations of discontinued businesses	20	53	94	84
Income tax expense	(11)	(26)	(23)	(39)
Income from operations of discontinued businesses	$ 9	$ 27	$ 71	$ 45
Loss on disposal of discontinued operations	$ (41)	$ (66)	$ (677)	$ (66)

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8. CONTINGENCIES

Environmental

The Company reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of June 30, 2007, the Company recorded liabilities of $14 million for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Based on currently available information and analysis, the Company believes that it is reasonably possible that costs associated with such liabilities, or as yet unknown liabilities, may exceed current reserves in amounts that could be material but cannot be estimated as of June 30, 2007.

Guarantees, Letters of Credit

As of June 30, 2007, AES had provided outstanding financial and performance related guarantees or other credit support commitments for the benefit of its subsidiaries, which were limited by the terms of the agreements to an aggregate of approximately $699 million (excluding those collateralized by letter of credit and surety bond obligations discussed below).

As of June 30, 2007, the Company had $377 million in letters of credit outstanding under the revolving credit facility and under the senior unsecured credit facility that operate to guarantee performance relating to certain project development activities and subsidiary operations. The Company pays a letter of credit fee ranging from 1.63% to 2.36% per annum on the outstanding amounts. In addition, the Company had $1 million in surety bonds outstanding at June 30, 2007.

Litigation

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 where 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 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, 2007.

In 1989, Centrais Elétricas Brasileiras S.A. (Eletrobrás) filed suit in the Fifth District Court in the State of Rio de Janeiro against Eletropaulo Eletricidade de São Paulo S.A. (EEDSP) relating to the methodology for calculating monetary adjustments under the parties financing agreement. In April 1999, the Fifth District Court found for Eletrobrás and, in September 2001, Eletrobrás initiated an execution suit in the Fifth District Court to collect approximately R$762 million (US$365 million) from Eletropaulo and a lesser amount from an unrelated company, Companhia de Transmissão de Energia Elétrica Paulista (CTEEP) (Eletropaulo and CTEEP were spun off of EEDSP pursuant to its privatization in 1998). Eletropaulo appealed and, in September 2003, the Appellate Court of the State of Rio de Janeiro ruled that Eletropaulo was not a proper party to the litigation because any alleged liability was transferred to CTEEP pursuant to the privatization. Subsequently, both Eletrobrás and CTEEP filed separate appeals to the Superior Court of Justice (SCJ). In June 2006, the SCJ reversed the Appellate Court s decision and remanded the case to the Fifth District Court for further proceedings, holding that Eletropaulo s liability, if any, should be determined by the Fifth District Court. Eletropaulo subsequently filed a motion for clarification of that decision, which was denied in February 2007. In April 2007, Eletropaulo filed appeals with the Special Court (the highest court within the SCJ) and the Supreme Court of Brazil. In June 2007,

Eletropaulo s appeal to the Special Court was dismissed by the reporting judge. Eletropaulo has appealed that dismissal. Eletrobrás may resume the execution suit in the Fifth District Court at any time. If Eletrobras does so, Eletropaulo may be required to provide security in the amount of its alleged liability. Eletropaulo believes 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 September 1999, a state appellate court in Minas Gerais, Brazil, granted a temporary injunction suspending the effectiveness of a shareholders agreement between Southern Electric Brasil Participacoes, Ltda. (SEB) and the state of Minas Gerais concerning Companhia Energetica de Minas Gerais (CEMIG), an integrated utility in Minas Gerais. The Company s investment in CEMIG is through SEB. This shareholders agreement granted SEB certain rights and powers in respect of CEMIG (Special Rights). In March 2000, a lower state court in Minas Gerais held the shareholders agreement invalid where it purported to grant SEB the Special Rights and enjoined the exercise of the Special Rights. In August 2001, the state appellate court denied an appeal of the decision and extended the injunction. In October 2001, SEB filed appeals against the state appellate court s decision with the Federal Superior Court and the Supreme Court of Justice. The state appellate court denied access of these appeals to the higher courts, and in August 2002 SEB filed interlocutory appeals against such denial with the Federal Superior Court and the Supreme Court of Justice. In December 2004, the Federal Superior Court declined to hear SEB s appeal. However, the Supreme Court of Justice is considering whether to hear SEB s appeal. SEB intends to vigorously pursue a restoration of the value of its investment in CEMIG by all legal means; however, there can be no assurances that it will be successful in its efforts. Failure to prevail in this matter may limit SEB s influence on the daily operation of CEMIG.

In August 2000, the Federal Energy Regulatory Commission (FERC) announced an investigation into the organized California wholesale power markets in order to determine whether rates were just and reasonable. Further investigations involved alleged market manipulation. FERC requested documents from each of the AES Southland, LLC plants and AES Placerita, Inc. AES Southland and AES Placerita have cooperated fully with the FERC investigations. AES Southland was not subject to refund liability because it did not sell into the organized spot markets due to the nature of its tolling agreement. AES Placerita is currently subject to refund liability of $588,000 plus interest for spot sales to the California Power Exchange from October 2, 2000 to June 20, 2001 (Refund Period). In September 2004, the U.S. Court of Appeals for the Ninth Circuit issued an order addressing FERC s decision not to impose refunds for the alleged failure to file rates, including transaction-specific data, for sales during 2000 and 2001 (September 2004 Decision). Although it did not order refunds, the Ninth Circuit remanded the case to FERC for a refund proceeding to consider remedial options. The Ninth Circuit has temporarily stayed the remand to FERC until November 16, 2007, so that settlement discussions may take place. In June 2007, the U.S. Supreme Court declined to review the September 2004 Decision. In addition, in August 2006 in a separate case, the Ninth Circuit confirmed the Refund Period, expanded the transactions subject to refunds to include multi-day transactions, expanded the potential liability of sellers to include any pre-Refund Period tariff violations, and remanded the matter to FERC (August 2006 Decision). The Ninth Circuit has temporarily stayed its August 2006 Decision until November 16, 2007, to facilitate settlement discussions. The August 2006 Decision may allow FERC to reopen closed investigations and order relief. AES Placerita made sales during the periods at issue in the September 2004 and August 2006 Decisions. Both appeals may be subject to further court review, and further FERC proceedings on remand would be required to determine potential liability, if any. Prior to the August 2006 Decision, AES Placerita s potential liability could have approximated $23 million plus interest. However, given the September 2004 and August 2006 Decisions, it is unclear whether AES Placerita s potential liability is less than or exceeds that amount. AES Placerita believes 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 August 2001, the Grid Corporation of Orissa, India (Gridco), filed a petition against the Central Electricity Supply Company of Orissa Ltd. (CESCO), an affiliate of the Company, with the Orissa Electricity Regulatory Commission (OERC), alleging that CESCO had defaulted on its obligations as an OERC-licensed distribution company, that CESCO management abandoned the management of CESCO, and asking for interim measures of protection, including the appointment of an administrator to manage CESCO. Gridco, a state-owned entity, is the sole wholesale energy provider to CESCO. Pursuant to the OERC s August 2001 order, the management of CESCO was replaced with a government administrator who was appointed by the OERC. The OERC later held that the Company and other CESCO shareholders were not necessary or proper parties to the OERC proceeding. In August 2004, the OERC issued a notice to CESCO, the Company and others giving the recipients of the notice until November 2004 to show cause why CESCO s distribution license should not be revoked. In response, CESCO submitted a business plan to the OERC. In February 2005, the OERC issued an order rejecting the proposed business plan. The order also stated that the CESCO distribution license would be revoked if an acceptable business plan for CESCO was not submitted to, and approved by, the OERC prior to March 31, 2005. In its April 2, 2005 order, the OERC revoked the CESCO distribution license. CESCO has filed an appeal against the April 2, 2005 OERC order and that appeal remains pending in the Indian courts. In addition, 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. In December 2001, 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 CESCO Shareholders Agreement between Gridco, the Company, AES ODPL, Jyoti and CESCO (the CESCO arbitration). In the arbitration, Gridco appears to seek approximately $188.5 million in damages plus undisclosed penalties and interest, but a detailed alleged damages analysis has yet to be filed by Gridco. The Company has counterclaimed against Gridco for damages. An arbitration hearing with respect to liability was conducted on August 3-9, 2005 in India. Final written arguments regarding liability were submitted by the parties to the arbitral tribunal in late October 2005. 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. The tribunal declared that the Company was the successful party and invited the parties to file papers on the allocation of costs. Gridco has not indicated whether it will attempt to challenge the award. Proceedings remain pending before the Indian Supreme Court regarding the presiding arbitrator s fees and the venue of future hearings, if any. 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 December 2001, a petition was filed by Gridco in the local Indian courts seeking an injunction to prohibit the Company and its subsidiaries from selling their shares in Orissa Power Generation Company Pvt. Ltd. (OPGC), an affiliate of the Company, pending the outcome of the above-mentioned CESCO arbitration. OPGC, located in Orissa, is a 420 MW coal-based electricity generation business from which Gridco is the sole off-taker of electricity. Gridco obtained a temporary injunction, but the District Court eventually dismissed Gridco s petition for an injunction in March 2002. Gridco appealed to the Orissa High Court, which in January 2005 allowed the appeal and granted the injunction. The Company has appealed the High Court s decision to the Supreme Court of India. The Supreme Court adjourned this matter to await the award in the CESCO arbitration, which will be reported to the Supreme Court. The Company believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however there can be no assurances that it will be successful in its efforts.

In early 2002, Gridco made an application to the OERC requesting that the OERC initiate proceedings regarding the terms of OPGC s existing power purchase agreement (PPA) with Gridco. In response, OPGC filed a petition in the Indian courts to block any such OERC proceedings. In early 2005,

the Orissa High Court upheld the OERC s jurisdiction to initiate such proceedings as requested by Gridco. OPGC appealed that High Court s decision to the Supreme Court and sought stays of both the High Court s decision and the underlying OERC proceedings regarding the PPA s terms. In April 2005, the Supreme Court granted OPGC s requests and ordered stays of the High Court s decision and the OERC proceedings with respect to the PPA s terms. The matter is awaiting further hearing. Unless the Supreme Court finds in favor of OPGC s appeal or otherwise prevents the OERC s proceedings regarding the PPA terms, the OERC will likely lower the tariff payable to OPGC under the PPA, which would have an adverse impact on OPGC s financials. OPGC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In April 2002, IPALCO Enterprises, Inc. (IPALCO), the pension committee for the Indianapolis Power & Light Company thrift plan (Pension Committee), and certain former officers and directors of IPALCO were named as defendants in a purported class action filed in the U.S. District Court for the Southern District of Indiana. In May 2002, an amended complaint was filed in the lawsuit. The amended complaint asserts that IPALCO and former members of the Pension Committee breached their fiduciary duties to the plaintiffs under the Employees Retirement Income Security Act by, *inter alia*, permitting assets of the thrift plan to be invested in the common stock of IPALCO prior to the acquisition of IPALCO by the Company and allegedly failing to disclose directly to each plan participant the individual defendants personal transactions in IPALCO stock prior to the acquisition. In September 2003 the Court granted plaintiffs motion for class certification. A trial addressing only the allegations of breach of fiduciary duty was held in February 2006. In March 2007, the Court issued a decision in favor of defendants and dismissed the lawsuit with prejudice. In April 2007, plaintiffs appealed the Court s decision to the U.S. Court of Appeals for the Seventh Circuit as to the former officers and directors of IPALCO, but not as to IPALCO or the Pension Committee. Plaintiffs and the former officers and directors are briefing the appeal.

In March 2003, the office of the Federal Public Prosecutor for the State of Sao Paulo, Brazil (MPF) notified AES Eletropaulo that it had commenced an inquiry related to the Brazilian National Development Bank (BNDES) financings provided to AES Elpa and AES Transgás and the rationing loan provided to Eletropaulo, changes in the control of Eletropaulo, sales of assets by Eletropaulo and the quality of service provided by Eletropaulo to its customers, and requested various documents from Eletropaulo relating to these matters. In July 2004, the MPF filed a public civil lawsuit in federal court alleging that BNDES violated Law 8429/92 (the Administrative Misconduct Act) and BNDES s internal rules by: (1) approving the AES Elpa and AES Transgás loans; (2) extending the payment terms on the AES Elpa and AES Transgás loans; (3) authorizing the sale of Eletropaulo s preferred shares at a stock-market auction; (4) accepting Eletropaulo s preferred shares to secure the loan provided to Eletropaulo; and (5) allowing the restructurings of Light Serviços de Eletricidade S.A. (Light) and Eletropaulo. The MPF also named AES Elpa and AES Transgás as defendants in the lawsuit because they allegedly benefited from BNDES s alleged violations. In June 2005, AES Elpa and AES Transgás presented their preliminary answers to the charges. In May 2006, the federal court ruled that the MPF could pursue its claims based on the first, second, and fourth alleged violations noted above. The MPF subsequently filed an interlocutory appeal seeking to require the federal court to consider all five alleged violations. Also, in July 2006, AES Elpa and AES Transgás filed an interlocutory appeal seeking to enjoin the federal court from considering any of the alleged violations. The MPF s lawsuit before the federal court has been stayed pending those interlocutory appeals. AES Elpa and AES Transgás believe they have meritorious defenses to the allegations asserted against them and will defend themselves vigorously in these proceedings; however, there can be no assurances that they will be successful in their efforts.

AES Florestal, Ltd. (Florestal), had been operating a pole factory and had other assets, including a wooded area known as Horto Renner, in the State of Rio Grande do Sul, Brazil (collectively, Property). AES Florestal had been under the control of AES Sul since October 1997, when AES Sul was

created pursuant to a privatization by the Government of the State of Rio Grande do Sul. After it came under the control of AES Sul, AES Florestal performed an environmental audit of the entire operational cycle at the pole factory. The audit discovered 200 barrels of solid creosote waste and other contaminants at the pole factory. The audit concluded that the prior operator of the pole factory, Companhia Estadual de Energia Elétrica (CEEE), had been using those contaminants to treat the poles that were manufactured at the factory. AES Sul and AES Florestal subsequently took the initiative of communicating with Brazilian authorities, as well as CEEE, about the adoption of containment and remediation measures. The Public Attorney s Office has initiated a civil inquiry (Civil Inquiry n. 24/05) to investigate potential civil liability and has requested that the police station of Triunfo institute a police investigation (IP number 1041/05) to investigate potential criminal liability regarding the contamination at the pole factory. The environmental agency (FEPAM) has also started a procedure (Procedure n. 088200567/059) to analyze the measures that shall be taken to contain and remediate the contamination. The measures that must be taken by AES Sul and CEEE are still under discussion. Also, in March 2000, AES Sul filed suit against CEEE in the 2nd Court of Public Treasure of Porto Alegre seeking to register in AES Sul s name the Property that it acquired through the privatization but that remained registered in CEEE s name. During those proceedings, AES subsequently waived its claim to re-register the Property and asserted a claim to recover the amounts paid for the Property. That claim is pending. In November 2005, the 7th Court of Public Treasure of Porto Alegre ruled that the Property must be returned to CEEE. CEEE has had sole possession of Horto Renner since September 2006 and of the rest of the Property since April 2006.

In January 2004, the Company received notice of a Formulation of Charges filed against the Company by the Superintendence of Electricity of the Dominican Republic. In the Formulation of Charges, the Superintendence asserts that the existence of three generation companies (Empresa Generadora de Electricidad Itabo, S.A., (Itabo) Dominican Power Partners, and AES Andres BV) and one distribution company (Empresa Distribuidora de Electricidad del Este, S.A.) in the Dominican Republic, violates certain cross-ownership restrictions contained in the General Electricity law of the Dominican Republic. In February 2004, the Company filed in the First Instance Court of the National District of the Dominican Republic an action seeking injunctive relief based on several constitutional due process violations contained in the Formulation of Charges (Constitutional Injunction). In February 2004, the Court granted the Constitutional Injunction and ordered the immediate cessation of any effects of the Formulation of Charges, and the enactment by the Superintendence of Electricity of a special procedure to prosecute alleged antitrust complaints under the General Electricity Law. In March 2004, the Superintendence of Electricity appealed the Court s decision. In July 2004, the Company divested any interest in Empresa Distribuidora de Electricidad del Este, S.A. The Superintendence of Electricity s appeal is pending. The Company believes 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 April 2004, BNDES filed a collection suit against SEB, a subsidiary of the Company, to obtain the payment of R$3.3 billion (US$1.6 billion) under the loan agreement between BNDES and SEB, the proceeds of which were used by SEB to acquire shares of CEMIG. In May 2004, the 15th Federal Circuit Court ordered the attachment of SEB s CEMIG shares, which were given as collateral for the loan, as well as dividends paid by CEMIG to SEB. At the time of the attachment, the shares were worth approximately R$762 million (US$247 million). In March 2007, the dividends were determined to be worth approximately R$423 million (US$198 million). SEB s defense was ruled groundless by the Circuit Court in December 2006. In January 2007, SEB filed an appeal to the relevant Federal Court of Appeals. In April 2007, BNDES withdrew the attached dividends. BNDES may attempt to seize the attached CEMIG shares at any time. SEB believes 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 July 2004, the Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE) filed lawsuits against Itabo, an affiliate of the Company, in the First and Fifth Chambers of the Civil and Commercial Court of First Instance for the National District. CDEEE alleges in both lawsuits that Itabo spent more than was necessary to rehabilitate two generation units of an Itabo power plant, and, in the Fifth Chamber lawsuit, that those funds were paid to affiliates and subsidiaries of AES Gener and Coastal Itabo, Ltd. (Coastal) without the required approval of Itabo s board of administration. AES Gener and Coastal were shareholders of Itabo during the rehabilitation, but Coastal later sold its interest in Itabo to an indirect subsidiary of the Company. In the First Chamber lawsuit, CDEEE seeks an accounting of Itabo s transactions relating to the rehabilitation. In November 2004, the First Chamber dismissed the case for lack of legal basis. On appeal, in October 2005 the Court of Appeals of Santo Domingo ruled in Itabo s favor, reasoning that it lacked jurisdiction over the dispute because the parties contracts mandated arbitration. The Supreme Court of Justice is considering CDEEE s appeal of the Court of Appeals decision. In the Fifth Chamber lawsuit, which also names Itabo s former president as a defendant, CDEEE seeks $15 million in damages and the seizure of Itabo s assets. In October 2005, the Fifth Chamber held that it lacked jurisdiction to adjudicate the dispute given the arbitration provisions in the parties contracts. The First Chamber of the Court of Appeal ratified that decision in September 2006. In a related proceeding, in May 2005, Itabo filed a lawsuit in the U.S. District Court for the Southern District of New York seeking to compel CDEEE to arbitrate its claims. The petition was denied in July 2005. Itabo s appeal of that decision to the U.S. Court of Appeal for the Second Circuit has been stayed since September 2006. Also, in February 2005, Itabo initiated arbitration against CDEEE and the Fondo Patrimonial de las Empresas Reformadas (FONPER) in the International Chamber of Commerce (ICC) seeking, among other relief, to enforce the arbitration provisions in the parties contracts. In March 2006, Itabo and FONPER settled their respective claims. In September 2006, the ICC determined that it lacked jurisdiction to decide the arbitration as to Itabo and CDEEE. Itabo believes it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In October 2004, Raytheon Company (Raytheon) filed a lawsuit against AES Red Oak LLC (Red Oak) in the Supreme Court of the State of New York, County of New York. The complaint purports to allege claims for breach of contract, fraud, interference with contractual rights and equitable relief relating to the construction and/or performance of the Red Oak project, an 800 MW combined cycle power plant in Sayreville, New Jersey. The complaint seeks the return of approximately $30 million that was drawn by Red Oak under a letter of credit that was posted by Raytheon for the construction and/or performance of the Red Oak project. Raytheon also seeks $110 million in purported additional expenses allegedly incurred by Raytheon in connection with the guaranty and construction agreements entered with Red Oak. In December 2004, Red Oak answered the complaint and filed breach of contract and fraud counterclaims against Raytheon. The Court subsequently ordered Red Oak to pay Raytheon approximately $16.3 million plus interest, which sum allegedly represented the amount of the letter of credit draw that had yet to be utilized for performance/construction issues. The Court also dismissed Red Oak s fraud claims, which decision was upheld on appeal. The parties have stipulated that Red Oak may assert claims for performance/construction issues if it has incurred costs on such claims. In May 2005, Raytheon filed a related action against Red Oak in the Superior Court of Middlesex County, New Jersey, seeking to foreclose on a construction lien in the amount of approximately $31 million on property allegedly owned by Red Oak. Red Oak filed its answer and counterclaim in October 2005. Red Oak believes it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In January 2005, the City of Redondo Beach (City) of California issued an assessment against Williams Power Co., Inc., (Williams) and AES Redondo Beach, LLC (AES Redondo), an indirect subsidiary of the Company, for approximately $72 million in allegedly overdue utility users tax (UUT), interest, and penalties relating to the natural gas used at AES Redondo s power plant from May 1998 through September 2004 to generate electricity. In September 2005, the City Tax Administrator held AES Redondo and Williams jointly and severally liable for approximately $57 million in UUT, interest, and penalties. In October 2005, AES Redondo and Williams filed respective appeals with the City Manager, who appointed a Hearing Officer to decide the appeal. In December 2006, the Hearing Officer overturned the City s assessment against AES Redondo (but not Williams). In December 2006, Williams filed a petition for writ of mandate with the Los Angeles Superior Court challenging the Hearing Officer s decision. Williams later prepaid approximately $57 million to the City in order to continue litigating its petition, pursuant to a court order, and filed an amended petition. In March 2007, the City filed a petition for writ of mandate with the Superior Court challenging the Hearing Officer s decision as to AES Redondo. The Superior Court will hear arguments on the petitions on January 25, 2008. In addition, in July 2005, AES Redondo filed a lawsuit in Superior Court seeking a refund of UUT paid since February 2005, and an order that the City cannot charge AES Redondo UUT going forward. Williams later filed a similar complaint that was related to AES Redondo s lawsuit. After authorizing limited discovery on disputed jurisdictional and other issues, including whether AES Redondo and Williams must prepay to the City any allegedly owed UUT prior to judicially challenging the merits of the UUT, the Court stayed the cases in December 2006. Furthermore, since December 2005, the Tax Administrator has periodically issued UUT assessments against AES Redondo and Williams for allegedly overdue UUT on the gas used at the power plant since October 2004 (New UUT Assessments). AES Redondo has filed objections to those and any future UUT assessments with the Tax Administrator, who has indicated that he will only consider the amount of the New UUT Assessments, not the merits of them, given his September 2005 decision. AES Redondo believes that it has meritorious claims and defenses, and it will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In June 2006, AES Ekibastuz was found to have breached a local tax law by failing to obtain a license for use of local water for the period of January 1, 2005 through October 3, 2005, in a timely manner. As a result, an additional permit fee was imposed, bringing the total permit fee to approximately USD$135,000. The company has appealed this decision to the Supreme Court.

In October 2006, CDEEE began making public statements that it intends to seek to compel the renegotiation and/or rescission of long-term power purchase agreements with certain power-generation companies in the Dominican Republic. Although the details concerning CDEEE s statements are unclear and no formal government action has been taken, AES owns certain interests in three power-generation companies in the country (AES Andres, Itabo, and Dominican Power Partners) that could be adversely impacted by any actions taken by or at the direction of CDEEE.

In January 2007, Eletropaulo Metropolitana Electricidad de São Paulo S.A. (Eletropaulo) received notice from the municipal environmental agency of a penalty of approximately USD$100,000. The penalty related to an Eletropaulo contractor attempting to dispose of tree trimming waste in a coal dump without a permit. The contractor has recognized responsibility in this case and has been negotiating the penalty. The current expectation is that the amount of the penalty will be reduced to approximately USD$16,000.

In February 2007, the Competition Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan initiated administrative proceedings against two hydro plants under AES concession, Ust Kamenogorsk HPP and Shulbinsk HPP (collectively, Hydros) for allegedly using an AES trading company, Nurenergoservice LLP, to increase power prices for consumers in alleged violation of Kazakhstan s antimonopoly laws. The Competition Committee issued orders directing the Hydros to pay approximately 2.7 billion KZT (US$22 million) for alleged antimonopoly violations in 2005 through

January 2007. The Hydros challenged the orders and the Competition Committee brought suit to enforce the orders in local court. In June 2007, the local court ruled in the Competition Committee s favor, recalculated the damages, and ordered the Hydros to pay approximately 2.8 billion KZT (US$23 million) and terminate their contracts with Nurenergoservice. The Hydros appealed and, in July 2007, the first panel of the court of appeals overturned the local court s decision and vacated the Competition Committee s orders for inadequate investigation. The Competition Committee subsequently initiated an investigation of the Hydro s alleged antimonopoly violations. The Competition Committee has stated that it will complete its investigation by September 14, 2007. Also, in June 2007, the Competition Committee ordered AES Ust-Kamengorskaya TET LLP (UKT) to pay approximately 940 million KZT (US$8 million) in damages and fines to the state for alleged antimonopoly violations in 2005 through January 2007, and to pay damages to certain consumers that allegedly had been charged unreasonable power prices since January 2007. The Competition Committee does not quantify the damages allegedly owed to those consumers, but UKT estimates that such damages might equal or exceed approximately 235 million KZT (US$2 million). UKT has filed an administrative appeal of that order. The Competition Committee has stated that it will complete its review of UKT s administrative appeal by August 20, 2007. If UKT does not prevail on administrative appeal and loses in any proceedings before the local court of first instance and the first panel of the court of appeals, UKT will have to pay the full amount of antimonopoly damages and/or fines established in those court proceedings in order to be able to pursue further appeals of the antimonopoly claims asserted against it. Furthermore, in July 2007 the Competition Committee ordered Nurenergoservice to pay approximately 17.8 billion KZT (US$147 million) for alleged antimonopoly violations in 2005 through the first quarter of 2007. Nurenergoservice has filed an administrative appeal of the July 2007 order. In addition, in August 2007, the Competition Committee ordered Nurenergoservice to pay a 1.8 billion KZT (US$15 million) fine for alleged antimonopoly violations in 2005 through the first quarter of 2007. Nurenergoservice intends to administratively appeal that order. If Nurenergoservice does not prevail on administrative appeal and loses in any proceedings before the local court of first instance and the first panel of the court of appeals, Nurenergoservice will have to pay the full amount of antimonopoly damages and/or fines established in those court proceedings in order to be able to pursue further appeals of the antimonopoly claims asserted against it. The Competition Committee has not indicated whether it intends to assert claims against the Hydros and/or UKT for alleged antimonopoly violations post January 2007 and/or against Nurenergoservice for alleged antimonopoly violations post first quarter 2007. The Hydros, UKT, and Nurenergoservice believe they have meritorious defenses and will assert them vigorously in the above-referenced proceedings; however, there can be no assurances that they will be successful in their efforts.

In June 2007, the Company received a letter from an outside law firm purportedly representing a shareholder demanding that the Company s Board conduct a review of certain stock option plans, procedures and historical granting and exercise practices, and other matters, and that the Company commence legal proceedings against any officer and/or director who may be liable for damages to the Company. The Board has established a Special Committee, which as retained independent counsel, to consider the demands presented in the letter in light of the work undertaken by the Company in its review of share-based compensation, as more fully described in the Company s 2006 Annual Report on Form 10-K/A.

In June 2007, IPL received a letter from an attorney purportedly representing a group of IPL employees and retirees (the complainants). The letter claims that IPL is recovering in rates on average approximately $19 million per year allegedly intended for the funding of the IPALCO Voluntary Employee Beneficiary Association Trust (VEBA Trust), which provides healthcare and life insurance benefits for certain IPL retirees. The VEBA Trust was spun off to independent trustees by IPALCO in 2000. The spin off of the VEBA Trust was publicly disclosed by IPALCO in the Agreement and Plan of Share Exchange at the time of IPALCO s acquisition by AES. The letter asserts that IPL remains responsible for funding the VEBA Trust and requests that IPL back-fund the trust at the $19 million per year level and fund at the

same level going forward. The letter further states that the complainants may file a complaint at the Indiana Utility Regulatory Commission if IPL does not fund the VEBA Trust as demanded. To date, no complaint has been filed. IPL believes it has meritorious defenses to the complainants claims and it will assert them vigorously in any formal proceeding; however, there can be no assurances that it will be successful in its efforts.

In July 2007, AES Energía Cartagena SRL (AESEC) received a purported request for arbitration from Initec Energia SA (Initec) relating to the construction of AESEC s majority-owned power facility in Murcia, Spain (Project). In its purported request, Initec asserts claims against AESEC for, *inter alia*, an early completion bonus and approximately 11 million (US$15 million) in allegedly outstanding milestone payments. Initec subsequently withdrew its request for arbitration. Additionally, in July 2007, AESEC initiated arbitration against Initec, Mitsubishi Corporation, and MC Power Project Management, SL (Contractor) to recover damages from the Contractor for its delay in completing the Project. The Contractor has stated that it will assert counterclaims. AESEC believes that it has meritorious claims and defenses and will assert them vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

9. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income for the three and six months ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Restated)	2007 (Restated)	2006 (Restated)
	(in millions)		(in millions)	
Net income (loss)	$ 247	$ 175	$ (215)	$ 517
Change in fair value of available for sale securities (net of income tax expense of $-, $1, $2 and $1, respectively)		1	3	1
Foreign currency translation adjustment:				
Foreign currency translation adjustments (net of income tax benefit (expense) of $(2), $3, $(23) and $(7), respectively)	191	17	209	69
Derivative activity:				
Reclassification to earnings (net of income tax benefit of $14, $3, $23 and $2, respectively)	(18)	(2)	(31)	3
Change in derivative fair value (net of income tax benefit (expense) of $(23), $(52), $10 and $(92), respectively)	60	48	33	128
Change in fair value of derivatives	42	46	2	131
Change in unfunded pension obligation (net of income tax expense of $7, $, $7 and $, respectively)	13		13	
Comprehensive (loss) income	$ 493	$ 239	$ 12	$ 718

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Accumulated other comprehensive loss is as follows at June 30, 2007 (in millions):

Accumulated other comprehensive loss December 31, 2006 (restated)	$ (2,600)
Change in fair value of available for sale securities	3
Change in foreign currency translation adjustments	209
Change in fair value of derivatives	2
Change in Minimum Pension Liability	13
Accumulated other comprehensive loss June 30, 2007	$ (2,373)

10. SEGMENTS

Beginning with the 2006 Annual Report, AES realigned its reportable segments to provide more information to its investors and to better reflect how AES manages the company internally in terms of decision making and assessing performance. AES previously reported under three segments: Regulated Utilities, Contract Generation, and Competitive Supply. The Company s segment information for the three and six months ended June 30, 2006, have been restated to conform to the 2007 segment presentation. The Company now reports seven segments which include:

- Latin America Generation;
- Latin America Utilities;
- North America Generation;
- North America Utilities;
- Europe & Africa Generation;
- Europe & Africa Utilities; and
- Asia Generation.

The Company manages its business primarily on a geographic basis in two distinct lines of business the generation of electricity and the distribution of electricity. These businesses are distinguished by the nature of the customers, operational differences, cost structure, regulatory environment and risk exposure. In addition, given the geographic dispersion of our operating units, the inclusion of additional segments by region provides further transparency to our shareholders and other external constituents.

The Company uses both revenue and gross margin as key measures to evaluate the performance of its segments. Segment revenue includes inter-segment sales related to the transfer of electricity from generation plants to utilities within Latin America. No inter-segment revenue relationships exist in other segments. Gross margin is defined as total revenue less cost of sales, defined as operating expenses including depreciation and amortization and local fixed operating and other overhead costs. Corporate allocations include certain management fees and self insurance activity which is reflected within segment gross margin. All intra-segment activity has been eliminated with respect to revenue and gross margin within the segment; inter-segment activity has been eliminated within the total consolidated results.

Corporate and other expenses include general and administrative expenses related to corporate staff functions and/or initiatives primarily executive management, finance, legal, human resources, information systems and certain development costs which are not allocable to our business segments. In addition, this line item includes net operating results from our Alternative Energy businesses which are immaterial for the purposes of separate segment disclosure and, the effects of eliminating transactions, such as management fee arrangements and self-insurance charges, between the operating segments and corporate.

As required by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, all prior year information has been recast to reflect the realignment of segments. All income statement and balance sheet information for businesses that were discontinued is segregated and is shown in the line Discontinued Businesses in the accompanying segment tables.

Information about the Company s operations by segment for the three and six months ended June 30, 2007 and 2006, respectively, is as follows:

Three Months Ended June 30,	**Total Revenue**		**Intersegment**		**External Revenue**	
	2007	**2006 (Restated)**	**2007**	**2006 (Restated)**	**2007**	**2006 (Restated)**
	(in millions)					
Latin America Generation	$ 823	$ 620	$ (214)	$ (194)	$ 609	$ 426
Latin America Utilities	1,307	1,156	(17)		1,290	1,156
North America Generation	546	459			546	459
North America Utilities	259	251			259	251
Europe & Africa Generation	214	186			214	186
Europe & Africa Utilities	159	136			159	136
Asia Generation	251	240			251	240
Corporate and Other	(215)	(186)	231	194	16	8
Total Revenue	$ 3,344	$ 2,862	$	$	$ 3,344	$ 2,862

Six Months Ended June 30,	**Total Revenue**		**Intersegment**		**External Revenue**	
	2007 (Restated)	**2006 (Restated)**	**2007 (Restated)**	**2006 (Restated)**	**2007 (Restated)**	**2006 (Restated)**
	(in millions)					
Latin America Generation	$ 1,561	$ 1,220	$ (419)	$ (389)	$ 1,142	$ 831
Latin America Utilities	2,484	2,260	(17)		2,467	2,260
North America Generation	1,056	954			1,056	954
North America Utilities	522	506			522	506
Europe & Africa Generation	466	394			466	394
Europe & Africa Utilities	325	288			325	288
Asia Generation	451	420			451	420
Corporate and Other	(412)	(374)	436	389	24	15
Total Revenue	$ 6,453	$ 5,668	$	$	$ 6,453	$ 5,668

Three Months Ended June 30,	**Total Gross Margin**		**Intersegment**		**External Gross Margin**	
	2007	**2006 (Restated)**	**2007**	**2006 (Restated)**	**2007**	**2006 (Restated)**
	(in millions)					
Latin America Generation	$ 200	$ 255	$ (193)	$ (190)	$ 7	$ 65
Latin America Utilities	289	267	199	196	488	463
North America Generation	181	133	4	4	185	137
North America Utilities	78	59	1		79	59
Europe & Africa Generation	43	55	1	2	44	57
Europe & Africa Utilities	24	29			24	29
Asia Generation	60	56	1	1	61	57
Corporate and Other	13	13	(13)	(13)		
Total Gross Margin	$ 888	$ 867	$	$	$ 888	$ 867

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Six Months Ended June 30,	Total Gross Margin 2007 (Restated) (in millions)	2006 (Restated)	Intersegment 2007 (Restated)	2006 (Restated)	External Gross Margin 2007 (Restated)	2006 (Restated)
Latin America Generation	$ 450	$ 514	$ (393)	$ (381)	$ 57	$ 133
Latin America Utilities	499	496	406	393	905	889
North America Generation	335	309	8	8	343	317
North America Utilities	159	123	2		161	123
Europe & Africa Generation	133	135	2	3	135	138
Europe & Africa Utilities	41	65			41	65
Asia Generation	106	105	2	2	108	107
Corporate and Other	21	25	(27)	(25)	(6)	
Total Gross Margin	$ 1,744	$ 1,772	$	$	$ 1,744	$ 1,772

For consolidated subsidiaries, the Company uses gross margin as a measure of profit or loss for the Company s reportable segments. Gross margin equals revenues less cost of sales on the condensed consolidated statement of operations for each period presented.

Information about the Company s assets by segment as of June 30, 2007 and December 31, 2006, respectively, is as follows:

	Total Assets June 30, 2007 (in millions)	December 31, 2006
Latin America Generation	$ 7,383	$ 6,904
Latin America Utilities	8,437	7,260
North America Generation	6,401	5,276
North America Utilities	2,933	2,807
Europe & Africa Generation	2,737	2,292
Europe & Africa Utilities	947	807
Asia Generation	2,320	2,184
Discontinued Businesses	55	2,529
Corporate and Other	1,409	1,142
Total Assets	$ 32,622	$ 31,201

11. BENEFIT PLANS

Total pension cost for the three and six months ended June 30, 2007 and 2006 includes the following components:

	Three Months Ended June 30, 2007 U.S. (in millions)	Foreign(1)	2006 U.S.	Foreign(1)	Six Months Ended June 30, 2007 U.S. (in millions)	Foreign(2)	2006 U.S.	Foreign(2)
Service cost	$ 1	$ 3	$ 1	$ 2	$ 3	$ 5	$ 3	$ 4
Interest cost	8	97	8	90	15	190	15	178
Expected return on plan assets .	(8)	(81)	(7)	(64)	(16)	(158)	(14)	(127)
Amortization of initial net asset		(2)		(1)		(4)		(3)
Amortization of prior service cost					1		1	
Amortization of net loss	2		1		3	1	2	1
Total pension cost	$ 3	$ 17	$ 3	$ 27	$ 6	$ 34	$ 7	$ 53

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(1) Expense of $2 million and $3 million is included in the above amounts and is reflected as part of discontinued operations for the three months ended June 30, 2007 and 2006, respectively.

(2) Expense of $6 million is included in the above amounts and is reflected as part of discontinued operations for the six months ended June 30, 2007 and 2006.

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The total amounts of employer contributions paid for the six months ended June 30, 2007 were $1 million for U.S. subsidiaries and $54 million for foreign subsidiaries. The expected remaining scheduled annual employer contributions for 2007 are $2 million for U.S. subsidiaries, and $55 million for foreign subsidiaries.

12. INCOME TAXES

The Company s effective combined state, federal and foreign income tax rates for the six month periods ended June 30, 2007 and 2006 were 37% and 27%, respectively. The increase in the 2007 tax rate primarily was the result of a $17 million increase in deferred income taxes due to a tax law change in China, a $18 million valuation allowance established against the deferred tax set up for the AgCert impairment, offset by a $29 million release of valuation allowance at one of our subsidiaries in Argentina. In addition, the 2006 effective tax rate was favorably impacted by a $43 million valuation allowance release at Eletropaulo in the second quarter of 2006.

Effective January 1, 2007, we adopted FIN 48. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions and income tax disclosures. The cumulative effects of applying this interpretation have been recorded as a decrease of $53 million to beginning retained earnings.

At adoption, we had a total of $422 million in unrecognized tax benefits. Of this amount, $354 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. The total amount of gross accrued interest and penalties for such unrecognized tax benefits was $10 million and $4 million, respectively.

Uncertain tax positions have been classified as non-current income tax liabilities unless expected to be paid in one year. Our policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the condensed consolidated statements of earnings.

As of June 30, 2007, the total amount of gross accrued income tax related interest and penalties included in the condensed consolidated statement of financial position was $17 million and $7 million, respectively.

We are potentially subject to income tax audits in numerous jurisdictions in the U.S. and internationally until the applicable statute of limitations expire. Tax audits by their nature are often complex and can require several years to complete. The following is a summary of tax years, potentially subject to examination, in the significant tax and business jurisdictions in which we operate.

Jurisdiction	**Tax Years Subject to Examination**
Argentina	2001 2006
Brazil	2002 2006
Cameroon	2004 2006
Chile	1998 2006
El Salvador	2004 2006
United Kingdom	1998 2006
United States (federal)	1992 2006

As of June 30, 2007, the total amount of unrecognized tax benefits was $577 million, of which $426 million would benefit the effective tax rate, if recognized. The increase in unrecognized tax benefits is primarily the result of $141 million of additional unrecognized tax benefits previously recorded in the

balance sheet as income taxes payable or a reduction to deferred tax assets, but had not been classified as unrecognized tax benefits at the time of the adoption of FIN 48.

The total amount of unrecognized tax benefits anticipated to result in a net decrease of unrecognized tax benefits within 12 months of June 30, 2007 is estimated to be between $21 million and $28 million. The net estimated decrease is primarily due to anticipated audit closures, other tax payments, and lapses in statutes of limitations.

The Company and certain of its subsidiaries are currently under examination by the relevant taxing authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe we have appropriately accrued for our uncertain tax benefits. However, audit outcomes and the timing of audit settlements and future events that would impact our previously recorded unrecognized tax benefits and the range of anticipated increases or decreases in unrecognized tax benefits are subject to significant uncertainty. It is possible that the ultimate outcome of current or future examinations may exceed current unrecognized tax benefits in amounts that could be material, but cannot be estimated as of June 30, 2007. Our effective tax rate and net income in any given future period could therefore be materially impacted.

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

In this Quarterly Report on Form 10-Q, the terms AES, the Company, us, or we refer to The AES Corporation and all of its subsidiaries and affiliates, collectively. The term The AES Corporation or the Parent Company refers only to the parent, publicly-held holding company, The AES Corporation, excluding its subsidiaries and affiliates.

Forward-Looking Information

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations 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. Factors that could cause or contribute to such differences include, but are not limited to, those described in the Risk Factors section of our 2006 Form 10-K/A. 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. 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 interested parties of the risks and factors that may affect our business.

The interim financial statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with our 2006 Form 10-K/A, which includes restated audited consolidated financial statements for our three fiscal years ended December 31, 2006.

Executive Summary

Our Businesses

AES is one of the world s largest global power companies, providing essential electricity services in 28 countries on five continents. We operate two types of businesses. The first is our distribution and transmission business, which we refer to as Utilities, in which we operate electric utilities and sell power to customers in the retail (including residential), commercial, industrial and governmental sectors. These customers are typically end-users of electricity. The second is our Generation business, where we sell power to wholesale customers such as utilities or other intermediaries. The revenues and earnings growth of both our Utilities and Generation businesses vary with changes in electricity demand.

Our Utilities business consists primarily of 13 distribution companies in seven countries with over 10 million end-user customers and over 4,500 MW of generation capacity. All of these companies operate in a defined service area. This segment is composed of:

- integrated utilities located in:
- the United States Indianapolis Power & Light (IPL),
- Cameroon AES SONEL.
- distribution companies located in:
- Brazil AES Eletropaulo and AES Sul,
- Argentina Empresa Distribuidora La Plata S.A. (EDELAP) and Empresa Distribuidora de Energia Sure (EDES),

- El Salvador Compañia de Alumbrado Eléctrico de San Salvador, S.A. de C.V. (CAESS), Compania, S. En C. de C.V. (AES CLESA), Distribuidora Electrica de Usulutan, S.A. de C.V. (DEUSEM) and Empresa Electrica de Oriente (EEO), and

- Ukraine Kievoblenergo and Rivneenergo.

Performance drivers for these businesses include, among other things, reliability of service, management of working capital, negotiation of tariff adjustments, compliance with extensive regulatory requirements and, in developing countries, reduction of commercial and technical losses.

Utilities face relatively little direct competition due to significant barriers to entry which are present in these markets. In this segment, we primarily face competition in our efforts to acquire businesses. We compete against a number of other participants, some of which have greater financial resources, have been engaged in distribution related businesses for periods longer than we have, and have accumulated more significant portfolios. Relevant competitive factors for Utilities include financial resources, governmental assistance, regulatory restrictions and access to non-recourse financing. In certain locations, our utilities face increased competition as a result of changes in laws and regulations which allow wholesale and retail services to be provided on a competitive basis. We can provide no assurance that deregulation will not adversely affect the future operations, cash flows and financial condition of our Utilities business. The results of operations of our Utilities business are sensitive to changes in economic growth and regulation, abnormal weather conditions in the area in which they operate, as well as the success of the operational changes that have been implemented (especially in emerging markets).

In our Generation business, we generate and sell electricity primarily to wholesale customers. Performance drivers for our Generation business include, among other things, plant reliability, fuel costs and fixed-cost management. Growth in this business is largely tied to securing new power purchase agreements, expanding capacity in our existing facilities and building new power plants. Our Generation business includes our interests in 102 power generation facilities owned or operated under management agreements totaling 39 gigawatts of capacity installed in 24 countries.

Approximately 68% of the revenues from our Generation business are from plants that operate under power purchase agreements of five years or longer for 75% or more of the output capacity. These long-term contracts reduce the risk associated with volatility in the market price for electricity. We also reduce our exposure to fuel supply risks by entering into long-term fuel supply contracts or through fuel tolling contracts where the customer assumes full responsibility for purchasing and supplying the fuel to the power plant. As a result of these contractual agreements, these facilities have relatively predictable cash flows and earnings. These facilities face most of their competition prior to the execution of a power sales agreement, during the development phase of a project. Our competitors for these contracts include other independent power producers and equipment manufacturers, as well as various utilities and their affiliates. During the operational phase, we traditionally have faced limited competition due to the long-term nature of the generation contracts. However, since competitive power markets have been introduced and new market participants have been added, we have and will continue to encounter increased competition in attracting new customers and maintaining our current customers as our existing contracts expire.

The balance of our Generation business sells power through competitive markets under short term contracts or directly in the spot market. As a result, the cash flows and earnings associated with these facilities are more sensitive to fluctuations in the market price for electricity, natural gas, coal and other fuels. However, for a number of these facilities, including our plants in New York, which include a fleet of low-cost coal fired plants, we have hedged the majority of our exposure to fuel, energy and emissions pricing for the next several years. These facilities compete with numerous other independent power producers, energy marketers and traders, energy merchants, transmission and distribution providers and retail energy suppliers. Competitive factors for these facilities include price, reliability, operational cost and third party credit requirements.

As described above, AES operates within two primary businesses, the generation of electricity and the distribution of electricity. AES previously reported its financial results in three business segments: contract generation, competitive supply and regulated utilities. As of December 31, 2006, we have changed the definition of our segments in order to report information by geographic region and by line of business. We believe this change more accurately reflects the manner in which we manage the Company.

Our businesses include Utilities and Generation within four defined geographic regions: (1) North America, (2) Latin America, (3) Europe, CIS and Africa, which we refer to as Europe & Africa and (4) Asia and the Middle East, which we refer to as Asia . Three regions, North America, Latin America and Europe & Africa, are engaged in both our Generation and Utility businesses. Our Asia region only has Generation businesses. Accordingly, these businesses and regions account for seven segments. Corporate and Other includes corporate overhead costs which are not directly associated with the operations of our seven primary operating segments; interest income and expense; other intercompany charges such as management fees and self-insurance premiums which are fully eliminated in consolidation; and development and operational costs related to our Alternative Energy business which is currently not material to our presentation of operating segments. Under AES s Alternative Energy group, AES operates 1,015 MW of wind generation in the United States.

Our goal is to continue building on our traditional lines of business, while expanding into other essential energy-related areas. We believe that this is a natural expansion for us. As we move into new lines of business, we will leverage the competitive advantages that result from our unique global footprint, local market insights and our operational and business development expertise. We also will build on our existing capabilities in areas beyond power including greenhouse gas emissions offset projects, electricity transmission, water desalination, and other businesses. As we continue to expand and grow our business, we will maintain a focus on efforts to improve our business operations and management processes, including our internal controls over financial reporting.

Our business strategy is focused on global growth in our core generation and utilities businesses along with growth in related markets such as alternative energy, electricity transmission and water desalination. We continue to emphasize growth through greenfield development, platform expansion, privatization of government-owned assets, and mergers and acquisitions and continue to develop and maintain a strong development pipeline of projects and opportunities. The Company sees growth investments as the most significant contributor to long-term shareholder value creation. The Company s growth strategies are complemented by an increased emphasis on portfolio management through which AES has and will continue to sell or monetize a portion of certain businesses or assets when market values appear significantly higher than the Companies own assessment of value in the AES portfolio.

Underpinning this growth focus is an operating model which benefits from a diverse power generation portfolio that is largely contracted, reducing fuel cost and demand risks, and from an electric utility portfolio heavily weighted to faster-growing emerging markets.

The Company believes that success with its business development activities will be the single most important factor in its financial success in terms of value creation and it is directing increasing resources in support of business development globally. The Company also believes that high oil prices, increasing regulation of greenhouse gases, faster than expected global economic growth and a weak dollar present opportunities for value creation, based on the Company s current business portfolio and business strategies. Slower global economic growth, which will impact demand growth for utilities and some generation businesses, is one of the most significant downside scenarios affecting value creation. Other important scenarios that could impair future value include low oil prices and a strong dollar.

The accompanying management s discussion and analysis of financial condition and results of operations set forth in this Item 2 is restated to reflect the correction of errors that were contained in the Company s condensed consolidated financial statements and other financial information for the three and

six months ended June 30, 2006, as discussed below and in Note 1 of the condensed consolidated financial statements. In addition, the prior period financial statements have been restated to reflect the change in the Company s segments as discussed in Note 9 of the condensed consolidated financial statements. The following management s discussion and analysis of financial condition and results of operations should be read in conjunction with our restated condensed consolidated financial statements and the related notes.

Restatement of Consolidated Financial Statements

The Company restated its consolidated financial statements for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 in its 2006 Form 10-K/A filed with the SEC on August 7, 2007. The adjustments presented in the restatement are the result of the identification of certain financial statement errors relating to these years which, had they been corrected on a cumulative basis in the 2006 consolidated financial statements, would have materially misstated the results of prior periods. The Company is also restating the previously issued interim periods ending March 31, 2006, June 30, 2006 and September 30, 2006. The errors that were identified related to accounting for derivative instruments, leases, income taxes, share-based compensation and certain items in our Brazil and La Electricidad de Caracas (EDC) subsidiaries.

The condensed consolidated financial statements have been restated in this Form 10-Q to reflect the impact of correcting these errors for the three and six months ended June 30, 2006 and resulted in an increase to net income of $6 million and a decrease to net income of $3 million, respectively. The impact of the restatement resulted in a decrease of previously reported net income of $57 million for the full year ended December 31, 2006. The Company also plans to amend its previously filed Form 10-Q for the three months ended March 31, 2007 to reflect the impact of certain additional errors noted in the aforementioned restatement adjustments that were not previously reflected in the Form 10-Q filed with the SEC on June 21, 2007. The impact of all adjustments on net income for the three months ended March 31, 2007 and 2006 is a decrease of $7 million and $6 million, respectively, and is reflected in the condensed consolidated statement of operations balances for the six months ended June 30, 2007.

The restatement adjustments reflect the correction of errors included in the May 23, 2007 Form 10-K and the August 7, 2007 Form 10-K/A. Significant adjustments included:

Revenue The determination that modification of power sales agreements contained leases in our AES Pakistan subsidiaries and the correction of unbilled revenues in Venezuela decreased revenue by $12 million and $23 million for the three and six months ended June 30, 2006, respectively. The $12 million decrease for the three months ended June 30, 2006 was offset by an $8 million Sul tariff adjustment.

Cost of Sales Decrease of the US GAAP fixed asset basis and related depreciation at Eletropaulo of $6 million and $11 million for the three and six months ended June 30, 2006, respectively.

Equity in Earnings of Affiliates The deconsolidation of the Cartegena business, due to application of Financial Accounting Standards Board Interpretation No. 46, *Variable Interest Entities*, reduced earnings of equity affiliates by $10 million and $11 million for the three and six months ended June 30, 2006, respectively.

Income Tax Expense The tax effect of other adjustments increased income tax expense by $6 million and $10 million for the three and six months ended June 30, 2006, respectively.

Other Expense The deconsolidation of the Cartegena business and the correction of the timing of impairment of the Totem investment reduced other expense by $28 million for the three and six months ended June 30, 2006.

The following table details the impact of the restatement adjustments on the condensed consolidated statement of operations for the three months ended June 30, 2006:

	Three Months Ended June 30, 2006				
		Discontinued Operations			
Revenues:	**As Originally Filed**	**EDC**	**Central Valley**	**Restatement Adjustments**	**2007 2Q Form 10-Q**
Regulated	$ 1,506	$ (161)	$	$ 198	1,543
Non-Regulated	1,532		(9)	(204)	1,319
Total revenues	3,038	(161)	(9)	(6)	2,862
Cost of Sales:					
Regulated	(1,098)	104		2	(992)
Non-Regulated	(1,021)		12	6	(1,003)
Total cost of sales	(2,119)	104	12	8	(1,995)
Gross margin	919	(57)	3	2	867
General and administrative expenses	(59)			1	(58)
Interest expense	(442)	12		(2)	(432)
Interest income	90	(5)		2	87
Other expense	(61)	1		29	(31)
Other income	26	(3)		1	24
Gain (loss) on sale of investments	2				2
Loss on sale of subsidiary stock					
Asset impairment expense	(16)				(16)
Foreign currency transaction losses on net monetary position	1	(3)		(2)	(4)
Equity in earnings of affiliates	23			(12)	11
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	483	(55)	3	19	450
Income tax expense	(106)	25	(1)	(6)	(88)
Minority interest expense	(166)	6		(9)	(169)
INCOME FROM CONTINUING OPERATIONS	211	(24)	2	4	193
Income (loss) from operations of discontinued businesses net of income tax		24	(2)	5	27
(Loss) gain from disposal of discontinued businesses net of income tax	(63)			(3)	(66)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	148			6	154
Income from extraordinary items net of income tax	21				21
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	169			6	175
Cumulative effect of change in accounting principle net of income tax					
Net income	$ 169	$		$ 6	$ 175
BASIC EARNINGS (LOSS) PER SHARE:					
Income from continuing operations	0.32	(0.04)		0.02	0.30
Discontinued Operations	(0.09)	0.04		(0.01)	(0.06)
Extraordinary item	0.03				0.03
BASIC EARNINGS (LOSS) PER SHARE:	0.26			0.01	0.27
DILUTED EARNINGS (LOSS) PER SHARE					
Income from continuing operations	0.31	(0.04)		0.02	0.29
Discontinued Operations	(0.09)	0.04		(0.01)	(0.06)
Extraordinary item	0.03				0.03
DILUTED EARNINGS (LOSS) PER SHARE	0.25			0.01	0.26

The following table details the impact of the restatement adjustments on the condensed consolidated statement of operations for the six months ended June 30, 2006:

	Six Months Ended June 30, 2006				
		Discontinued Operations			
Revenues:	**As Originally Filed**	**EDC**	**Central Valley**	**Restatement Adjustments**	**2007 2Q Form 10-Q**
Regulated	$ 2,976	$ (309)	$	$ 387	3,054
Non-Regulated	3,044		(16)	(414)	2,614
Total revenues	6,020	(309)	(16)	(27)	5,668
Cost of Sales:					
Regulated	(2,202)	212		13	(1,977)
Non-Regulated	(1,948)		20	9	(1,919)
Total cost of sales	(4,150)	212	20	22	(3,896)
Gross margin	1,870	(97)	4	(5)	1,772
General and administrative expenses	(114)				(114)
Interest expense	(874)	22		2	(850)
Interest income	206	(8)		3	201
Other expense	(138)	1		28	(109)
Other income	57	(4)		(10)	43
Gain (loss) on sale of investments	87			2	89
Loss on sale of subsidiary stock					
Asset impairment expense	(16)				(16)
Foreign currency transaction losses on net monetary position	(21)	(3)		(3)	(27)
Equity in earnings of affiliates	59			(13)	46
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	1,116	(89)	4	4	1,035
Income tax expense	(296)	32	(1)	(10)	(275)
Minority interest expense	(254)	10		1	(243)
INCOME FROM CONTINUING OPERATIONS	566	(47)	3	(5)	517
Income (loss) from operations of discontinued businesses net of income tax		47	(3)	1	45
(Loss) gain from disposal of discontinued businesses net of income tax	(67)			1	(66)
INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	499			(3)	496
Income from extraordinary items net of income tax	21				21
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	520			(3)	517
Cumulative effect of change in accounting principle net of income tax					
Net income	$ 520	$	$	$ (3)	$ 517
BASIC EARNINGS (LOSS) PER SHARE:					
Income from continuing operations	0.86	(0.07)			0.79
Discontinued Operations	(0.10)	0.07			(0.03)
Extraordinary item	0.03				0.03
BASIC EARNINGS (LOSS) PER SHARE:	0.79				0.79
DILUTED EARNINGS (LOSS) PER SHARE					
Income from continuing operations	0.85	(0.07)		(0.01)	0.77
Discontinued Operations	(0.10)	0.07			(0.03)
Extraordinary item	0.03				0.03
DILUTED EARNINGS (LOSS) PER SHARE	0.78			(0.01)	0.77

Cash Flow Information

The effect of the restatement adjustments, primarily due to the Cartagena deconsolidation, was a reduction of cash provided by operating activities of $26 million, a reduction in cash used in investing activities of $16 million and a reduction in cash used for financing activities of $76 million.

The Company has been cooperating with an informal inquiry by the Staff of the Securities Exchange Commission (SEC Staff) concerning the Company s restatement of its consolidated financial statements and related matters, and has been providing information and documents to the SEC Staff on a voluntary basis. Because the Company is unable to predict the outcome of this inquiry and the SEC Staff may disagree with the manner in which the Company has accounted for and reported the financial impact of the adjustments to previously filed consolidated financial statements, there is the risk that the inquiry by the SEC could lead to circumstances in which the Company may have to further restate previously filed financial statements, amend prior filings or take other actions not currently contemplated.

For further discussion of other aspects of the Company s restatement of its consolidated financial statements, see Part I Restatement of Consolidated Financial Statements in the Company s 2006 Form 10-K/A.

Second Quarter Operating Highlights

The following table provides operating highlights for the three and six months ended June 30, 2007 and 2006, respectively.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2007	**2006 (Restated)**	**% Change**	**2007 (Restated)**	**2006 (Restated)**	**% Change**
Revenue	$ 3,344	$ 2,862	17 %	$ 6,453	$ 5,668	14 %
Gross Margin	$ 888	$ 867	2 %	$ 1,744	$ 1,772	-2 %
Net Cash Provided by Operating Activities	$ 526	$ 442	19 %	$ 1,107	$ 951	16 %
Diluted Earnings Per Share from Continuing Operations	$ 0.41	$ 0.29	41 %	$ 0.58	$ 0.77	-25 %

- **Revenue** increased 17% to $3.3 billion for the three months ended June 30, 2007 when compared with the same period in 2006 primarily due to higher rate and volume, favorable foreign currency translation and the acquisition of TEG/TEP and controlling interest in Itabo. During the same period, **gross margin** increased slightly as favorable rate and volume, foreign currency translation and new businesses were offset by higher fixed costs and lower emission allowance sales. **Net cash provided by operating activities** increased $84 million or 19% from the quarter a year ago due to decreases in net working capital, decreases in pension contributions and operating cash from new businesses. **Diluted earnings per share from continuing operations** increased $0.12 or 41%, primarily due to the gain from a contract settlement in New York, a gross receipts tax recovery from two of our Latin American subsidiaries and favorable net interest expense only partially offset by increase in income tax and minority interest expense.

- **Revenue** increased 14% to $6.5 billion for the six months ended June 30, 2007 compared with the same period in 2006 primarily due to higher rate and volume, favorable foreign currency translation and the acquisition of TEG/TEP and controlling interest in Itabo. During the same period, **gross margin** decreased slightly as higher fixed costs and lower emissions sales offset the favorable rate and volume, foreign currency translation and new business impacts. **Net cash provided by operating activities** increased 16% or $156 million due to decreases in net working capital, decreases in pension contributions and operating cash from new businesses. **Diluted earnings per share from continuing operations** decreased $0.19 primarily due to higher income tax and minority interest expense offset by the gain from a contract settlement in New York, the gross receipts tax recovery from two of our Latin American subsidiaries and favorable net interest expense.

Strategic Highlights

The Company continues to maintain a development pipeline of investments. We are increasing resources in 2007 at both the corporate and business level in support of business development opportunities, which may include expansions at existing locations, which we call platform extensions, new greenfield investments, privatization of government assets, and mergers and acquisitions. In addition, as part of our efforts to identify attractive investment opportunities in related businesses, we look to participate in adjacent energy and infrastructure businesses such as wind power generation, reducing or offsetting greenhouse gas emissions, LNG regasification, desalination and other alternative energy initiatives. These efforts may result in forming joint ventures, technology sharing or licensing arrangements, and other innovative market offerings. The Company also continues to evaluate portfolio management transactions which could occur when public market values for businesses significantly exceed what we consider to be a reasonable investment value.

In our core power and alternative energy businesses, we continued to build a strong development pipeline of projects, primarily platform expansions and new construction projects that follow our long-term contract generation business model. The Company s project backlog (projects in the engineering phase or under construction) as of June 30, 2007 totaled 1,682 gross MW of new generation capacity with a total expected investment of approximately $3.2 billion through 2010. This includes fossil-fueled projects in Chile, Bulgaria and Jordan, and a hydroelectric project in Panama.

During the second quarter of 2007, AES acquired two wind farms, totaling 186 MW, in Iowa and Minnesota and completed construction on its 233 MW Buffalo Gap II wind farm in Texas. The Company also acquired a 49% stake in a joint venture to construct and operate 225 MW of wind projects in China. In April 2007, the Company also acquired a 51% interest in IC ICTAS Energy Group, a joint venture with 26 MW of existing capacity and a 390 MW development pipeline of hydroelectric projects in Turkey.

The Company expects to fund growth investments from net cash from operating activities and/or the proceeds from the issuance of debt, common stock, other securities, asset sales, and partner equity contributions. Certain of the alternative energy business opportunities may be considered start-up businesses that will need to be funded initially through cash equity contributions, and may have limited debt financing opportunities initially. We believe there are sufficient attractive investment opportunities that may exceed available cash and net cash from operating activities in future periods.

In the second quarter of 2007, AES agreed to sell 100% of its indirect interest in two biomass fired power plants in California (the 50 MW Delano facility and the 25 MW Mendota facility) and an associated biomass fuels management company (together, the Central Valley Businesses) to Covanta Holding Corporation for $51 million.

Sale of EDC

On February 22, 2007, the Company entered into a definitive agreement with PDVSA dated February 15, 2007, to sell all of its shares of EDC, a Latin America distribution business reported in the Latin America Utilities segment, for $739 million net of any withholding taxes. In addition, the agreement provided for the payment of a US$120 million dividend in 2007. On March 1, 2007, the shareholders of EDC approved and declared a US$120 million dividend, payable on March 16, 2007, to all shareholders on record as of March 9, 2007. A wholly-owned subsidiary of the Company was the owner of 82.14% of the outstanding shares of EDC, and therefore, on May 31, 2007, this subsidiary received approximately US$97 million in dividends (representing approximately $99 million in gross dividends offset by fees).

The sale of EDC and the payment of the purchase price occurred on May 16, 2007. During the first quarter of 2007, the Company recognized an impairment charge of approximately $638 million related to this sale. As a result of the final disposition of EDC in May 2007, the Company recognized an additional impairment charge of approximately $38 million net of income and withholding taxes. The total impairment charge of $676 million represented the net book value of the Company s investment in EDC less the selling price. The impairment expense is included in the loss from disposal of discontinued business line item on the statement of operations for the six months ended June 30, 2007.

Results of Operations

RESULTS OF OPERATIONS	Three Months Ended June 30, 2007	2006 (Restated)(1)	$ change	% change	Six Months Ended June 30, 2007 (Restated)(1)	2006 (Restated)(1)	$ change	% change
	(in millions, except per share amounts)				(in millions, except per share amounts)			
Revenue:								
Latin America Generation	$ 823	$ 620	$ 203	33 %	$ 1,561	$ 1,220	$ 341	28 %
Latin America Utilities	1,307	1,156	151	13 %	2,484	2,260	224	10 %
North America Generation	546	459	87	19 %	1,056	954	102	11 %
North America Utilities	259	251	8	3 %	522	506	16	3 %
Europe & Africa Generation	214	186	28	15 %	466	394	72	18 %
Europe & Africa Utilities	159	136	23	17 %	325	288	37	13 %
Asia Generation	251	240	11	5 %	451	420	31	7 %
Corporate and Other(2)	(215)	(186)	(29)	-16 %	(412)	(374)	(38)	-10 %
Total Revenue	$ 3,344	$ 2,862	$ 482	17 %	$ 6,453	$ 5,668	$ 785	14 %
Gross Margin:								
Latin America Generation	$ 200	$ 255	$ (55)	-22 %	$ 450	$ 514	$ (64)	-12 %
Latin America Utilities	289	267	22	8 %	499	496	3	1 %
North America Generation	181	133	48	36 %	335	309	26	8 %
North America Utilities	78	59	19	32 %	159	123	36	29 %
Europe & Africa Generation	43	55	(12)	-22 %	133	135	(2)	-1 %
Europe & Africa Utilities	24	29	(5)	-17 %	41	65	(24)	-37 %
Asia Generation	60	56	4	7 %	106	105	1	1 %
Total Corporate and Other(3)	(75)	(45)	(30)	-67 %	(150)	(89)	(61)	-69 %
Interest expense	(411)	(432)	21	5 %	(833)	(850)	17	2 %
Interest income	141	87	54	62 %	241	201	40	20 %
Other expense	(24)							