AES CORP
Form 10-Q
November 04, 2016

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

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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 September 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-12291
THE AES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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The number of shares outstanding of Registrant's Common Stock, par value $0.01 per share, on October 31, 2016 was 659,175,940

THE AES CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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GLOSSARY OF TERMS

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

| | |
|---|---|
| Adjusted EPS | Adjusted Earnings Per Share, a non-GAAP measure |
| Adjusted PTC | Adjusted Pretax Contribution, a non-GAAP measure of operating performance |
| AES | The Parent Company and its subsidiaries and affiliates |
| AFS | Available For Sale |
| ANEEL | Brazilian National Electric Energy Agency |
| AOCL | Accumulated Other Comprehensive Loss |
| ASC | Accounting Standards Codification |
| ASU | Accounting Standards Update |
| BNDES | Brazilian Development Bank |
| CAA | United States Clean Air Act |
| CAMMESA | Wholesale Electric Market Administrator in Argentina |
| CCGT | Combined Cycle Gas Turbine |
| CDPQ | La Caisse de depot et placement du Quebec |
| $CO_2$ | Carbon Dioxide |
| COD | Commercial Operation Date |
| COFINS | Contribuição para o Financiamento da Seguridade Social |
| CSAPR | Cross-State Air Pollution Rule |
| CTA | Cumulative Translation Adjustment |
| DP&L | The Dayton Power & Light Company |
| DPL | DPL Inc. |
| DPLER | DPL Energy Resources, Inc. |
| EPA | United States Environmental Protection Agency |
| EPC | Engineering, Procurement and Construction |
| EURIBOR | Euro Interbank Offered Rate |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FX | Foreign Exchange |
| GAAP | Generally Accepted Accounting Principles in the United States |
| GHG | Greenhouse Gas |
| GWh | Gigawatt Hours |
| HLBV | Hypothetical Liquidation Book Value |
| IPALCO | IPALCO Enterprises, Inc. |
| IPL | Indianapolis Power & Light Company |
| IURC | Indiana Utility Regulatory Commission |
| kWh | Kilowatt Hours |
| LIBOR | London Interbank Offered Rate |
| LNG | Liquid Natural Gas |
| MATS | Mercury and Air Toxics Standards |
| MW | Megawatts |
| MWh | Megawatt Hours |
| NAAQS | National Ambient Air Quality Standards |
| NPDES | National Pollutant Discharge Elimination System |
| NEK | Natsionalna Elektricheska Kompania (state-owned electricity public supplier in Bulgaria) |
| NOV | Notice of Violation |
| $NO_X$ | Nitrogen Oxides |
| NCI | Noncontrolling Interest |

| | |
|---|---|
| OCI | Other Comprehensive Income |
| OPGC | Odisha Power Generation Corporation |
| PIS | Partially Integrated System |
| PPA | Power Purchase Agreement |
| PREPA | Puerto Rico Electric Power Authority |
| RSU | Restricted Stock Unit |
| RTO | Regional Transmission Organization |
| SIC | Central Interconnected Electricity System |
| SBU | Strategic Business Unit |
| SEC | United States Securities and Exchange Commission |
| $SO_2$ | Sulfur Dioxide |
| U.S. | United States |
| USD | United States Dollar |
| VAT | Value-Added Tax |

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| | (in millions, except share and per share data) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $1,325 | $ 1,257 |
| Restricted cash | 291 | 295 |
| Short-term investments | 596 | 469 |
| Accounts receivable, net of allowance for doubtful accounts of $113 and $87, respectively | 2,081 | 2,302 |
| Inventory | 637 | 671 |
| Prepaid expenses | 92 | 106 |
| Other current assets | 1,266 | 1,318 |
| Current assets of discontinued operations and held-for-sale businesses | 1,006 | 424 |
| Total current assets | 7,294 | 6,842 |
| NONCURRENT ASSETS | | |
| Property, Plant and Equipment: | | |
| Land | 780 | 702 |
| Electric generation, distribution assets and other | 29,087 | 27,751 |
| Accumulated depreciation | (9,884 ) | (9,327 ) |
| Construction in progress | 3,300 | 3,029 |
| Property, plant and equipment, net | 23,283 | 22,155 |
| Other Assets: | | |
| Investments in and advances to affiliates | 626 | 610 |
| Debt service reserves and other deposits | 644 | 555 |
| Goodwill | 1,157 | 1,157 |
| Other intangible assets, net of accumulated amortization of $94 and $93, respectively | 227 | 207 |
| Deferred income taxes | 503 | 410 |
| Service concession assets, net of accumulated amortization of $93 and $34, respectively | 1,465 | 1,543 |
| Other noncurrent assets | 1,909 | 2,109 |
| Noncurrent assets of discontinued operations and held-for-sale businesses | — | 882 |
| Total other assets | 6,531 | 7,473 |
| TOTAL ASSETS | $37,108 | $ 36,470 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $1,426 | $ 1,571 |
| Accrued interest | 368 | 236 |
| Accrued and other liabilities | 2,026 | 2,286 |
| Non-recourse debt, includes $247 and $258, respectively, related to variable interest entities | 1,091 | 2,172 |
| Current liabilities of discontinued operations and held-for-sale businesses | 802 | 661 |

| | | |
|---|---|---|
| Total current liabilities | 5,713 | 6,926 |
| NONCURRENT LIABILITIES | | |
| Recourse debt | 4,944 | 4,966 |
| Non-recourse debt, includes $1,494 and $1,531, respectively, related to variable interest entities | 14,796 | 12,943 |
| Deferred income taxes | 1,042 | 1,090 |
| Pension and other post-retirement liabilities | 1,035 | 919 |
| Other noncurrent liabilities | 3,035 | 2,794 |
| Noncurrent liabilities of discontinued operations and held-for-sale businesses | — | 123 |
| Total noncurrent liabilities | 24,852 | 22,835 |
| Commitments and Contingencies (see Note 8) | | |
| Redeemable stock of subsidiaries | 775 | 538 |
| EQUITY | | |
| THE AES CORPORATION STOCKHOLDERS' EQUITY | | |
| Common stock ($0.01 par value, 1,200,000,000 shares authorized; 816,061,123 issued and 659,175,940 outstanding at September 30, 2016 and 815,846,621 issued and 666,808,790 outstanding at December 31, 2015) | 8 | 8 |
| Additional paid-in capital | 8,645 | 8,718 |
| Retained earnings (accumulated deficit) | (114) | 143 |
| Accumulated other comprehensive loss | (3,753) | (3,883) |
| Treasury stock, at cost (156,885,183 shares at September 30, 2016 and 149,037,831 at December 31, 2015) | (1,904) | (1,837) |
| Total AES Corporation stockholders' equity | 2,882 | 3,149 |
| NONCONTROLLING INTERESTS | 2,886 | 3,022 |
| Total equity | 5,768 | 6,171 |
| TOTAL LIABILITIES AND EQUITY | $37,108 | $ 36,470 |

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions, except per share amounts) | | | |
| Revenue: | | | | |
| Regulated | $1,785 | $1,691 | $4,926 | $5,319 |
| Non-Regulated | 1,757 | 1,831 | 5,116 | 5,617 |
| Total revenue | 3,542 | 3,522 | 10,042 | 10,936 |
| Cost of Sales: | | | | |
| Regulated | (1,623 ) | (1,458 ) | (4,521 ) | (4,447 ) |
| Non-Regulated | (1,231 ) | (1,399 ) | (3,750 ) | (4,348 ) |
| Total cost of sales | (2,854 ) | (2,857 ) | (8,271 ) | (8,795 ) |
| Operating margin | 688 | 665 | 1,771 | 2,141 |
| General and administrative expenses | (40 ) | (45 ) | (135 ) | (150 ) |
| Interest expense | (354 ) | (365 ) | (1,086 ) | (995 ) |
| Interest income | 110 | 126 | 365 | 321 |
| Loss on extinguishment of debt | (16 ) | (20 ) | (12 ) | (161 ) |
| Other expense | (13 ) | (18 ) | (42 ) | (47 ) |
| Other income | 18 | 12 | 43 | 42 |
| Gain on disposal and sale of businesses | — | 24 | 30 | 24 |
| Asset impairment expense | (79 ) | (231 ) | (473 ) | (276 ) |
| Foreign currency transaction gains (losses) | (20 ) | 12 | (16 ) | 4 |
| INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES | 294 | 160 | 445 | 903 |
| Income tax expense | (75 ) | (43 ) | (165 ) | (266 ) |
| Net equity in earnings of affiliates | 11 | 81 | 25 | 96 |
| INCOME FROM CONTINUING OPERATIONS | 230 | 198 | 305 | 733 |
| (Loss) income from operations of discontinued businesses, net of income tax benefit (expense) of $0, $(1), $4 and $6, respectively | (1 ) | 5 | (7 ) | (12 ) |
| Net loss from disposal and impairments of discontinued businesses, net of income tax benefit of $401 for the nine months ended September 30, 2016 | — | — | (382 ) | — |
| NET INCOME (LOSS) | 229 | 203 | (84 ) | 721 |
| Less: Net income attributable to noncontrolling interests | (57 ) | (23 ) | (105 ) | (330 ) |
| Less: Net loss attributable to redeemable stocks of subsidiaries | 3 | — | 8 | — |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION | $175 | $180 | $(181 ) | $391 |
| AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS: | | | | |
| Income from continuing operations, net of tax | $176 | $175 | $208 | $403 |
| (Loss) income from discontinued operations, net of tax | (1 ) | 5 | (389 ) | (12 ) |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION | $175 | $180 | $(181 ) | $391 |
| BASIC EARNINGS PER SHARE: | | | | |
| | $0.26 | $0.26 | $0.31 | $0.58 |

| | | | | |
|---|---|---|---|---|
| Income from continuing operations attributable to The AES Corporation common stockholders, net of tax | | | | |
| Income (loss) from discontinued operations attributable to The AES Corporation common stockholders, net of tax | — | 0.01 | (0.59 ) | (0.01 ) |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS | $0.26 | $0.27 | $(0.28 ) | $0.57 |
| DILUTED EARNINGS PER SHARE: | | | | |
| Income from continuing operations attributable to The AES Corporation common stockholders, net of tax | $0.26 | $0.26 | $0.31 | $0.58 |
| Loss from discontinued operations attributable to The AES Corporation common stockholders, net of tax | — | — | (0.59 ) | (0.02 ) |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS | $0.26 | $0.26 | $(0.28 ) | $0.56 |
| DILUTED SHARES OUTSTANDING | 662 | 682 | 662 | 694 |
| DIVIDENDS DECLARED PER COMMON SHARE | $0.11 | $0.10 | $0.22 | $0.20 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| NET INCOME (LOSS) | $229 | $203 | $(84) | $721 |
| Foreign currency translation activity: | | | | |
| Foreign currency translation adjustments, net of income tax benefit (expense) of $(1), $1, $0 and $1, respectively | (16) | (513) | 232 | (857) |
| Total foreign currency translation adjustments | (16) | (513) | 232 | (857) |
| Derivative activity: | | | | |
| Change in derivative fair value, net of income tax benefit (expense) of $(7), $22, $39 and $22, respectively | 19 | (70) | (138) | (73) |
| Reclassification to earnings, net of income tax expense of $4, $0, $5 and $6, respectively | 21 | 14 | 23 | 46 |
| Total change in fair value of derivatives | 40 | (56) | (115) | (27) |
| Pension activity: | | | | |
| Reclassification to earnings due to amortization of net actuarial loss, net of income tax expense of $2, $3, $4 and $8, respectively | 3 | 4 | 10 | 13 |
| Total pension adjustments | 3 | 4 | 10 | 13 |
| OTHER COMPREHENSIVE INCOME (LOSS) | 27 | (565) | 127 | (871) |
| COMPREHENSIVE INCOME (LOSS) | 256 | (362) | 43 | (150) |
| Less: Comprehensive (income) loss attributable to noncontrolling interests | (66) | 229 | (94) | 56 |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION | $190 | $(133) | $(51) | $(94) |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (in millions) | |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $(84) | $721 |
| Adjustments to net income: | | |
| Depreciation and amortization | 877 | 880 |
| Gain on sales and disposals of businesses | (30) | (24) |
| Impairment expenses | 475 | 276 |
| Deferred income taxes | (475) | (8) |
| Provisions for (reversals of) contingencies | 28 | (91) |
| Loss on extinguishment of debt | 12 | 165 |
| Loss on sales of assets | 26 | 23 |
| Impairments of discontinued operations and held-for-sale businesses | 783 | — |
| Other | 106 | 50 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in accounts receivable | 335 | (314) |
| (Increase) decrease in inventory | 36 | (11) |
| (Increase) decrease in prepaid expenses and other current assets | 670 | 377 |
| (Increase) decrease in other assets | (237) | (1,103) |
| Increase (decrease) in accounts payable and other current liabilities | (567) | 238 |
| Increase (decrease) in income tax payables, net and other tax payables | (270) | (126) |
| Increase (decrease) in other liabilities | 497 | 452 |
| Net cash provided by operating activities | 2,182 | 1,505 |
| INVESTING ACTIVITIES: | | |
| Capital expenditures | (1,770) | (1,687) |
| Acquisitions, net of cash acquired | (61) | (17) |
| Proceeds from the sale of businesses, net of cash sold, and equity method investments | 157 | 96 |
| Sale of short-term investments | 3,747 | 3,683 |
| Purchase of short-term investments | (3,797) | (3,605) |
| Increase in restricted cash, debt service reserves and other assets | (123) | (60) |
| Other investing | (22) | (49) |
| Net cash used in investing activities | (1,869) | (1,639) |
| FINANCING ACTIVITIES: | | |
| Borrowings under the revolving credit facilities | 1,079 | 677 |
| Repayments under the revolving credit facilities | (856) | (644) |
| Issuance of recourse debt | 500 | 575 |
| Repayments of recourse debt | (808) | (915) |
| Issuance of non-recourse debt | 2,118 | 3,281 |
| Repayments of non-recourse debt | (1,720) | (2,468) |
| Payments for financing fees | (86) | (65) |
| Distributions to noncontrolling interests | (356) | (182) |

| | | |
|---|---|---|
| Contributions from noncontrolling interests and redeemable security holders | 154 | 117 |
| Proceeds from the sale of redeemable stock of subsidiaries | 134 | 461 |
| Dividends paid on AES common stock | (218 ) | (209 ) |
| Payments for financed capital expenditures | (108 ) | (110 ) |
| Purchase of treasury stock | (79 ) | (408 ) |
| Other financing | (12 ) | (24 ) |
| Net cash (used in) provided by financing activities | (258 ) | 86 |
| Effect of exchange rate changes on cash | 7 | (40 ) |
| Decrease in cash of discontinued operations and held-for-sale businesses | 6 | 7 |
| Total increase (decrease) in cash and cash equivalents | 68 | (81 ) |
| Cash and cash equivalents, beginning | 1,257 | 1,517 |
| Cash and cash equivalents, ending | $1,325 | $1,436 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash payments for interest, net of amounts capitalized | $837 | $875 |
| Cash payments for income taxes, net of refunds | $425 | $319 |
| SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Assets acquired through capital lease and other liabilities | $5 | $12 |

See Notes to Condensed Consolidated Financial Statements.

THE AES CORPORATION
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2016 and 2015
1. FINANCIAL STATEMENT PRESENTATION
The prior-period condensed consolidated financial statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) have been reclassified to reflect the businesses held-for-sale and discontinued operations as discussed in Note 16—Discontinued Operations.
Consolidation — In this Quarterly Report the terms “AES,” “the Company,” “us” or “we” refer to the consolidated entity including its subsidiaries and affiliates. The terms “The AES Corporation” or “the Parent Company” refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, variable interest entities (“VIEs”) in which the Company has a variable interest have been consolidated where the Company is the primary beneficiary. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.
Interim Financial Presentation — The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with GAAP, as contained in the FASB ASC, for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income and cash flows. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of results that may be expected for the year ending December 31, 2016. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2015 audited consolidated financial statements and notes thereto, which are included in the 2015 Form 10-K filed with the SEC on February 23, 2016 (the “2015 Form 10-K”).
New Accounting Pronouncements — The following table provides a brief description of recent accounting pronouncements that had and/or could have a material impact on the Company’s consolidated financial statements. Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have no material impact on the Company’s consolidated financial statements.
New Accounting Standards Adopted

| ASU Number and Name | Description | Date of Adoption | Effect on the financial statements upon adoption |
|---|---|---|---|
| 2015-03, 2015-15, Interest — Imputation of Interest (Subtopic 835-30) | These standards simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a tranche of debt be presented on the balance sheet as a direct deduction from the carrying amount of that debt, consistent with debt discounts. Debt issuance costs related to a line-of-credit can still be presented as an asset and subsequently amortized over the term of the line-of-credit, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by the standard. Transition method: retrospective. | January 1, 2016 | Deferred financing costs of $24 million previously classified within other current assets and $357 million previously classified within other noncurrent assets were reclassified to reduce the related debt liabilities as of December 31, 2015. |
| 2015-02, Consolidation — Amendments to the Consolidation Analysis (Topic 810) | The standard makes targeted amendments to the current consolidation guidance and ends the deferral granted to investment companies from applying the VIE guidance. The standard amends the evaluation | January 1, 2016 | None, other than that some entities previously consolidated under the voting model are now |

| | |
|---|---|
| of whether (1) fees paid to a decision-maker or service providers represent a variable interest, (2) a limited partnership or similar entity has the characteristics of a VIE and (3) a reporting entity is the primary beneficiary of a VIE. Transition method: retrospective. | consolidated under the VIE model. |

6

New Accounting Standards Issued But Not Yet Effective

| ASU Number and Name | Description | Date of Adoption | Effect on the financial statements upon adoption |
|---|---|---|---|
| 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control | This standard amends the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. Transition method: retrospectively. | January 1, 2017. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory | This standard requires that an entity recognizes the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Transition method: modified retrospective method. | January 1, 2018. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) | This standard provides specific guidance on how certain cash transactions are presented and classified in the statement of cash flows. Transition method: retrospective method. | January 1, 2018. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard, but does not anticipate a material impact on its consolidated financial statements. |
| 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | The standard updates the impairment model for financial assets measured at amortized cost to an expected loss model rather than an incurred loss model. It also allows for the presentation of credit losses on available-for-sale debt securities as an allowance rather than a write down. Transition method: various. | January 1, 2020. Early adoption is permitted only as of January 1, 2019. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting | The standard simplifies the following aspects of accounting for share-based payments awards: accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. Transition method: various. | January 1, 2017. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |

| | | | |
|---|---|---|---|
| 2016-02, Leases (Topic 842) | The standard creates Topic 842, Leases, which supersedes Topic 840, Leases. It introduces a lessee model that brings substantially all leases onto the balance sheet while retaining most of the principles of the existing lessor model in U.S. GAAP and aligning many of those principles with ASC 606, Revenue from Contracts with Customers. Transition method: modified retrospective approach with certain practical expedients. | January 1, 2019. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory | The standard replaces the current lower of cost or market test with a lower of cost or net realizable value test. Transition method: prospectively. | January 1, 2017. Early adoption is permitted. | The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements. |
| 2014-09, 2015-14, 2016-08, 2016-10, 2016-12, Revenue from Contracts with Customers (Topic 606), | The Revenue from Contracts with Customers standard provides a single and comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles to determine the measurement and timing of revenue recognition. The standard requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amendments to the standard provide further clarification on contract revenue recognition specifically related to the implementation of the principal versus agent evaluation, the identification of performance obligations, clarification on accounting for licenses of intellectual property, and allows for the election to account for shipping and handling activities performed after control of a good has been transferred to the customer as a fulfillment cost. Transition method: a full retrospective or modified retrospective approach. | January 1, 2018. Earlier application is permitted only as of January 1, 2017. | The Company will adopt the standard on January 1, 2018; and it is currently evaluating the impact of its adoption on the consolidated financial statements. |

2. INVENTORY

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Fuel and other raw materials | $ 294 | $ 343 |
| Spare parts and supplies | 343 | 328 |
| Total | $ 637 | $ 671 |

3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximate their reported carrying amounts. The estimated fair value of the Company’s assets and liabilities has been determined using available market information. By virtue of these amounts being estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The Company made no changes during the period to the fair valuation techniques described in Note 4.—Fair Value in Item 8.—Financial Statements and Supplementary Data of its 2015 Form 10-K.

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Recurring Measurements — The following table presents, by level within the fair value hierarchy, the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of the periods indicated (in millions). For the Company's investments in marketable debt and equity securities, the security classes presented are determined based on the nature and risk of the security and are consistent with how the Company manages, monitors and measures its marketable securities:

| | September 30, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| AVAILABLE FOR SALE: | | | | | | | | |
| Debt securities: | | | | | | | | |
| Unsecured debentures | $— | $ 372 | $ — | $372 | $— | $ 318 | $ — | $318 |
| Certificates of deposit | — | 168 | — | 168 | — | 129 | — | 129 |
| Government debt securities | — | 9 | — | 9 | — | 28 | — | 28 |
| Subtotal | — | 549 | — | 549 | — | 475 | — | 475 |
| Equity securities: | | | | | | | | |
| Mutual funds | — | 40 | — | 40 | — | 15 | — | 15 |
| Subtotal | — | 40 | — | 40 | — | 15 | — | 15 |
| Total available for sale | — | 589 | — | 589 | — | 490 | — | 490 |
| TRADING: | | | | | | | | |
| Equity securities: | | | | | | | | |
| Mutual funds | 16 | — | — | 16 | 15 | — | — | 15 |
| Total trading | 16 | — | — | 16 | 15 | — | — | 15 |
| DERIVATIVES: | | | | | | | | |
| Cross-currency derivatives | — | 3 | — | 3 | — | — | — | — |
| Foreign currency derivatives | — | 42 | 274 | 316 | — | 35 | 292 | 327 |
| Commodity derivatives | — | 52 | 10 | 62 | — | 41 | 7 | 48 |
| Total derivatives — assets | — | 97 | 284 | 381 | — | 76 | 299 | 375 |
| TOTAL ASSETS | $16 | $ 686 | $ 284 | $986 | $15 | $ 566 | $ 299 | $880 |
| Liabilities | | | | | | | | |
| DERIVATIVES: | | | | | | | | |
| Interest rate derivatives | $— | $ 194 | $ 307 | $501 | $— | $ 54 | $ 304 | $358 |
| Cross-currency derivatives | — | 26 | — | 26 | — | 43 | — | 43 |
| Foreign currency derivatives | — | 82 | — | 82 | — | 41 | 15 | 56 |
| Commodity derivatives | — | 37 | 1 | 38 | — | 29 | 4 | 33 |
| Total derivatives — liabilities | — | 339 | 308 | 647 | — | 167 | 323 | 490 |
| TOTAL LIABILITIES | $— | $ 339 | $ 308 | $647 | $— | $ 167 | $ 323 | $490 |

As of September 30, 2016, all AFS debt securities had stated maturities within one year. Gains and losses on the sale of investments are determined using the specific-identification method. For the three and nine months ended September 30, 2016 and 2015 no other-than-temporary impairments of marketable securities were recognized in earnings or OCI. The table below presents gross proceeds from the sale of available for sale securities during the periods indicated (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Gross proceeds from sale of AFS securities | $812 | $1,105 | $3,216 | $3,285 |

The following tables present a reconciliation of net derivative assets and liabilities by type measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 and 2015 (in millions). Transfers between Level 3 and Level 2 are determined as of the end of the reporting period and principally result from changes in the significance of unobservable inputs used to calculate the credit valuation adjustment.

| Three Months Ended September 30, 2016 | Interest Rate | Foreign Currency | Commodity | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | $(421) | $ 271 | $ 11 | $(139) |
| Total realized and unrealized gains (losses): | | | | |
| Included in earnings | (1) | 12 | 1 | 12 |
| Included in other comprehensive income — derivative activity | 6 | — | — | 6 |
| Included in other comprehensive income — foreign currency translation activity | — | (5) | — | (5) |
| Settlements | 17 | (4) | (3) | 10 |
| Transfers of liabilities into Level 3 | (2) | — | — | (2) |
| Transfers of liabilities out of Level 3 | 94 | — | — | 94 |
| Balance at the end of the period | $(307) | $ 274 | $ 9 | $(24) |
| Total gains for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period | $— | $ 8 | $ 1 | $9 |

| Three Months Ended September 30, 2015 | Interest Rate | Foreign Currency | Commodity | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | $(191) | $ 222 | $ 17 | $48 |
| Total realized and unrealized gains (losses): | | | | |
| Included in earnings | (1) | 19 | — | 18 |
| Included in other comprehensive income — derivative activity | (33) | — | — | (33) |
| Included in other comprehensive income — foreign currency translation activity | — | (8) | — | (8) |
| Included in regulatory (assets) liabilities | — | — | (20) | (20) |
| Settlements | 7 | (2) | 12 | 17 |
| Transfers of liabilities into Level 3 | (65) | — | — | (65) |
| Balance at the end of the period | $(283) | $ 231 | $ 9 | $(43) |
| Total gains for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period | $— | $ 18 | $ — | $18 |

| Nine Months Ended September 30, 2016 | Interest Rate | Foreign Currency | Commodity | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | $(304) | $ 277 | $ 3 | $(24) |
| Total realized and unrealized gains (losses): | | | | |
| Included in earnings | — | 30 | 3 | 33 |
| Included in other comprehensive income — derivative activity | (172) | 6 | — | (166) |
| Included in other comprehensive income — foreign currency translation activity | (3) | (43) | — | (46) |
| Included in regulatory (assets) liabilities | — | — | 11 | 11 |
| Settlements | 56 | (8) | (8) | 40 |
| Transfers of liabilities into Level 3 | (2) | — | — | (2) |
| Transfers of liabilities out of Level 3 | 118 | 12 | — | 130 |
| Balance at the end of the period | $(307) | $ 274 | $ 9 | $(24) |
| Total gains for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period | $5 | $ 25 | $ 3 | $33 |

| Nine Months Ended September 30, 2015 | Interest Rate | Foreign Currency | Commodity | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | $(210) | $ 209 | $ 6 | $5 |
| Total realized and unrealized gains (losses): | | | | |
| Included in earnings | (1) | 49 | 2 | 50 |
| Included in other comprehensive income — derivative activity | (30) | — | — | (30) |
| Included in other comprehensive income — foreign currency translation activity | 7 | (21) | — | (14) |
| Included in regulatory (assets) liabilities | — | — | (12) | (12) |
| Settlements | 16 | (6) | 13 | 23 |
| Transfers of liabilities into Level 3 | (65) | — | — | (65) |
| Balance at the end of the period | $(283) | $ 231 | $ 9 | $(43) |
| Total gains for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period | $— | $ 44 | $ 2 | $46 |

The table below summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of September 30, 2016 (in millions, except range amounts):

| Type of Derivative | Fair Value | Unobservable Input | Amount or Range (Weighted Avg) |
|---|---|---|---|
| Interest rate | $ (307) | Subsidiaries' credit spreads | 2.4% to 31.5% (4.3%) |

| | | | |
|---|---|---|---|
| Foreign currency: | | | |
| Argentine Peso | 274 | Argentine Peso to USD currency exchange rate after one year | 17.5 to 32.7 (25.4) |
| Other | 9 | | |
| Total | $ (24 ) | | |

Nonrecurring Measurements

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

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| Nine Months Ended September 30, 2016 | Measurement Date | Carrying Amount (1) | Fair Value | | | Pretax Loss |
|---|---|---|---|---|---|---|
| Assets | | | Level 1 | Level 2 | Level 3 | |
| Long-lived assets held and used: [2] | | | | | | |
| Buffalo Gap I | 08/31/2016 | $ 113 | $ — | $ — | $ 35 | $ 78 |
| DPL | 06/30/2016 | 324 | — | — | 89 | 235 |
| Buffalo Gap II | 03/31/2016 | 251 | — | — | 92 | 159 |
| Discontinued operations: [3] | | | | | | |
| Sul | 06/30/2016 | 1,581 | — | 470 | — | 783 |

| Nine Months Ended September 30, 2015 | Measurement Date | Carrying Amount (1) | Fair Value | | | Pretax Loss |
|---|---|---|---|---|---|---|
| Assets | | | Level 1 | Level 2 | Level 3 | |
| Long-lived assets held and used: [2] | | | | | | |
| Buffalo Gap III | 09/30/2015 | $ 234 | $ — | $ — | $ 116 | $ 118 |
| Kilroot | 08/28/2015 | 191 | — | — | 78 | 113 |
| UK Wind | 06/30/2015 | 38 | — | 1 | — | 37 |
| Other | Various | 29 | — | 21 | — | 8 |
| Equity method investments: | | | | | | |
| Solar Spain | 02/09/2015 | 29 | — | — | 29 | — |

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

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

(3) Per the Company's policy, pre-tax loss is limited to the impairment of long-lived assets. Any additional loss will be recognized on completion of the sale. See Note 16—Discontinued Operations for further information.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement on a nonrecurring basis during the nine months ended September 30, 2016 (in millions, except range amounts):

| | Fair Value | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Long-lived assets held and used: | | | | |
| Buffalo Gap I | $ 35 | Discounted cash flow | Annual revenue growth | -20% to 9% (-14%) |
| | | | Annual pretax operating margin | -40% to 42% (29%) |
| | | | Weighted-average cost of capital | 9 % |
| DPL | 89 | Discounted cash flow | Annual revenue growth | -11% to 13% (1%) |
| | | | Annual pretax operating margin | -50% to 60% (5%) |
| | | | Weighted-average cost of capital | 7% to 12% |
| Buffalo Gap II | 92 | Discounted cash flow | Annual revenue growth | -17% to 21% (20%) |
| | | | Annual pretax operating margin | -166% to 48% (18%) |
| | | | Weighted-average cost of capital | 9 % |

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

The next table presents (in millions) the carrying amount, fair value and fair value hierarchy of the Company's financial assets and liabilities that are not measured at fair value in the Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, but for which fair value is disclosed:

| | | September 30, 2016 | | | | |
|---|---|---|---|---|---|---|
| | | Carrying Amount | Fair Value | | | |
| | | | Total | Level 1 | Level 2 | Level 3 |
| Assets: | Accounts receivable — noncurrent[1] | $222 | $312 | $ — | $ — | $312 |
| Liabilities: | Non-recourse debt | 15,887 | 16,411 | — | 14,381 | 2,030 |
| | Recourse debt | 4,944 | 5,298 | — | 5,298 | — |
| | | December 31, 2015 | | | | |
| | | Carrying Amount | Fair Value | | | |
| | | | Total | Level 1 | Level 2 | Level 3 |
| Assets: | Accounts receivable — noncurrent[1] | $238 | $310 | $ — | $ 20 | $290 |
| Liabilities: | Non-recourse debt | 15,115 | 15,592 | — | 13,325 | 2,267 |
| | Recourse debt | 4,966 | 4,696 | — | 4,696 | — |

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(1) These amounts principally relate to amounts due from CAMMESA, and are included in Other noncurrent assets in the accompanying Condensed Consolidated Balance Sheets. The fair value and carrying amount of these receivables exclude VAT of $23 million and $27 million as of September 30, 2016 and December 31, 2015, respectively.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

There are no changes to the information disclosed in Note 1—General and Summary of Significant Accounting Policies—Derivatives and Hedging Activities of Item 8.—Financial Statements and Supplementary Data in the 2015 Form 10-K.

Volume of Activity — The following table presents the Company's significant outstanding notional (in millions) by type of derivative as of September 30, 2016, regardless of whether they are in qualifying cash flow hedging relationships, and the dates through which the maturities for each type of derivative range:

| Derivatives | Current Notional Translated to USD | Latest Maturity |
|---|---|---|
| Interest Rate (LIBOR and EURIBOR) | $ 3,324 | 2033 |
| Cross-Currency Swaps (Chilean Unidad de Fomento and Chilean Peso) | 379 | 2029 |
| Foreign Currency: | | |
| Argentine Peso | 158 | 2026 |
| Chilean Unidad de Fomento | 196 | 2019 |
| Others, primarily with weighted average remaining maturities of a year or less | 1,227 | 2019 |

Accounting and Reporting — Assets and Liabilities — The following tables present the fair value of assets and liabilities related to the Company's derivative instruments as of September 30, 2016 and December 31, 2015 (in millions):

| Fair Value | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| Assets | Designated | Not Designated | Total | Designated | Not Designated | Total |
| Cross-currency derivatives | $3 | $ — | $3 | $— | $ — | $— |
| Foreign currency derivatives | 11 | 305 | 316 | 8 | 319 | 327 |
| Commodity derivatives | 28 | 34 | 62 | 30 | 18 | 48 |
| Total assets | $42 | $ 339 | $381 | $38 | $ 337 | $375 |
| Liabilities | | | | | | |
| Interest rate derivatives | $495 | $ 6 | $501 | $358 | $ — | $358 |
| Cross-currency derivatives | 26 | — | 26 | 43 | — | 43 |
| Foreign currency derivatives | 35 | 47 | 82 | 35 | 21 | 56 |
| Commodity derivatives | 20 | 18 | 38 | 12 | 21 | 33 |
| Total liabilities | $576 | $ 71 | $647 | $448 | $ 42 | $490 |

| Fair Value | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current | $110 | $ 158 | $86 | $ 144 |
| Noncurrent | 271 | 489 | 289 | 346 |
| Total | $381 | $ 647 | $375 | $ 490 |

| Credit Risk-Related Contingent Features [(1)] | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Present value of liabilities subject to collateralization | $47 | $ 58 |
| Cash collateral held by third parties or in escrow | 21 | 38 |

(1) Based on the credit rating of certain subsidiaries

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |

| | | | | |
|---|---|---|---|---|
| Effective portion of cash flow hedges: | | | | |
| Gain (Losses) recognized in AOCL | | | | |
| Interest rate derivatives | $7 | $(110) | $(213) | $(130) |
| Cross-currency derivatives | 15 | 3 | 12 | 4 |
| Foreign currency derivatives | (6) | 5 | (11) | 6 |
| Commodity derivatives | 10 | 10 | 35 | 25 |
| Total | $26 | $(92) | $(177) | $(95) |
| Gain (Losses) reclassified from AOCL into earnings | | | | |
| Interest rate derivatives | $(26) | $(33) | $(81) | $(88) |
| Cross-currency derivatives | 4 | (1) | 14 | (3) |
| Foreign currency derivatives | (7) | 12 | (3) | 20 |
| Commodity derivatives | 4 | 8 | 42 | 19 |
| Total | $(25) | $(14) | $(28) | $(52) |
| Gain (Losses) recognized in earnings related to | | | | |
| Ineffective portion of cash flow hedges | $(2) | $(2) | $— | $(6) |
| Not designated as hedging instruments: | | | | |
| Foreign currency derivatives | $(6) | $23 | $10 | $62 |
| Commodity derivatives and Other | 7 | (10) | (11) | (18) |
| Total | $1 | $13 | $(1) | $44 |

| | Twelve Months Ended September 30, 2017 |
|---|---|
| AOCL expected to decrease pre-tax income from continuing operations [1] | $133 |

[1] Primarily due to interest rate derivatives

5. FINANCING RECEIVABLES

Financing receivables are defined as receivables with contractual maturities of greater than one year. The Company's financing receivables are primarily related to amended agreements or government resolutions that are due from CAMMESA. Presented below are financing receivables by country as of the periods indicated (in millions):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Argentina | $ 217 | $ 237 |
| United States | 20 | 20 |
| Brazil | 8 | 7 |
| Total long-term financing receivables | $ 245 | $ 264 |

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

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

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

| | Nine Months Ended September 30, | |
|---|---|---|
| 50%-or-less-Owned Affiliates | 2016 | 2015 |
| Revenue | $439 | $496 |
| Operating margin | 108 | 118 |
| Net income | 46 | 193 |

Solar Spain — On September 24, 2015, the Company completed the sale of Solar Spain, an equity method investment. Net proceeds from the sale transaction were $31 million and the Company recognized a pretax gain on sale of less than $1 million.

Guacolda — On September 1, 2015, AES Gener and Global Infrastructure Partners ("GIP") executed a restructuring of Guacolda that increased Guacolda's tax basis in certain long-term assets and AES Gener's equity investment. As a result, AES Gener recorded $66 million in net equity in earnings of affiliates for the three and nine months ended September 30, 2015, of which $46 million is attributable to The AES Corporation.

Silver Ridge Power — As part of the Company's sale of its 50% ownership interest in Silver Ridge Power, LLC ("SRP") on July 2, 2014, the buyer had an option to purchase the Company's indirect 50% interest in SRP's solar generation business in Italy ("Solar Italy") for additional consideration of $42 million by August 2015. The buyer exercised its option to purchase Solar Italy on August 31, 2015, and the sale was completed on October 1, 2015.

7. DEBT

Recourse Debt

In July 2016, the Company redeemed in full the $181 million balance of its 8.0% outstanding senior unsecured notes due 2017 using proceeds from its senior secured credit facility. As a result, the Company recognized a loss on extinguishment of debt of $16 million for the three and nine months ended September 30, 2016 that is included in the Condensed Consolidated Statement of Operations.

In May 2016, the Company issued $500 million aggregate principal amount of 6.0% senior notes due 2026. The Company used these proceeds to redeem, at par, $495 million aggregate principal of its existing LIBOR + 3.00% senior unsecured notes due 2019. As a result of the latter transaction, the Company recognized a net loss on extinguishment of debt of $4 million for the nine months ended September 30, 2016 that is included in the Condensed Consolidated Statement of Operations.

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

In April 2015, the Company issued $575 million aggregate principal amount of 5.5% senior notes due 2025. Concurrent with this offering, the Company redeemed via tender offers $344 million aggregate principal of its existing 8.0% senior unsecured notes due 2017, and $156 million of its existing 8.0% senior unsecured notes due 2020. As a result of the latter transaction, the Company recognized a loss on extinguishment of debt of $82 million for the nine months ended September 30, 2015 that is included in the Condensed Consolidated Statement of Operations.
In March 2015, the Company redeemed in full the $151 million balance of its 7.75% senior unsecured notes due October 2015 and the $164 million balance of its 9.75% senior unsecured notes due April 2016. As a result of these transactions, the Company recognized a loss on extinguishment of debt of $23 million for the nine months ended September 30, 2015 that is included in the Condensed Consolidated Statement of Operations.
Non-Recourse Debt
During the nine months ended September 30, 2016, the Company's subsidiaries engaged in the following significant debt transactions:

| Subsidiary | Issuances | Repayments | Gain (Loss) on Extinguishment of Debt |
|---|---|---|---|
| IPALCO | $ 598 | $ (390 ) | $ — |
| Gener | 619 | (279 ) | 7 |
| Andres | 220 | (180 ) | (2 ) |
| Los Mina | 118 | — | — |
| Itabo Opco | 100 | (70 ) | (1 ) |
| Maritza | 18 | (136 ) | — |
| DPL | 445 | (521 ) | (3 ) |
| Other | 266 | (462 ) | — |
| | $ 2,384 | $ (2,038 ) | $ 1 |

Non-recourse debt in default — The following table summarizes the Company's subsidiary non-recourse debt in default as of September 30, 2016 (in millions). Due to the defaults, these amounts are included in the current portion of non-recourse debt:

| Subsidiary | Primary Nature of Default | Debt in Default | Net Assets |
|---|---|---|---|
| Kavarna (Bulgaria) | Covenant | $ 129 | $ (50 ) |
| Sogrinsk (Kazakhstan) | Covenant | 5 | 6 |
| | | $ 134 | |

The above defaults are not payment defaults. All of the subsidiary non-recourse debt defaults were triggered by failure to comply with covenants and/or other conditions such as (but not limited to) failure to meet information covenants, complete construction or other milestones in an allocated time, meet certain minimum or maximum financial ratios, or other requirements contained in the non-recourse debt documents of the applicable subsidiary.
In the event that there is a default, bankruptcy or maturity acceleration at a subsidiary or group of subsidiaries that meets the applicable definition of materiality under the Parent Company's corporate debt agreements, there could be a cross-default to the Company's recourse debt. A material subsidiary is defined in the Parent Company's senior secured credit facility as any business that contributed 20% or more of the Parent Company's total cash distributions from businesses for the four most recently completed fiscal quarters. As of September 30, 2016, none of the defaults listed above individually or in the aggregate result in or are at risk of triggering a cross-default under the recourse debt of the Parent Company. In the event the Parent Company is not in compliance with the financial covenants of its senior secured credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment and bankruptcy defaults would preclude the making of any restricted payments.
8. COMMITMENTS AND CONTINGENCIES
Guarantees, Letters of Credit and Commitments — In connection with certain project financing, acquisition, power purchase and other agreements, the Parent Company has expressly undertaken limited obligations and commitments,

most of which will only be effective or will be terminated upon the occurrence of future events. In the normal course of business, the Parent Company has entered into various agreements, mainly guarantees and letters of credit, to provide financial or performance assurance to third parties on behalf of AES subsidiaries. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its

businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to more than 18 years.
Presented below is the Parent Company's current undiscounted exposure to guarantees and the potential range of maximum undiscounted exposure. The maximum exposure is not reduced by the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees. The table below summarizes the Parent Company's contingent contractual obligations as of September 30, 2016 (in millions, except range amounts).

| Contingent Contractual Obligations | Amount | No. of Agreements | Maximum Exposure Range for Each Agreement |
|---|---|---|---|
| Guarantees and commitments | $ 497 | 17 | $8 — 58 |
| Letters of credit under the unsecured credit facility | 146 | 6 | $2 — 58 |
| Asset sale related indemnities [(1)] | 27 | 1 | $27 |
| Cash collateralized letters of credit | 3 | 1 | $3 |
| Letters of credit under the senior secured credit facility | 6 | 15 | <$1 — 1 |
| Total | $ 679 | 40 | |

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

During the nine months ended September 30, 2016, the Company paid letter of credit fees ranging from 0.2% to 2.5% per annum on the outstanding amounts of letters of credit.

Contingencies

Environmental — The Company periodically reviews its obligations as they relate to compliance with environmental laws, including site restoration and remediation. As of September 30, 2016 and December 31, 2015, the Company had recognized liabilities of $11 million and $10 million, respectively, relating to projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation with current legislation or costs for new legislation introduced could be higher or lower than the amount currently accrued. Moreover, where no liability has been recognized, it is reasonably possible that the Company may be required to incur remediation costs or make expenditures in amounts that could be material but could not be estimated as of September 30, 2016. In aggregate, the Company estimates the potential losses related to environmental matters, where estimable, to be up to $21 million. The amounts considered reasonably possible do not include amounts accrued as discussed above.

Litigation — The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has evaluated claims in accordance with the accounting guidance for contingencies that it deems both probable and reasonably estimable and, accordingly, has recognized aggregate liabilities for all claims of approximately $177 million and $179 million as of September 30, 2016 and December 31, 2015, respectively. Recognized aggregate liabilities for these claims are reported on the Condensed Consolidated Balance Sheets within Accrued and other liabilities and Other noncurrent liabilities. A significant portion of these accrued liabilities relate to labor and employment, non-income tax and customer disputes in international jurisdictions, principally Brazil where there are a number of labor and employment lawsuits. The complaints generally seek unspecified monetary damages, injunctive relief, or other relief. The AES subsidiaries have denied any liability and intend to vigorously defend themselves in all of these proceedings. There can be no assurance that these accrued liabilities will be adequate to cover all existing and future claims or that we will have the liquidity to pay such claims as they arise.

The Company believes, based upon information it currently possesses and taking into account established accruals for liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material effect on the Company's consolidated financial statements. However, where no accrued liability has been

recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of September 30, 2016. The material contingencies where a loss is reasonably possible primarily include (1) claims under financing agreements, including the Eletrobrás case (see Part II—Item 1—Legal Proceedings of this Form 10-Q); (2) disputes with offtakers, suppliers and EPC contractors; (3) alleged violation of monopoly laws and regulations; (4) income tax and non-income tax matters with tax authorities; and (5) regulatory matters. In aggregate, the Company estimates that the range of potential losses, where estimable, related to these reasonably possible material contingencies is between $1.4 billion and $1.7 billion. Certain claims are in settlement negotiations. These claims considered reasonably possible do not include the amounts accrued,

as discussed in the preceding paragraph, nor do they include income tax-related contingencies which are considered part of our uncertain tax positions.

Regulatory — During the fourth quarter of 2013, the Company recognized a regulatory liability of $269 million for a contingency related to an administrative ruling which required Eletropaulo to refund customers' amounts due to the regulatory asset base. During the second half of 2014, Eletropaulo started refunding customers as part of the tariff. In January 2015, ANEEL updated the tariff to exclude any further customer refunds. On June 30, 2015, ANEEL included in the tariff reset the reimbursement to Eletropaulo of these amounts previously refunded to customers to begin in July 2015. During the second quarter of 2015, as a result of favorable events, management reassessed the contingency and determined that it no longer meets the recognition criteria under ASC 450 Contingencies. Management believes that it is now only reasonably possible that Eletropaulo will have to refund these amounts to customers. Accordingly, the Company reversed the remaining regulatory liability for this contingency of $161 million in the second quarter of 2015, which increased Regulated revenue by $97 million and reduced Interest expense by $64 million. Amounts related to this case are included as part of our reasonably possible contingent range discussed in the preceding paragraph.

## 9. PENSION PLANS

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign | U.S. | Foreign |
| Service cost | $3 | $ 3 | $4 | $ 4 | $9 | $ 9 | $12 | $ 12 |
| Interest cost | 10 | 92 | 12 | 84 | 30 | 255 | 35 | 281 |
| Expected return on plan assets | (17) | (59) | (17) | (59) | (50) | (164) | (51) | (197) |
| Amortization of prior service cost | 2 | — | 1 | — | 6 | — | 5 | — |
| Amortization of net loss | 5 | 5 | 5 | 6 | 14 | 14 | 15 | 21 |
| Total pension cost | $3 | $ 41 | $5 | $ 35 | $9 | $ 114 | $16 | $ 117 |

| | Nine Months Ended September 30, 2016 | | Remainder of 2016 (Expected) | |
|---|---|---|---|---|
| | U.S. | Foreign | U.S. | Foreign |
| Total employer contributions | $22 | $ 103 | $— | $ 41 |

## 10. REDEEMABLE STOCK OF SUBSIDIARIES

The table below is a reconciliation of changes in redeemable stock of subsidiaries (in millions):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Balance at the beginning of the period | $538 | $78 |
| Sale of redeemable stock of subsidiaries | 134 | 460 |
| Contributions to redeemable stocks of subsidiaries | 130 | — |
| Net loss attributable to redeemable stocks of subsidiaries | (8) | — |
| Fair value adjustment recorded to retained earnings [(1)] | 4 | — |
| Reclassification of mandatorily redeemable stock of subsidiaries to other liabilities | (23) | — |
| Balance at the end of the period | $775 | $538 |

(1) $5 million increase in fair value of DP&L preferred shares offset by $1 million decrease in fair value of Colon common stock.

The table below presents the investments in redeemable stock of subsidiaries (in millions):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| IPALCO | $ 618 | $ 460 |
| Colon | 97 | — |
| IPL preferred shares | 60 | 60 |
| DP&L preferred shares | — | 18 |
| Redeemable stock of subsidiaries | $ 775 | $ 538 |

Colon — During the nine months ended September 30, 2016, our partner in Colon invested an additional $23 million, increasing their ownership from 25% to 49.9%, and $83 million, with no impact to the ownership structure of the investment. Any subsequent adjustments to allocate earnings and dividends to our partner or measure the investment at fair value, will be classified as temporary equity each reporting period as it is probable that the shares will become redeemable.

DP&L — In September 2016, it became probable that the preferred shares of DP&L, a wholly-owned subsidiary of DPL, would become redeemable. As such, the Company recorded an adjustment of $5 million to retained earnings to adjust the preferred shares to their redemption value of $23 million. Notice of the redemption

plan was issued on September 13, 2016, at which point the shares became mandatorily redeemable and were reclassified to other liabilities.

IPALCO — In March 2016, La Caisse de depot et placement du Quebec ("CDPQ") completed its investment commitment in IPALCO by investing $134 million in IPALCO Enterprises, Inc. ("IPALCO"). As a result of this transaction, CDPQ owns a combined direct and indirect interest in IPALCO of 30%. In June 2016, CDPQ contributed an additional $24 million to IPALCO, with no impact to ownership structure of the investment. Any subsequent adjustments to allocate earnings and dividends to CDPQ will be classified as NCI within permanent equity as it is not probable that the shares will become redeemable.

11. EQUITY

Changes in Equity — The table below is a reconciliation of the beginning and ending equity attributable to stockholders of The AES Corporation, NCI and total equity as of the periods indicated (in millions):

| | Nine Months Ended September 30, 2016 | | | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | The Parent Company Stockholders' Equity | NCI | Total Equity | The Parent Company Stockholders' Equity | NCI | Total Equity |
| Balance at the beginning of the period | $3,149 | $3,022 | $6,171 | $4,272 | $3,053 | $7,325 |
| Net income (loss) [1] | (181) | 97 | (84) | 391 | 330 | 721 |
| Total foreign currency translation adjustment, net of income tax | 179 | 53 | 232 | (498) | (359) | (857) |
| Total change in derivative fair value, net of income tax | (52) | (63) | (115) | 10 | (37) | (27) |
| Total pension adjustments, net of income tax | 3 | 7 | 10 | 3 | 10 | 13 |
| Cumulative effect of a change in accounting principle | — | — | — | (5) | — | (5) |
| Fair value adjustment to redeemable stock of subsidiaries | (4) | — | (4) | — | — | — |
| Acquisition of businesses [2] | — | — | — | — | 11 | 11 |
| Disposition of businesses | — | 18 | 18 | — | (49) | (49) |
| Distributions to noncontrolling interests | (2) | (293) | (295) | — | (182) | (182) |
| Contributions from noncontrolling interests | — | 23 | 23 | — | 117 | 117 |
| Dividends declared on common stock | (144) | — | (144) | (138) | — | (138) |
| Purchase of treasury stock | (79) | — | (79) | (408) | — | (408) |
| Issuance and exercise of stock-based compensation benefit plans, net of income tax | 15 | — | 15 | 23 | — | 23 |
| Sale of subsidiary shares to noncontrolling interests | — | 17 | 17 | (83) | — | (83) |
| Acquisition of subsidiary shares from noncontrolling interests | (2) | (3) | (5) | — | — | — |
| Less: Net loss attributable to redeemable stocks of subsidiaries | — | 8 | 8 | — | — | — |
| Balance at the end of the period | $2,882 | $2,886 | $5,768 | $3,567 | $2,894 | $6,461 |

[1] Net income attributable to noncontrolling interest of $105 million and $8 million of net loss attributable to redeemable stocks of subsidiaries.

[2] Fair value of a tax equity partner's right to preferential returns as a result of the acquisition of Solar Power PR, LLC (Solar Puerto Rico), which was previously accounted for as an equity method investment.

Equity Transactions with Noncontrolling Interests

Jordan — On February 18, 2016, the Company completed the sale of 40% of its interest in a wholly owned subsidiary in Jordan which owns a controlling interest in the Jordan IPP4 gas-fired plant, for $21 million. The transaction was accounted for as a sale of in-substance real estate and a pretax gain of $4 million, net of transaction costs, was recognized in net income. The cash proceeds from the sale are reflected in Proceeds from the sale of businesses, net of cash sold on the Consolidated Statement of Cash Flows for the period ended September 30, 2016. After completion of

the sale, the Company has a 36% net ownership interest in Jordan IPP4 and will continue to manage and operate the plant, with 40% owned by Mitsui Ltd. and 24% owned by Nebras Power Q.S.C. As the Company maintained control after the sale, Jordan IPP4 continues to be consolidated by the Company within the Europe SBU reportable segment.

Deconsolidations

UK Wind — During the second quarter of 2016, the Company determined it no longer had control of its wind development projects in the United Kingdom ("UK Wind") as the Company no longer held seats on the board of directors. In accordance with the accounting guidance, UK Wind was deconsolidated and a loss on deconsolidation of $20 million was recorded to Gain on disposal and sale of businesses in the Condensed Consolidated Statement of Operations to write off the Company's non-controlling interest in the project. The UK Wind projects were reported in the Europe SBU reportable segment.

Accumulated Other Comprehensive Loss — See below for the changes in AOCL by component, net of tax and NCI, for the nine months ended September 30, 2016 (in millions):

| | Foreign currency translation adjustment, net | Unrealized derivative gains (losses), net | Unfunded pension obligations, net | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | $ (3,256) | $ (353) | $ (274) | $(3,883) |
| Other comprehensive income (loss) before reclassifications | 179 | (71) | — | 108 |
| Amount reclassified to earnings | — | 19 | 3 | 22 |
| Other comprehensive income (loss) | 179 | (52) | 3 | 130 |
| Balance at the end of the period | $ (3,077) | $ (405) | $ (271) | $(3,753) |

Reclassifications out of AOCL are presented in the following table. Amounts for the periods indicated are in millions and those in parenthesis indicate debits to the Condensed Consolidated Statements of Operations:

| Details About AOCL Components | Affected Line Item in the Condensed Consolidated Statements of Operations | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|---|
| Unrealized derivative gains (losses), net | | | | | |
| | Non-regulated revenue | $20 | $12 | $94 | $27 |
| | Non-regulated cost of sales | (17) | (5) | (54) | (10) |
| | Interest expense | (25) | (28) | (86) | (84) |
| | Gain on disposals and sale of investments | — | (4) | — | (4) |
| | Foreign currency transaction gains (losses) | (3) | 12 | 18 | 20 |
| | Income (loss) from continuing operations before taxes and equity in earnings of affiliates | (25) | (13) | (28) | (51) |
| | Income tax expense | 4 | — | 5 | 6 |
| | Net equity in earnings of affiliates | — | (1) | — | (1) |
| | Income (loss) from continuing operations | (21) | (14) | (23) | (46) |
| | Less: Net income attributable to noncontrolling interests | 5 | 6 | 4 | 15 |
| | Net income (loss) attributable to The AES Corporation | $(16) | $(8) | $(19) | $(31) |
| Amortization of defined benefit pension actuarial loss, net | | | | | |
| | Regulated cost of sales | $(4) | $(7) | $(13) | $(20) |
| | Income (loss) from continuing operations before taxes and equity in earnings of affiliates | (4) | (7) | (13) | (20) |
| | Income tax expense | 2 | 3 | 4 | 8 |
| | Income (loss) from continuing operations | (2) | (4) | (9) | (12) |
| | Net loss from disposal and impairments of discontinued businesses | (1) | — | (1) | (1) |
| | Net Income (loss) | (3) | (4) | (10) | (13) |
| | Less: Net income attributable to noncontrolling interests | 2 | 3 | 7 | 10 |
| | Net income (loss) attributable to The AES Corporation | $(1) | $(1) | $(3) | $(3) |
| Total reclassifications for the period, net of income tax and noncontrolling interests | | $(17) | $(9) | $(22) | $(34) |

Common Stock Dividends — The Company paid dividends of $0.11 per outstanding share to its common stockholders during the first, second and third quarter of 2016 for dividends declared in December 2015, and February and July

2016, respectively.

Stock Repurchase Program — During the nine months ended September 30, 2016, the Parent Company repurchased 8.7 million shares of its common stock at a total cost of $79 million under the existing stock repurchase program (the "Program"). The cumulative repurchases from the commencement of the Program in July 2010 through September 30, 2016 totaled 154.3 million shares for a total cost of $1.9 billion, at an average price per share of $12.12 (including a nominal amount of commissions). As of September 30, 2016, $264 million remained available for repurchase under the Program.

## 12. SEGMENTS

The segment reporting structure uses the Company's management reporting structure as its foundation to reflect how the Company manages the businesses internally and is organized by geographic regions which provides a socio-political-economic understanding of our business. The management reporting structure is organized by six SBUs led by our President and Chief Executive Officer: US; Andes; Brazil; MCAC; Europe; and Asia SBUs. Using the accounting guidance on segment reporting, the Company determined that it has six reportable segments corresponding to its six SBUs.

Corporate and Other — Corporate overhead costs which are not directly associated with the operations of our six reportable segments are included in "Corporate and Other." Also included are certain intercompany charges such as self-insurance premiums which are fully eliminated in consolidation.

The Company uses Adjusted PTC as its primary segment performance measure. Adjusted PTC, a non-GAAP measure, is defined by the Company as pretax income from continuing operations attributable to AES excluding (1)

unrealized gains or losses related to derivative transactions, (2) unrealized foreign currency gains or losses, (3) gains or losses due to dispositions and acquisitions of business interests, (4) losses due to impairments, and (5) costs due to the early retirement of debt. The Company has concluded that Adjusted PTC best reflects the underlying business performance of the Company and is the most relevant measure considered in the Company's internal evaluation of the financial performance of its segments. Additionally, given its large number of businesses and complexity, the Company concluded that Adjusted PTC is a more transparent measure that better assists investors in determining which businesses have the greatest impact on the Company's results.

Revenue and Adjusted PTC are presented before inter-segment eliminations, which includes the effect of intercompany transactions with other segments except for interest, charges for certain management fees, and the write-off of intercompany balances, as applicable. All intra-segment activity has been eliminated within the segment. Inter-segment activity has been eliminated within the total consolidated results.

The following tables present financial information by segment for the periods indicated (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Total Revenue | 2016 | 2015 | 2016 | 2015 |
| US SBU | $916 | $923 | $2,582 | $2,751 |
| Andes SBU | 667 | 652 | 1,864 | 1,894 |
| Brazil SBU | 1,027 | 866 | 2,761 | 3,083 |
| MCAC SBU | 547 | 597 | 1,596 | 1,796 |
| Europe SBU | 207 | 292 | 675 | 921 |
| Asia SBU | 179 | 195 | 574 | 501 |
| Corporate and Other | 6 | 7 | 8 | 17 |
| Eliminations | (7) | (10) | (18) | (27) |
| Total Revenue | $3,542 | $3,522 | $10,042 | $10,936 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Total Adjusted PTC | 2016 | 2015 | 2016 | 2015 |
| US SBU | $114 | $101 | $257 | $263 |
| Andes SBU | 134 | 150 | 279 | 322 |
| Brazil SBU | 6 | 15 | 18 | 97 |
| MCAC SBU | 74 | 92 | 197 | 248 |
| Europe SBU | 24 | 45 | 127 | 171 |
| Asia SBU | 22 | 24 | 70 | 66 |
| Corporate and Other | (102) | (112) | (331) | (330) |
| Total Adjusted PTC | $272 | $315 | $617 | $837 |
| Reconciliation to Income from Continuing Operations before Taxes and Equity In Earnings of Affiliates: | | | | |
| Non-GAAP Adjustments: | | | | |
| Unrealized derivative (losses) gains | (5) | 12 | (1) | 29 |
| Unrealized foreign currency (losses) gains | (3) | (5) | (12) | (48) |
| Disposition/acquisition (losses) gains | 3 | 23 | 5 | 32 |
| Impairment losses | (24) | (139) | (309) | (175) |
| Loss on extinguishment of debt | (20) | (21) | (26) | (159) |
| Pretax contribution | $223 | $185 | $274 | $516 |
| | 82 | 56 | 196 | 483 |

| | | | | |
|---|---|---|---|---|
| Add: Income from continuing operations before taxes attributable to noncontrolling interests | | | | |
| Less: Net equity in earnings of affiliates | 11 | 81 | 25 | 96 |
| Income from continuing operations before taxes and equity in earnings of affiliates | $294 | $160 | $445 | $903 |

| Total Assets | September 30, 2016 | December 31, 2015 |
|---|---|---|
| US SBU | $ 9,822 | $ 9,800 |
| Andes SBU | 8,858 | 8,594 |
| Brazil SBU | 5,975 | 5,209 |
| MCAC SBU | 5,120 | 4,820 |
| Europe SBU | 2,766 | 3,101 |
| Asia SBU | 3,204 | 3,099 |
| Assets of discontinued operations and held-for-sale businesses | 1,006 | 1,306 |
| Corporate and Other | 357 | 541 |
| Total Assets | $ 37,108 | $ 36,470 |

13. OTHER INCOME AND EXPENSE

Other income generally includes gains on asset sales; liability extinguishments; favorable judgments on contingencies; and from miscellaneous transactions. Other expense generally includes losses on asset sales and dispositions; legal contingencies; and from miscellaneous transactions. The components are summarized as follows (in millions):

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| Other Income | Allowance for funds used during construction (US utilities) | $ 8 | $ 5 | $ 22 | $ 12 |
| | Gain on sale of assets | — | 1 | 3 | 12 |
| | Other | 10 | 6 | 18 | 18 |
| | Total other income | $ 18 | $ 12 | $ 43 | $ 42 |
| Other Expense | Loss on sale and disposal of assets | $ 12 | $ 10 | $ 26 | $ 30 |
| | Water rights write-off | — | 4 | 7 | 4 |
| | Legal settlement | 1 | — | 5 | 8 |
| | Other | — | 4 | 4 | 5 |
| | Total other expense | $ 13 | $ 18 | $ 42 | $ 47 |

14. ASSET IMPAIRMENT EXPENSE

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Buffalo Gap I | $ 78 | $ — | $ 78 | $ — |
| Buffalo Gap II | — | — | 159 | — |
| DPL | — | — | 235 | — |
| Kilroot | — | 113 | — | 113 |
| UK Wind | — | — | — | 37 |
| Buffalo Gap III | — | 118 | — | 118 |
| Other | 1 | — | 1 | 8 |
| Total asset impairment expense | $ 79 | $ 231 | $ 473 | $ 276 |

Buffalo Gap I — During the third quarter of 2016, the Company tested the recoverability of its long-lived assets at Buffalo Gap I. As a result of decreases in wind production, management underwent a process to enhance the methodology for forecasting wind dispatch. The change in management's estimate of dispatch resulted in lower forecasted revenues from September 2016 through the end of the asset group's useful life. The Company determined that the carrying amount of the Buffalo Gap I asset group was not recoverable. The Buffalo Gap I asset group was determined to have a fair value of $35 million using the income approach. As a result, the Company recognized an asset impairment expense of $78 million ($23 million attributable to AES). Buffalo Gap I is reported in the US SBU reportable segment.

DPL — During the second quarter of 2016, the Company tested the recoverability of its long-lived generation assets at DPL. Uncertainty created by the Supreme Court of Ohio's June 20, 2016 opinion, lower expectations of future revenue resulting from the most recent PJM capacity auction, and higher anticipated environmental compliance costs resulting from third party studies were collectively determined to be an impairment indicator for these assets. The Company performed a long-lived asset impairment analysis and determined that the carrying amount of Killen, a coal-fired

generation facility, and certain DPL peaking generation facilities were not recoverable. The Killen and DPL peaking generation asset groups were determined to have a fair value of $84 million and $5 million, respectively, using the income approach. As a result, the Company recognized a total asset impairment expense of $235 million. DPL is reported in the US SBU reportable segment.

Buffalo Gap II — During the first quarter of 2016, the Company tested the recoverability of its long-lived assets at Buffalo Gap II. Impairment indicators were identified based on a decline in forward power curves. The Company determined that the carrying amount was not recoverable. The Buffalo Gap II asset group was determined to have a fair value of $92 million using the income approach. As a result, the Company recognized an asset impairment expense of $159 million ($49 million attributable to AES). Buffalo Gap II is reported in the US SBU reportable segment.

Kilroot — During the third quarter of 2015, the Company tested the recoverability of long-lived assets at Kilroot, a coal and oil-fired plant in the United Kingdom, when the regulator established lower capacity prices for the Irish Single Electricity Market. The Company determined that the carrying amount of the asset group was not recoverable. The Kilroot asset group was determined to have a fair value of $78 million using the income approach. As a result, the Company recognized asset impairment expense of $113 million. Kilroot is reported in the Europe SBU reportable segment.

Buffalo Gap III — During the third quarter of 2015, the Company tested the recoverability of its long-lived assets at Buffalo Gap III, a wind farm in Texas. Impairment indicators were identified based on a decline in forward power curves coupled with the near term expiration of favorable contracted cash flows. The Company determined that the carrying amount was not recoverable. The Buffalo Gap III asset group was determined to have a fair value of $116 million using the income approach. As a result, the Company recognized asset impairment expense of $118 million. Buffalo Gap III is reported in the US SBU reportable segment.

UK Wind — During the second quarter of 2015, the Company decided to no longer pursue two wind projects in the United Kingdom based on recent regulatory clarifications specific to these projects, resulting in a full impairment. Impairment indicators were also identified at four other wind projects based on their development status and a reassessment of the likelihood that each project would be pursued given aviation concerns, regulatory changes, economic considerations and other factors. The Company determined that the carrying amounts of each of these asset groups, which totaled $38 million, were not recoverable. In aggregate, the asset groups were determined to have a fair value of $1 million using the market approach and, as a result, the Company recognized an asset impairment expense of $37 million. The UK Wind projects were reported in the Europe SBU reportable segment.

15. INCOME TAXES

Chilean Tax Reform — In February 2016, the Chilean government enacted further reforms to its income tax laws that resulted in an increase to statutory income tax rates for most of our Chilean businesses from 25% to 25.5% in 2017 and to 27% for 2018 and future years. The impact of remeasuring deferred taxes to account for the enacted change in future applicable income tax rates was recognized as discrete income tax expense in the first quarter of 2016, resulting in an increase of $26 million to consolidated income tax expense.

16. DISCONTINUED OPERATIONS

Sul — In June 2016, the Company executed an agreement for the sale of its wholly-owned subsidiary AES Sul, a distribution business in Brazil. Upon meeting the held-for-sale criteria, the Company recognized an after tax loss of $382 million comprised of a pretax impairment charge of $783 million, offset by a tax benefit of $266 million related to the impairment of the Sul long lived assets and a tax benefit of $135 million for deferred taxes related to the investment in AES Sul. Prior to the impairment charge in the second quarter, the carrying value of the AES Sul asset group of $1.6 billion was greater than its approximate fair value less costs to sell of $470 million. However, the impairment charge was limited to the carrying value of the long lived assets of the AES Sul disposal group. The sale of AES Sul closed October 31, 2016. See Note 20—Subsequent Events.

Upon disposal of AES Sul, we expect to incur an additional after tax loss on sale of approximately $700 million subject to factors such as adjustments to sales proceeds and potential future movements in exchange rates. The cumulative impact to earnings of the impairment and loss on sale is expected to be approximately $1.1 billion. This includes the reclassification of approximately $1 billion of cumulative translation losses, resulting in an expected net reduction to the Company's stockholders' equity of approximately $100 million.

Due to a recent portfolio evaluation, we determined that AES Sul is no longer aligned with our strategic goals and its disposal is part of a strategic shift of the Company in the Brazil distribution sector. Therefore, we have reported the results of operations and financial position of Sul as discontinued operations in the consolidated financial statements for all periods presented. Sul's pretax loss attributable to AES was $1 million and $794 million, for the three and nine months ended September 30, 2016, respectively. Sul's pretax gain attributable to AES for the three months ended September 30, 2015 was $6 million and pretax loss attributable to AES for the nine months ended September 30, 2015 was $18 million. Prior to its classification as discontinued operations, Sul was reported in the Brazil SBU reportable segment.

The following table summarizes the carrying amounts of the major classes of assets and liabilities of discontinued operations and held-for-sale businesses at September 30, 2016 and December 31, 2015:

| (in millions) | September 30, 2016 | December 31, 2015 |
| --- | --- | --- |
| Assets of discontinued operations and held-for-sale businesses: | | |
| Cash and cash equivalents | $ 4 | $ 5 |
| Accounts receivable, net of allowance for doubtful accounts of $19 and $8 respectively | 184 | 171 |
| Property, plant and equipment and intangibles, net | 860 | 668 |
| Deferred income taxes | 589 | 133 |
| Other classes of assets that are not major | 206 | 233 |
| Loss recognized on classification as held-for-sale [1] | (837 ) | — |
| Total assets of discontinued operations | $ 1,006 | $ 1,210 |
| Other assets of businesses classified as held-for-sale [2] | — | 96 |
| Total assets of discontinued operations and held-for-sale businesses [3] | $ 1,006 | $ 1,306 |
| Liabilities of discontinued operations and held-for-sale businesses: | | |
| Accounts payable | $ 141 | $ 150 |
| Accrued and other liabilities | 156 | 150 |
| Non-recourse debt | 337 | 346 |
| Other classes of liabilities that are not major | 168 | 125 |
| Total liabilities of discontinued operations | $ 802 | $ 771 |
| Other liabilities of businesses classified as held-for-sale [2] | — | 13 |
| Total liabilities of discontinued operations and held-for-sale businesses [3] | $ 802 | $ 784 |

(1) Pre-tax impairment expense of $783 million is net of the impact from cumulative translation adjustments.

(2) DPLER and Kelanitissa were classified as held-for-sale as of December 31, 2015. See Note 17—Dispositions for further information.

(3) Amounts were classified as both current and long-term on the Condensed Consolidated Balance Sheet as of December 31, 2015.

The following table summarizes the the major line items constituting gains (losses) from discontinued operations for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| --- | --- | --- | --- | --- |
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Loss from discontinued operations, net of tax: | | | | |
| Revenue — regulated | $213 | $199 | $632 | $627 |
| Cost of sales | (200 ) | (192 ) | (608 ) | (620 ) |
| Asset impairment expense | — | — | (783 ) | — |
| Other income and expense items that are not major | (14 ) | (1 ) | (35 ) | (25 ) |
| Pretax gain (loss) from discontinued operations | $(1 ) | $6 | $(794) | $(18 ) |
| Income tax benefit (expense) | — | (1 ) | 405 | 6 |
| (Loss) income from discontinued operations, net of tax | $(1 ) | $5 | $(389) | $(12 ) |

The following table summarizes the operating and investing cash flows from discontinued operations for the nine months ended September 30, 2016 and 2015:

Nine
Months

| (in millions) | Ended September 30, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities of discontinued operations | $68 | $(23) |
| Cash flows from investing activities of discontinued operations | (63) | (16) |

17. DISPOSITIONS

UK Wind — During the second quarter of 2016, the Company deconsolidated UK Wind and recorded a loss on deconsolidation of $20 million to Gain on disposal and sale of businesses in the Condensed Consolidated Statement of Operations. Prior to deconsolidation, UK Wind was reported in the Europe SBU reportable segment. See Note 11—Equity for additional information.

DPLER — On January 1, 2016, the Company completed the sale of its interest in DPLER, a competitive retail marketer selling electricity to customers in Ohio. Upon completion, proceeds of $76 million were received and a gain on sale of $49 million was recognized. The sale of DPLER did not meet the criteria to be reported as a discontinued operation. Prior to its sale, DPLER was reported in the US SBU reportable segment.

Kelanitissa — On January 27, 2016, the Company completed the sale of its interest in Kelanitissa, a diesel-fired generation station in Sri Lanka. Upon completion, proceeds of $18 million were received and a loss on sale of $5 million was recognized. The sale of Kelanitissa did not meet the criteria to be reported as a discontinued operation. Prior to its sale, Kelanitissa was reported in the Asia SBU reportable segment.

Armenia Mountain — On July 1, 2015, the Company completed the sale of Armenia Mountain, a wind project in Pennsylvania. Net proceeds from the sale transaction were $64 million and the Company recognized a pretax gain on sale of $22 million. The sale did not meet the criteria to be reported as a discontinued operation. Prior to its

sale, Armenia Mountain was reported in the US SBU reportable segment.

## 18. ACQUISITIONS

Distributed Energy — On February 18, 2015, the Company completed the acquisition of 100% of the common stock of Main Street Power Company, Inc. for approximately $25 million. The purchase consideration was composed of $20 million cash and the fair value of earn-out payments of $5 million. At December 31, 2015, the assets acquired (including $4 million cash) and liabilities assumed at the acquisition date were recorded at fair value based on the final purchase price allocation, which resulted in the recognition of $16 million of goodwill. After the date of acquisition, Main Street Power Company, Inc. was renamed Distributed Energy, Inc.

On September 16, 2016, Distributed Energy acquired the equity interest of various projects held by multiple partnerships for approximately $43 million. These partnerships were were previously classified as equity method investments. In accordance with the accounting guidance for business combinations, the Company has recorded the opening balance sheets of the acquired businesses based on the purchase price allocation as of the acquisition date. The Company has not finalized the purchase price allocation and will continue to make adjustments during the measurement period.

## 19. EARNINGS PER SHARE

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

Presented below is a reconciliation, for the periods indicated, of the numerator and denominator of the basic and diluted earnings per share computation for income from continuing operations, where income represents the numerator and weighted average shares represents the denominator:

| (in millions, except per share data) | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| Three Months Ended September 30, | Income | Shares | $ per Share | Income | Shares | $ per Share |
| BASIC EARNINGS PER SHARE | | | | | | |
| Income (loss) from continuing operations attributable to The AES Corporation common stockholders[(1)] | $171 | 659 | $ 0.26 | $175 | 679 | $ 0.26 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | |
| Stock options | — | — | — | — | 1 | — |
| Restricted stock units | — | 3 | — | — | 2 | — |
| DILUTED EARNINGS PER SHARE | $171 | 662 | $ 0.26 | $175 | 682 | $ 0.26 |
| Nine Months Ended September 30, | | | | | | |
| BASIC EARNINGS PER SHARE | | | | | | |
| Income from continuing operations attributable to The AES Corporation common stockholders[(2)] | $203 | 660 | $ 0.31 | $403 | 692 | $ 0.58 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | |
| Restricted stock units | — | 2 | — | — | 2 | — |
| DILUTED EARNINGS PER SHARE | $203 | 662 | $ 0.31 | $403 | 694 | $ 0.58 |

[(1)] Income from continuing operations, net of tax, of $176 million less the $5 million adjustment to retained earnings to record the DP&L redeemable preferred stock at its redemption value as of September 30, 2016.

[(2)] Income from continuing operations, net of tax, of $208 million less the $5 million adjustment to retained earnings to record the DP&L redeemable preferred stock at its redemption value as of September 30, 2016.

For the three and nine months ended September 30, 2016 and 2015, the calculation of diluted earnings per share excluded 7 million outstanding stock awards which could potentially dilute basic earnings per share in the future. Additionally, for the three and nine months ended September 30, 2016 and 2015, all 15 million shares of potential common stock associated with convertible debentures were omitted from the earnings per share calculation as the impact would have been anti-dilutive.

20. SUBSEQUENT EVENTS

Sale of AES Sul — On October 31, 2016, the Company closed the sale of its 100% equity interest in AES Sul and received proceeds of $440 million, net of estimated working capital adjustments and transaction costs. The Company expects to recognize an additional loss on the sale in the fourth quarter of 2016. See Note 16—Discontinued Operations for additional information.

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

In this Quarterly Report on Form 10-Q ("Form 10-Q"), the terms "AES," "the Company," "us," or "we" refer to the consolidated entity and all of its subsidiaries and affiliates, collectively. The term "The AES Corporation" or "the Parent Company" refers only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. The condensed consolidated financial statements included in Item 1.—Financial Statements of this Form 10-Q and the discussions contained herein should be read in conjunction with our 2015 Form 10-K.

The prior-period condensed consolidated financial statements and management's discussion and analysis in this Form 10-Q have been reclassified to reflect the businesses held-for-sale and discontinued operations as discussed in Note 16—Discontinued Operations.

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 Item 1A.—Risk Factors and Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2015 Form 10-K and subsequent filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise of the risks and factors that may affect our business.

Overview of Our Business — We are a diversified power generation and utility company organized into the following six market-oriented SBUs: US (United States); Andes (Chile, Colombia and Argentina); Brazil; MCAC (Mexico, Central America and the Caribbean); Europe (Europe and Middle East); and Asia (India, Philippines, Vietnam, and Sri Lanka). For additional information regarding our business, see Item 1.—Business of our 2015 Form 10-K.

Within our six SBUs listed above, we have two lines of business. The first business line is generation, where we own and/or operate power plants to generate and sell power to customers such as utilities, industrial users and other intermediaries. The second business line is utilities, where we own and/or operate utilities to generate or purchase, distribute, transmit and sell electricity to end-user customers in the residential, commercial, industrial and governmental sectors within a defined service area. In certain circumstances, our utilities also generate and sell electricity on the wholesale market.

Key Topics in Management's Discussion and Analysis — Our discussion covers the following:

- Overview of Q3 2016 Results and Strategic Performance
- Review of Consolidated Results of Operations
- Non-GAAP Measures and SBU Performance Analysis
- Key Trends and Uncertainties
- Capital Resources and Liquidity

Overview of Q3 2016 Results and Strategic Performance

Management's Strategic Priorities — Management is focused on the following priorities:

- Leveraging our platforms — We are focusing our growth on platform expansions in markets where we already operate and have a competitive advantage to realize attractive risk-adjusted returns. We currently have 3,389 MW under construction. These projects represent $6.4 billion in total capital expenditures, with the majority of AES' $1.1 billion in equity already funded. These projects are expected to come on-line through 2019. Beyond the projects we currently have under construction, we will continue to advance select projects from our development pipeline.
- Reducing complexity — By exiting businesses and markets where we do not have a competitive advantage, we are simplifying our portfolio and reducing risk. Year-to-date 2016, we announced or closed $510 million in equity

proceeds from the sales or sell-downs of six businesses.

- Performance excellence — We strive to be the low-cost manager of a portfolio of assets and to derive synergies and scale from our businesses. In late 2015, we launched a $150 million cost reduction and revenue enhancement initiative. This initiative will include overhead reductions, procurement efficiencies and operational improvements. We expect to achieve at least $50 million in savings in 2016, ramping up to a total of $150 million in 2018.
- Expanding access to capital — We are building strategic partnerships at the project and business levels. Through these partnerships, we aim to optimize our risk-adjusted returns in our existing businesses and growth projects. By selling down portions of certain businesses, we can adjust our global exposure to commodity, fuel, country and other macroeconomic risks. Partial sell-downs of our assets can also serve to highlight or enhance the value of businesses in our portfolio.
- Allocating capital in a disciplined manner — Our top priority is to maximize risk-adjusted returns to our shareholders, which we achieve by investing our discretionary cash and recycling the capital we receive from asset sales and strategic partnerships. Year-to-date 2016, we generated substantial cash by executing on our strategy, which we allocated in line with our capital allocation framework:

Used $312 million to prepay and refinance the Parent Company debt;
Returned $297 million to shareholders through share repurchases and quarterly dividends; and
Invested $343 million in our subsidiaries.

Safe Operations

Safety is our first value and a top priority. We consistently analyze and evaluate our safety performance in order to capture lessons learned and strengthen mitigation plans that improve our safety performance.

Q3 2016 Strategic Performance

Earnings Per Share and Proportional Free Cash Flow Results in Q3 2016 (in millions, except per share amounts)

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | % Change | 2016 | 2015 | $ Change | % Change |
| Diluted earnings per share from continuing operations | $0.26 | $0.26 | $ — | — % | $0.31 | $0.58 | $(0.27) | -47 % |
| Adjusted EPS (a non-GAAP measure) [1] | 0.32 | 0.38 | (0.06) | -16 % | 0.64 | 0.90 | (0.26) | -29 % |
| Net cash provided by operating activities | 819 | 915 | (96) | -10 % | 2,182 | 1,505 | 677 | 45 % |
| Proportional free cash flow (a non-GAAP measure) [1] | 400 | 621 | (221) | -36 % | 1,070 | 948 | 122 | 13 % |

(1) See Item 2.—SBU Performance Analysis—Non-GAAP Measures for reconciliation and definition.

Three Months Ended September 30, 2016

Diluted earnings per share from continuing operations remained $0.26, for the three months ended September 30, 2016 as compared to 2015. The key drivers for 2016 were stable margins and lower impairment expense; largely offset by lower equity in earnings of affiliates due to the restructuring at Guacolda, in Chile, executed during the third quarter of 2015.

Adjusted EPS, a non-GAAP measure, decreased $0.06, or 16%, to $0.32, primarily driven by lower equity in earnings of affiliates due to the restructuring at Guacolda.

Net cash provided by operating activities decreased by $96 million, or 10%, to $819 million, primarily driven by lower net income, adjusted for non-cash items.

Proportional Free Cash Flow, a non-GAAP measure, decreased by $221 million, or 36%, to $400 million, primarily driven by lower collections in the Dominican Republic resulting from the collection of overdue accounts receivable in September 2015, and a decrease in VAT refunds related to our Cochrane and Alto Maipo construction projects.

Nine Months Ended September 30, 2016

Diluted earnings per share from continuing operations decreased $0.27, or 47%, to $0.31, primarily driven by lower operating margins at our Brazil, MCAC and Europe SBUs, higher impairment expense in the first half of 2016, higher interest expense, lower equity in earnings of affiliates due to the restructuring at Guacolda in the third quarter of 2015, and devaluation of foreign currencies against the US dollar. These decreases were partially offset by lower share count, lower losses on extinguishment of debt, higher operating margin at Andes SBU, and higher interest income.

Adjusted EPS, a non-GAAP measure, decreased $0.26, or 29%, to $0.64, primarily driven by lower operating margins at our Brazil, MCAC and Europe SBUs, higher interest expense and lower equity in earnings of affiliates due to the restructuring at Guacolda; partially offset by lower share count, higher operating margin at Andes SBU, and higher interest income.
Net cash provided by operating activities increased by $677 million, or 45%, to $2.2 billion, primarily driven by the collection of overdue receivables at Maritza and an increase in collections at our Brazil utilities, which were partially offset by the timing of payments for energy purchases at our Brazil utilities and lower net income adjusted for non-cash items.
Proportional Free Cash Flow, a non-GAAP measure, increased by $122 million, or 13%, to $1.1 billion, primarily driven by the collection of overdue receivables at Maritza, increased collections at our Brazil utilities, and lower working capital requirements. These increases were partially offset by a decrease in Adjusted Operating Margin (a non-GAAP measure).

Review of Consolidated Results of Operations

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions, except per share amounts) | 2016 | 2015 | $ change | % change | 2016 | 2015 | $ change | % change |
| Revenue: | | | | | | | | |
| US SBU | $916 | $923 | $(7) | -1 % | $2,582 | $2,751 | $(169) | -6 % |
| Andes SBU | 667 | 652 | 15 | 2 % | 1,864 | 1,894 | (30) | -2 % |
| Brazil SBU | 1,027 | 866 | 161 | 19 % | 2,761 | 3,083 | (322) | -10 % |
| MCAC SBU | 547 | 597 | (50) | -8 % | 1,596 | 1,796 | (200) | -11 % |
| Europe SBU | 207 | 292 | (85) | -29 % | 675 | 921 | (246) | -27 % |
| Asia SBU | 179 | 195 | (16) | -8 % | 574 | 501 | 73 | 15 % |
| Corporate and Other | 6 | 7 | (1) | -14 % | 8 | 17 | (9) | -53 % |
| Intersegment eliminations | (7) | (10) | 3 | -30 % | (18) | (27) | 9 | -33 % |
| Total Revenue | 3,542 | 3,522 | 20 | 1 % | 10,042 | 10,936 | (894) | -8 % |
| Operating Margin: | | | | | | | | |
| US SBU | 189 | 165 | 24 | 15 % | 436 | 463 | (27) | -6 % |
| Andes SBU | 203 | 162 | 41 | 25 % | 466 | 412 | 54 | 13 % |
| Brazil SBU | 53 | 91 | (38) | -42 % | 174 | 492 | (318) | -65 % |
| MCAC SBU | 140 | 148 | (8) | -5 % | 370 | 416 | (46) | -11 % |
| Europe SBU | 54 | 59 | (5) | -8 % | 184 | 226 | (42) | -19 % |
| Asia SBU | 41 | 33 | 8 | 24 % | 124 | 104 | 20 | 19 % |
| Corporate and Other | 7 | 4 | 3 | 75 % | 11 | 28 | (17) | -61 % |
| Intersegment eliminations | 1 | 3 | (2) | -67 % | 6 | — | 6 | NM |
| Total Operating Margin | 688 | 665 | 23 | 3 % | 1,771 | 2,141 | (370) | -17 % |
| General and administrative expenses | (40) | (45) | 5 | -11 % | (135) | (150) | 15 | -10 % |
| Interest expense | (354) | (365) | 11 | -3 % | (1,086) | (995) | (91) | 9 % |
| Interest income | 110 | 126 | (16) | -13 % | 365 | 321 | 44 | 14 % |
| Loss on extinguishment of debt | (16) | (20) | 4 | -20 % | (12) | (161) | 149 | -93 % |
| Other expense | (13) | (18) | 5 | -28 % | (42) | (47) | 5 | -11 % |
| Other income | 18 | 12 | 6 | 50 % | 43 | 42 | 1 | 2 % |
| Gain on disposal and sale of businesses | — | 24 | (24) | -100 % | 30 | 24 | 6 | 25 % |
| Asset impairment expense | (79) | (231) | 152 | -66 % | (473) | (276) | (197) | 71 % |
| Foreign currency transaction gains (losses) | (20) | 12 | (32) | NM | (16) | 4 | (20) | NM |
| Income tax expense | (75) | (43) | (32) | 74 % | (165) | (266) | 101 | -38 % |
| Net equity in earnings of affiliates | 11 | 81 | (70) | -86 % | 25 | 96 | (71) | -74 % |
| INCOME FROM CONTINUING OPERATIONS | 230 | 198 | 32 | 16 % | 305 | 733 | (428) | -58 % |
| (Loss) income from operations of discontinued businesses, net of income tax benefit (expense) of $0, $(1), $4 and $6, respectively | (1) | 5 | (6) | NM | (7) | (12) | 5 | -42 % |
| Net loss from disposal and impairments of discontinued businesses, net of income tax benefit of $401 for the nine months ended September 30, 2016 | — | — | — | NM | (382) | — | (382) | NM |
| NET INCOME (LOSS) | 229 | 203 | 26 | 13 % | (84) | 721 | (805) | NM |
| Less: Net income attributable to noncontrolling interests | (57) | (23) | (34) | NM | (105) | (330) | 225 | -68 % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Less: Net loss attributable to redeemable stocks of subsidiaries | 3 | — | 3 | NM | | 8 | — | 8 | NM | |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION | $175 | $180 | $(5) | -3 | % | $(181) | $391 | $(572) | NM | |
| AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS: | | | | | | | | | | |
| Income from continuing operations, net of tax | $176 | $175 | $1 | 1 | % | $208 | $403 | $(195) | -48 | % |
| (Loss) income from discontinued operations, net of tax | (1) | 5 | (6) | NM | | (389) | (12) | (377) | NM | |
| NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION | $175 | $180 | $(5) | -3 | % | $(181) | $391 | $(572) | NM | |
| Net cash provided by operating activities | $819 | $915 | $(96) | -10 | % | $2,182 | $1,505 | $677 | 45 | % |
| DIVIDENDS DECLARED PER COMMON SHARE | $0.11 | $0.10 | $0.01 | 10 | % | $0.22 | $0.20 | $0.02 | 10 | % |

NM - Not Meaningful

Components of Revenue, Cost of Sales, Operating Margin, and Operating Cash Flow — Revenue includes revenue earned from the sale of energy from our utilities and the production and sale of energy from our generation plants, which are classified as regulated and non-regulated, respectively, on the Condensed Consolidated Statements of Operations. Revenue also includes the gains or losses on derivatives associated with the sale of electricity.

Cost of sales includes costs incurred directly by the businesses in the ordinary course of business. Examples include electricity and fuel purchases, operations and maintenance costs, depreciation and amortization expense, bad debt expense and recoveries, and general administrative and support costs (including employee-related costs directly associated with the operations of the business). Cost of sales also includes the gains or losses on derivatives (including embedded derivatives other than foreign currency embedded derivatives) associated with the purchase of electricity or fuel.

Operating margin is defined as revenue less cost of sales.

Consolidated Revenue and Operating Margin — Executive Summary

Three months ended September 30, 2016:

Consolidated Revenue — Revenue increased $20 million, or 1%, to $3.54 billion for the three months ended September 30, 2016, compared with $3.52 billion for the three months ended September 30, 2015. This increase was driven primarily by the commencement of operations of Unit 1 at Cochrane in Chile as of July 2016.

Consolidated Operating Margin — Operating margin increased $23 million, or 3%, to $688 million for the three months ended September 30, 2016, compared with $665 million for the three months ended September 30, 2015 due to new operations at Cochrane as discussed above as well as lower energy purchase and fuel costs in Chile and higher margins at IPL driven by new rate order and environmental projects placed in service. These results were partially offset by lower rates for energy sold under new contracts at Tietê.

Nine months ended September 30, 2016:

Consolidated Revenue — Revenue decreased $894 million, or 8%, to $10.0 billion for the nine months ended September 30, 2016, compared with $10.9 billion for the nine months ended September 30, 2015. This decrease was driven by unfavorable FX impact of $598 million, primarily in Brazil of $355 million, Argentina of $74 million, Kazakhstan of $60 million and Colombia of $54 million. Additionally, revenues decreased in Brazil due to lower rates for energy sold under new contracts at Tietê; operations in 2015 but not in 2016 at Uruguiana; the reversal of a contingent regulatory liability in 2015, and lower demand, partially offset by the annual tariff adjustment, at Eletropaulo. Revenues also declined due to lower pass-through costs at El Salvador and IPP4 in Jordan, the sale of DPLER in January 2016, and lower rates at DPL. These decreases were partially offset by the impact of full operations at Mong Duong in 2016 compared to Unit 1 in March 2015 (with principal operations commencing in April 2015) and the commencement of operations of Unit 1 at Cochrane in Chile as of July 2016.

Consolidated Operating Margin — Operating margin decreased $370 million, or 17%, to $1.8 billion for the nine months ended September 30, 2016, compared with $2.1 billion for the nine months ended September 30, 2015. In addition to the unfavorable FX impact of $78 million primarily in Kazakhstan, Argentina, Brazil, and Colombia, the decrease was driven primarily by the reversal of a contingent regulatory liability in 2015, higher fixed costs and lower demand at Eletropaulo, and lower rates for energy sold under new contracts at Tietê. These decreases were partially offset by higher margin and lower fixed costs at Gener as well as the impact from new operations at Mong Duong in Vietnam and Cochrane in Chile as discussed above.

See Item 2.—SBU Performance Analysis of this Form 10-Q for additional discussion and analysis of operating results for each SBU.

Consolidated Results of Operations — Other

General and administrative expenses

General and administrative expenses decreased $5 million, or 11%, to $40 million for the three months ended September 30, 2016. The decrease was primarily due to decreased employee-related costs and professional fees.

General and administrative expenses decreased $15 million, or 10%, to $135 million for the nine months ended September 30, 2016. The decrease was primarily due to decreased employee-related costs and professional fees.
Interest expense
Interest expense decreased $11 million, or 3%, to $354 million for the three months ended September 30, 2016. This decrease was primarily due to prior year interest expense recorded on payments to the Argentinian tax authority.
Interest expense increased $91 million, or 9%, to $1.1 billion for the nine months ended September 30, 2016. This increase was primarily due to a $101 million increase at Eletropaulo as a result of the prior year reversal of $64 million in interest expense, previously recognized on a contingent regulatory liability, and increased interest expense due to higher regulatory liabilities and interest rates in the current period. Additionally, there was a $26 million increase at Mong Duong, mainly due to lower capitalized interest as a result of the commencement of operations in April 2015. These increases were partially offset by lower interest expense of $20 million due to a reduction in debt principal and lower interest rates at the Parent Company and DPL.
Interest income
Interest income decreased $16 million, or 13%, to $110 million for the three months ended September 30, 2016. The decrease was primarily due to lower interest income of $6 million at Andres due to higher collection of receivables and lower interest rates; and $4 million at Eletropaulo due to lower interest on regulatory assets resulting from annual tariff review.
Interest income increased $44 million, or 14%, to $365 million for the nine months ended September 30, 2016. This increase was primarily due to higher interest income of $35 million at Eletropaulo mainly due to higher interest on regulatory assets in the first half of 2016 and higher interest rates, and $23 million recognized on the financing element of the service concession arrangement at Mong Duong, which became fully operational from April 2015.
Loss on extinguishment of debt
Loss on extinguishment of debt was $16 million and $12 million for the three and nine months ended September 30, 2016 and $20 million and $161 million for the three and nine months ended September 30, 2015, respectively. See Note 7—Debt included in Item 1.—Financial Statements of this Form 10-Q for further information.
Other income and expense
Other income was $18 million and $43 million for the three and nine months ended September 30, 2016, and $12 million and $42 million for the three and nine months ended September 30, 2015, respectively.
Other expense was $13 million and $42 million for the three and nine months ended September 30, 2016, and $18 million and $47 million for the three and nine months ended September 30, 2015, respectively.
See Note 13—Other Income and Expense included in Item 1.—Financial Statements of this Form 10-Q for further information.
Gain on disposal and sale of businesses
There were no gains on disposal and sale of businesses for the three months ended September 30, 2016. The were gains on disposal and sale of businesses was $30 million for the nine months ended September 30, 2016 and $24 million for the three and nine months ended September 30, 2015.
See Note 17—Dispositions included in Item 1.—Financial Statements of this Form 10-Q for further information.
Asset impairment expense
Asset impairment expense was $79 million and $473 million for the three and nine months ended September 30, 2016, and $231 million and $276 million for the three and nine months ended September 30, 2015, respectively. See Note 14—Asset Impairment Expense included in Item 1.—Financial Statements of this Form 10-Q for further information.

Foreign currency transaction gains (losses):

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Parent Company | $(23) | $(2) | $(29) | $(21) |
| Colombia | (3) | 13 | (4) | 18 |
| Chile | (2) | (12) | (4) | (20) |
| Argentina | 8 | 13 | 9 | 30 |
| United Kingdom | 1 | 4 | 10 | 6 |
| Other | (1) | (4) | 2 | (9) |
| Total [(1)] | $(20) | $12 | $(16) | $4 |

(1) Includes $15 million of losses and $39 million of gains on foreign currency derivative contracts for the three months ended September 30, 2016 and 2015, respectively, and $8 million and $85 million of gains on foreign currency derivative contracts for the nine months ended September 30, 2016 and 2015, respectively.

The Company recognized net foreign currency transaction losses of $20 million for the three months ended September 30, 2016, primarily due to:

- a loss of $23 million at the Parent Company, which was mainly related to foreign currency swaps and options, partially offset by remeasurement gains on intercompany notes.

The Company recognized net foreign currency transaction gains of $12 million for the three months ended September 30, 2015, primarily due to:

- a gain of $13 million in Colombia, which was mainly related to unrealized gains due to the 19% depreciation of the Colombian Peso, resulting in a gain at Chivor (a U.S. Dollar functional currency subsidiary) from liabilities denominated in Colombian Pesos, primarily income tax payable, accounts payable, and non-recourse debt, and positive impact from foreign currency embedded derivatives;
- a gain of $13 million in Argentina, which was mainly related to the favorable impact of foreign currency derivatives associated with government receivables at AES Argentina Generacion (an Argentine Peso functional currency subsidiary), partially offset by losses from the remeasurement of U.S. Dollar denominated debt, and losses from the remeasurement of local currency asset balances at Termoandes (a U.S. Dollar functional currency subsidiary); and
- a loss of $12 million in Chile, which was mainly due to the 9% depreciation of the Chilean Peso, resulting in a loss at Gener (a U.S. Dollar functional currency subsidiary) from working capital denominated in Chilean Pesos, primarily cash, accounts receivables and VAT receivables.

The Company recognized net foreign currency transaction losses of $16 million for the nine months ended September 30, 2016, primarily due to:

- a loss of $29 million at the Parent Company, which was mainly related to foreign currency swaps and options, partially offset by remeasurement gains on intercompany notes; and
- a gain of $10 million at United Kingdom, which was mainly related to remeasurement gains on intercompany debt.

The Company recognized net foreign currency transaction gains of $4 million for the nine months ended September 30, 2015, primarily due to:

- a gain of $30 million in Argentina, which was mainly related to the favorable impact of foreign currency derivatives associated with government receivables at AES Argentina Generacion (an Argentine Peso functional currency subsidiary), partially offset by losses from the remeasurement of U.S. Dollar denominated debt, and losses from the remeasurement of local currency asset balances at Termoandes (a U.S. Dollar functional currency subsidiary);
- a gain of $18 million in Colombia, which was mainly related to unrealized gains due to the 30% depreciation of the Colombian Peso, resulting in a gain at Chivor (a U.S. Dollar functional currency subsidiary) from liabilities

denominated in Colombian pesos, primarily income tax payable, accounts payable, and non-recourse debt, and positive impact from foreign currency embedded derivatives;

- a loss of $21 million at the Parent Company, which was mainly due to net remeasurement losses on intercompany notes, partially offset by gains on foreign currency options; and
- a loss of $20 million in Chile, which was mainly due to the 15% depreciation of the Chilean Peso, resulting in a loss at Gener (a U.S. Dollar functional currency subsidiary) from working capital denominated in Chilean Pesos, primarily cash, accounts receivables and VAT receivables.

Income tax expense

Income tax expense increased $32 million, or 74%, to $75 million for the three months ended September 30, 2016 compared to $43 million for the three months ended September 30, 2015. The Company's effective tax rates were 26% and 27% for the three months ended September 30, 2016 and 2015, respectively.

The net decrease in the effective tax rate for the three months ended September 30, 2016, compared to the same period in 2015 was principally due to favorable resolution of an audit settlement at certain of our operating subsidiaries in the Dominican Republic this quarter.

Income tax expense decreased $101 million, or 38%, to $165 million for the nine months ended September 30, 2016 compared to $266 million for the nine months ended September 30, 2015. The Company's effective tax rates were 37% and 29% for the nine months ended September 30, 2016 and 2015, respectively.

The net increase in the effective tax rate for the nine months ended September 30, 2016, compared to the same period in 2015 was principally due to the unfavorable impact of Chilean income tax law reform enacted during the first quarter of 2016 and the 2016 asset impairments recorded at Buffalo Gap I, Buffalo Gap II, and DPL. See Note 14—Asset Impairment Expense included in Item 1.—Financial Statements of this Form 10-Q for further information regarding the Buffalo Gap I, Buffalo Gap II, DPL asset impairments.

Our effective tax rate reflects the tax effect of significant operations outside the U.S. which are generally taxed at lower rates than the U.S. statutory rate of 35%. A future proportionate change in the composition of income before income taxes from foreign and domestic tax jurisdictions could impact our periodic effective tax rate.

Net equity in earnings of affiliates

Net equity in earnings of affiliates decreased $70 million to $11 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease was primarily due to a restructuring of Guacolda in September 2015. See Note 6—Investment In and Advances to Affiliates included in Item 1.—Financial Statements of this Form 10-Q for further information.

Net equity in earnings of affiliates decreased $71 million to $25 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was primarily due to a restructuring of Guacolda in September 2015. See Note 6—Investment In and Advances to Affiliates included in Item 1.—Financial Statements of this Form 10-Q for further information.

Net income attributable to noncontrolling interests

Net income attributable to NCI increased $34 million to $57 million for the three months ended September 30, 2016. This increase was primarily due to prior year asset impairment at Buffalo Gap III; partially offset by current year asset impairment at Buffalo Gap I.

Net income attributable to NCI decreased $225 million, or 68%, to $105 million for the nine months ended September 30, 2016. This decrease was primarily due to lower operating margin at Eletropaulo resulting from the the reversal of a contingent regulatory liability in 2015, asset impairments at Buffalo Gap I and II in 2016, and lower operating margin at Tietê; partially offset by an asset impairment at Buffalo Gap III in 2015.

Discontinued operations

Net losses from discontinued operations were $1 million and $389 million for the three and nine months ended September 30, 2016, and $12 million for the nine months ended September 30, 2015. Net income from discontinued operations was $5 million for the three months ended September 30, 2015. See Note 16—Discontinued Operations included in Item 1.—Financial Statements of this Form 10-Q for further information regarding the Sul discontinued operations.

Net (loss) income attributable to The AES Corporation

Net income attributable to The AES Corporation decreased $5 million to $175 million in the three months ended September 30, 2016 compared to $180 million in the three months ended September 30, 2015. Key drivers of the decrease were:

- lower equity in earnings of affiliates;
- lower operating margin at our Brazil SBU;
- devaluation of foreign currencies against the US dollar;

- lower gains on disposal and sale of businesses; and
- lower interest income.



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These decreases were partially offset by:
- lower impairment expense on long lived assets; and
- higher operating margin at our Andes SBU.

Net income (loss) attributable to The AES Corporation decreased $572 million to a loss of $181 million in the nine months ended September 30, 2016 compared to income of $391 million in the nine months ended September 30, 2015. Key drivers of the decrease were:
- impairments at discontinued operations;
- lower operating margins at our Brazil, MCAC and Europe SBUs;
- higher impairment expense on long lived assets;
- higher interest expense;
- lower equity in earnings of affiliates; and
- devaluation of foreign currencies against the US dollar.

These decreases were partially offset by:
- lower losses on extinguishment of debt;
- higher operating margin at our Andes SBU; and
- higher interest income.

## SBU Performance Analysis

### Non-GAAP Measures

Adjusted Operating Margin, Adjusted PTC, Adjusted EPS, and Proportional Free Cash Flow are non-GAAP supplemental measures that are used by management and external users of our consolidated financial statements such as investors, industry analysts and lenders. The Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow by SBU for the three and nine months ended September 30, 2016 are shown below. The percentages represent the contribution by each SBU to the gross metric, excluding Corporate.

### Adjusted Operating Margin

Operating Margin is defined as revenue less cost of sales. We define Adjusted Operating Margin as Operating Margin, adjusted for the impact of NCI, excluding unrealized gains or losses related to derivative transactions.

The GAAP measure most comparable to Adjusted Operating Margin is Operating Margin. We believe that Adjusted Operating Margin better reflects the underlying business performance of the Company. Factors in this determination include the impact of NCI, where AES consolidates the results of a subsidiary that is not wholly owned by the Company, as well as the variability due to unrealized derivatives gains or losses. Adjusted Operating Margin should not be construed as an alternative to Operating Margin, which is determined in accordance with GAAP.

| Reconciliation of Adjusted Operating Margin (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| US SBU | $164 | $155 | $382 | $447 |
| Andes SBU | 144 | 125 | 326 | 314 |
| Brazil SBU | 12 | 19 | 37 | 103 |
| MCAC SBU | 107 | 121 | 290 | 335 |
| Europe SBU | 36 | 52 | 156 | 206 |
| Asia SBU | 19 | 16 | 58 | 49 |
| Corporate and Other | 8 | 3 | 18 | 27 |
| Intersegment Eliminations | 1 | 3 | 6 | — |
| Total Adjusted Operating Margin | 491 | 494 | 1,273 | 1,481 |
| Noncontrolling Interests Adjustment | 187 | 178 | 502 | 670 |
| Unrealized derivative gains (losses) | 10 | (7) | (4) | (10) |
| Operating Margin | $688 | $665 | $1,771 | $2,141 |

Adjusted PTC

We define Adjusted PTC as pretax income from continuing operations attributable to The AES Corporation excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses related to derivative transactions, (b) unrealized foreign currency gains or losses, (c) gains or losses due to dispositions and acquisitions of business interests, (d) losses due to impairments, and (e) costs due to the early retirement of debt. Adjusted PTC also includes net equity in earnings of affiliates on an after-tax basis adjusted for the same gains or losses excluded from consolidated entities.

Adjusted PTC reflects the impact of NCI and excludes the items specified in the definition above. In addition to the revenue and cost of sales reflected in Operating Margin, Adjusted PTC includes the other components of our income statement, such as general and administrative expense in the corporate segment, as well as business development costs; interest expense and interest income; other expense and other income; realized foreign currency transaction gains and losses; and net equity in earnings of affiliates.

The GAAP measure most comparable to Adjusted PTC is income from continuing operations attributable to The AES Corporation. We believe that Adjusted PTC better reflects the underlying business performance of the Company and is considered in the Company's internal evaluation of financial performance. Factors in this determination include the variability due to unrealized gains or losses related to derivative transactions, unrealized foreign currency gains or losses, losses due to impairments and strategic decisions to dispose of or acquire business interests or retire debt, which affect results in a given period or periods. In addition, earnings before tax represents the business performance of the Company before the application of statutory income tax rates and tax adjustments, including the effects of tax planning, corresponding to the various jurisdictions in which the Company operates. Adjusted PTC should not be construed as alternatives to income from continuing operations attributable to The AES Corporation, which is determined in accordance with GAAP.

| Adjusted PTC [(1)] (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| US SBU | $114 | $101 | $257 | $263 |
| Andes SBU | 134 | 150 | 279 | 322 |
| Brazil SBU | 6 | 15 | 18 | 97 |
| MCAC SBU | 74 | 92 | 197 | 248 |
| Europe SBU | 24 | 45 | 127 | 171 |
| Asia SBU | 22 | 24 | 70 | 66 |
| Corporate and Other | (102 ) | (112 ) | (331 ) | (330 ) |
| Total Adjusted PTC | $272 | $315 | $617 | $837 |
| Non-GAAP Adjustments: | | | | |
| Unrealized derivative (losses) gains | (5 ) | 12 | (1 ) | 29 |
| Unrealized foreign currency losses | (3 ) | (5 ) | (12 ) | (48 ) |
| Disposition/acquisition gains | 3 | 23 | 5 | 32 |
| Impairment losses | (24 ) | (139 ) | (309 ) | (175 ) |
| Loss on extinguishment of debt | (20 ) | (21 ) | (26 ) | (159 ) |
| Pretax contribution | 223 | 185 | 274 | 516 |
| Income tax benefit (expense) attributable to The AES Corporation | (47 ) | (10 ) | (66 ) | (113 ) |
| Income from continuing operations, net of tax, attributable to The AES Corporation | $176 | $175 | $208 | $403 |

(1) Adjusted PTC for each segment includes the effect of intercompany transactions with other segments, except for interest, charges for certain management fees, and the write-off of intercompany balances.

Adjusted EPS

We define Adjusted EPS as diluted earnings per share from continuing operations excluding gains or losses of both consolidated entities and entities accounted for under the equity method due to (a) unrealized gains or losses related to derivative transactions, (b) unrealized foreign currency gains or losses, (c) gains or losses due to dispositions and acquisitions of business interests, (d) losses due to impairments, and (e) costs due to the early retirement of debt.

The GAAP measure most comparable to Adjusted EPS is diluted earnings per share from continuing operations. We believe that Adjusted EPS better reflects the underlying business performance of the Company and is considered in the Company's internal evaluation of financial performance. Factors in this determination include the variability due to unrealized gains or losses related to derivative transactions, unrealized foreign currency gains or losses, losses due to impairments and strategic decisions to dispose of or acquire business interests or retire debt, which affect results in a given period or periods. Adjusted EPS should not be construed as alternatives to diluted earnings per share from continuing operations, which is determined in accordance with GAAP.

| Adjusted EPS | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Diluted earnings per share from continuing operations | $0.26 | $0.26 | $0.31 | $0.58 |
| Unrealized derivative gains | — | (0.02 ) | — | (0.04 ) |
| Unrealized foreign currency transaction losses | 0.01 | 0.01 | 0.01 | 0.07 |
| Disposition/acquisition gains | — | (0.03 ) [1] | — [2] | (0.05 ) [1] |
| Impairment losses | 0.03 [3] | 0.20 [4] | 0.47 [5] | 0.25 [6] |
| Loss on extinguishment of debt | 0.04 [7] | 0.03 | 0.05 [8] | 0.23 [9] |
| Less: Net income tax benefit | (0.02 ) | (0.07 ) [10] | (0.20 ) [11] | (0.14 ) [12] |
| Adjusted EPS | $0.32 | $0.38 | $0.64 | $0.90 |

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(1) Amount primarily relates to the gain on sale of Armenia Mountain of $22 million, or $0.03 per share.

(2) Amount primarily relates to the gain on sale of DPLER of $22 million, or $0.03 per share; offset by the loss on deconsolidation of UK Wind of $20 million, or $0.03 per share.

(3) Amount primarily relates to the asset impairment at Buffalo Gap I of $78 million ($23 million, or $0.03 per share, net of NCI).

(4) Amount primarily relates to asset impairments at Buffalo Gap III of $118 million ($27 million, or $0.04 per share, net of NCI); and $113 million at Kilroot ($112 million, or $0.16 per share, net of NCI).

(5) Amount primarily relates to asset impairments at DPL of $235 million, or $0.36 per share; $159 million at Buffalo Gap II ($49 million, or $0.07 per share, net of NCI); and $78 million at Buffalo Gap I ($23 million, or $0.03 per share, net of NCI).

(6) Amount primarily relates to asset impairments at Buffalo Gap III of $118 million ($27 million, or $0.04 per share, net of NCI); $113 million at Kilroot ($112 million, or $0.16 per share, net of NCI); and $38 million at UK Wind ($30 million or $0.04 per share, net of NCI).

(7) Amount primarily relates to losses on early retirement of debt at the Parent Company of $17 million, or $0.02 per share; and an adjustment of $5 million, or $0.01 per share to record the DP&L redeemable preferred stock at its redemption value.

(8) Amount primarily relates to losses on early retirement of debt at the Parent Company of $19 million, or $0.03 per share; and an adjustment of $5 million, or $0.01 per share, to record the DP&L redeemable preferred stock at its redemption value.

(9) Amount primarily relates to losses on early retirement of debt at the Parent Company of $113 million, or $0.16 per share; and $22 million at IPL ($16 million or $0.02 per share, net of NCI).

(10) Amount primarily relates to the per share income tax benefit associated with impairment losses of $46 million, or $0.06 in the three months ended September 30, 2015.

(11) Amount primarily relates to the per share income tax benefit associated with impairment losses of $123 million, or $0.19 in the nine months ended September 30, 2016.

(12) Amount primarily relates to the per share income tax benefit associated with losses on extinguishment of debt of $51 million, or $0.08 and impairment losses of $48 million, or $0.07 in the nine months ended September 30, 2015.

Proportional Free Cash Flow

Refer to Item 2.—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Proportional Free Cash Flow (a non-GAAP measure) for the discussion and reconciliation of Proportional Free Cash Flow to its nearest GAAP measure.

US SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow (in millions) for our US SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $189 | $165 | $ 24 | 15 % | $436 | $463 | $ (27) | -6 % |
| Noncontrolling Interests Adjustment | (26) | (17) | | | (59) | (27) | | |
| Derivatives Adjustment | 1 | 7 | | | 5 | 11 | | |
| Adjusted Operating Margin | $164 | $155 | $ 9 | 6 % | $382 | $447 | $ (65) | -15 % |
| Adjusted PTC | $114 | $101 | $ 13 | 13 % | $257 | $263 | $ (6) | -2 % |
| Proportional Free Cash Flow | $219 | $218 | $ 1 | — % | $469 | $477 | $ (8) | -2 % |

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Operating Margin for the three months ended September 30, 2016 increased by $24 million, or 15%, which was driven primarily by the following (in millions):

| | |
|---|---|
| IPL | |
| Higher retail margin driven by environmental revenues and higher rates due to a new rate order | $18 |
| Other | 4 |
| Total IPL Increase | 22 |
| DPL | |
| Increased plant availability which also resulted in reduced penalties | 15 |
| Total DPL Increase | 15 |
| US Generation | |
| Warrior Run due to lower availability and higher maintenance costs primarily due to major outages in 2016 | (7 ) |
| Other | (6 ) |
| Total US Generation Decrease | (13 ) |
| Total US SBU Operating Margin Increase | $24 |

Adjusted Operating Margin increased by $9 million for the US SBU due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives. AES owns 100% of its businesses in the U.S. with the exception of IPL, which is wholly owned by its indirect subsidiary IPALCO. As of September 30, 2016, CDPQ owns a combined direct and indirect interest in IPALCO of 30%.

Adjusted PTC increased by $13 million driven by the $9 million increase in Adjusted Operating Margin described above and lower interest expense at DPL and IPL, partially offset by a decrease in the Company's share of earnings under the HLBV accounting allocation at Buffalo Gap.

Proportional Free Cash Flow increased by $1 million, primarily driven by the timing of $29 million in payments for accounts payable and inventory purchases due to the conversion of coal generation assets to natural gas at IPL and inventory optimization efforts at DPL, lower proportional interest payments of $7 million (mainly at DPL) due to timing and lower interest rates, $5 million of lower pension contributions at DPL, and a $15 million increase in Adjusted Operating Margin (net of non-cash impacts of $6 million). These positive impacts were partially offset by a $35 million decrease in the timing of receivables collections resulting primarily from higher rates at IPL, more favorable weather in 2016, and the impact of DPLER's declining customer base in 2015. Additionally, Proportional Free Cash Flow was negatively impacted by the impact of $20 million of competitive bid deposits received from suppliers in 2015 to participate in DP&L's auction.

Operating Margin for the nine months ended September 30, 2016 decreased by $27 million, or 6%, which was driven primarily by the following (in millions):

| | |
|---|---|
| DPL | |
| Impact of lower wholesale prices and completion of DP&L's transition to a competitive-bid market | $(32) |
| Decrease in RTO capacity and other revenues primarily due to lower capacity cleared in the auction | (16 ) |
| Other | 5 |
| Total DPL Decrease | (43 ) |
| US Generation | |
| Southland from an increase in depreciation expense as a result of a change in estimated useful lives of the plants | (11 ) |
| Impact from sale of Armenia Mountain in July 2015 | (10 ) |
| Warrior Run due to lower availability and higher maintenance cost primarily due to major outages in 2016 | (9 ) |
| Other | 2 |
| Total US Generation Decrease | (28 ) |
| IPL | |
| Higher retail margin driven by environmental revenues and higher rates due to a new rate order | 28 |
| Change in accrual resulting from the implementation of new rates | 18 |
| Other | (2 ) |
| Total IPL Increase | 44 |

| Total US SBU Operating Margin Decrease | $(27) |
| --- | --- |

Adjusted Operating Margin decreased by $65 million for the US SBU due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives. AES owns 100% of its businesses in the U.S. with the exception of IPL, which is wholly owned by its indirect subsidiary IPALCO. As of September 30, 2016, CDPQ owns a combined direct and indirect interest in IPALCO of 30%.

Adjusted PTC decreased by $6 million, driven by the $65 million decrease in Adjusted Operating Margin described above, partially offset by a gain on contract termination at DP&L and lower interest expense at DPL and IPL in part due to the sell-down impacts as discussed above.

Proportional Free Cash Flow decreased by $8 million, primarily driven by a $59 million decrease in Adjusted Operating Margin (net of non-cash impacts of $6 million, primarily related to the implementation of IPL's new rates

and depreciation), a $58 million decrease in the timing of receivables collections resulting primarily from higher rates at IPL, more favorable weather in 2016, and the impact of DPLER's declining customer base in 2015. Additionally, Proportional Free Cash Flow was negatively impacted by the 2015 impact of $20 million of competitive bid deposits received from suppliers to participate in DP&L's auction. These negative impacts were partially offset by a $76 million decrease in proportional coal purchases due to the ongoing conversion of coal generation assets to natural gas at IPL, a build-up of inventory due to mild winter weather in December 2015, and inventory optimization efforts at DPL. Additionally, Proportional Free Cash Flow was positively impacted by a net increase of $17 million in settlements of accounts receivable primarily due to the sale of DPLER in 2016, and lower proportional interest payments of $27 million due to timing and lower interest rates.

ANDES SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted Proportional Free Cash Flow (in millions) for our Andes SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $203 | $162 | $ 41 | 25 % | $466 | $412 | $ 54 | 13 % |
| Noncontrolling Interests Adjustment | (59 ) | (37 ) | | | (140 ) | (98 ) | | |
| Adjusted Operating Margin | $144 | $125 | $ 19 | 15 % | $326 | $314 | $ 12 | 4 % |
| Adjusted PTC | $134 | $150 | $ (16 ) | -11 % | $279 | $322 | $ (43 ) | -13 % |
| Proportional Free Cash Flow | $92 | $134 | $ (42 ) | -31 % | $152 | $131 | $ 21 | 16 % |

Including unfavorable FX and remeasurement impacts of $4 million, Operating Margin for the three months ended September 30, 2016 increased by $41 million, or 25%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Gener | |
| Lower spot prices on energy and fuel purchases | $44 |
| Start of operations at Cochrane's Unit 1 in July 2016 | 18 |
| Other | (2 ) |
| Total Gener Increase | 60 |
| Chivor | |
| Lower spot sales prices | (9 ) |
| Lower volume of spot sales | (8 ) |
| Total Chivor Decrease | (17 ) |
| Total Argentina Decrease | (2 ) |
| Total Andes SBU Operating Margin Increase | $41 |

Adjusted Operating Margin increased by $19 million due to the drivers above, adjusted for the impact of NCI. AES owned 71% of Gener and Chivor as of September 30, 2015 and 67% as of September 30, 2016, and 100% of AES Argentina.

Adjusted PTC decreased by $16 million, driven by a restructuring of Guacolda in 2015 which increased our equity investment and resulted in additional equity in earnings of $46 million. This negative impact was partially offset by the increase of $19 million in Adjusted Operating Margin described above.

Proportional Free Cash Flow decreased by $42 million, primarily driven by a $35 million decrease in VAT refunds related to our Cochrane and Alto Maipo construction projects, $19 million in higher payments to fuel suppliers in Chile, an $11 million decrease in Argentina mainly associated with lower collections at the CTSN plant, and a $9 million increase in income tax payments in Chile and Argentina. These negative impacts were partially offset by the $19 million increase in Adjusted Operating Margin as described above, and a $25 million favorable impact related to a payment in the prior year to unwind an interest rate swap as part of the Ventanas refinancing in July 2015.

Including unfavorable FX and remeasurement impacts of $32 million, Operating Margin for the nine months ended September 30, 2016 increased by $54 million, or 13%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Gener | |
| Lower prices on energy and fuel purchases | $60 |
| Higher spot sales in the SIC market driven by better availability, partially offset by termination of Nueva Renca tolling agreement | 25 |
| Start of operations at Cochrane's Unit 1 in July 2016 | 23 |
| Lower fixed costs mainly associated with lower maintenance expenses and lower salaries | 22 |
| Other | (11 ) |
| Total Gener Increase | 119 |
| Argentina | |
| Higher fixed costs mainly driven by higher inflation and maintenance costs | (38 ) |
| Lower availability mainly associated with planned major maintenance | (22 ) |
| Unfavorable FX impact | (17 ) |
| Higher rates driven by annual price review | 58 |
| Total Argentina Decrease | (19 ) |
| Chivor | |
| Decrease in anciliary services sales partially offset by higher volume of spot sales | (17 ) |
| Unfavorable FX impact | (15 ) |
| Lower spot sales prices | (14 ) |
| Total Chivor Decrease | (46 ) |
| Total Andes SBU Operating Margin Increase | $54 |

Adjusted Operating Margin increased by $12 million due to the drivers above, adjusted for the impact of NCI. AES owned 71% of Gener and Chivor as of September 30, 2015 and 67% as of September 30, 2016, and 100% of AES Argentina.

Adjusted PTC decreased by $43 million, driven by restructuring of Guacolda in 2015 which increased our equity investment and resulted in additional equity in earnings of $46 million. This negative impact was partially offset by the increase of $12 million in Adjusted Operating Margin described above.

Proportional Free Cash Flow increased by $21 million, primarily driven by the $12 million increase in Adjusted Operating Margin as described above, $27 million of higher collections at Chivor related to increased sales from the fourth quarter of 2015, a $25 million favorable impact related to a payment in the prior year to unwind an interest rate swap as part of the Ventanas refinancing in July 2015, a $12 million favorable impact related to collections from CAMMESA associated with remuneration of major maintenance costs, and a $15 million reduction in proportional maintenance and non-recoverable environmental capital expenditures due to lower expenditures on emissions control equipment at Chile. These positive impacts were partially offset by higher net tax payments of $47 million primarily related to withholding taxes paid on Chilean distributions to AES affiliates and higher taxable income in Colombia, and $34 million of lower VAT refunds related to our Cochrane and Alto Maipo construction projects.

BRAZIL SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow (in millions) for our Brazil SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $53 | $91 | $ (38 ) | -42 % | $174 | $492 | $ (318 ) | -65 % |
| Noncontrolling Interests Adjustment | (41 ) | (72 ) | | | (137 ) | (389 ) | | |
| Adjusted Operating Margin | $12 | $19 | $ (7 ) | -37 % | $37 | $103 | $ (66 ) | -64 % |
| Adjusted PTC | $6 | $15 | $ (9 ) | -60 % | $18 | $97 | $ (79 ) | -81 % |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Proportional Free Cash Flow | $24 | $31 | $(7) | -23 | % | $106 | $(36) | $142 | NM |

Including favorable FX impacts of $5 million, Operating Margin for the three months ended September 30, 2016 decreased by $38 million, or 42%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Eletropaulo | |
| Higher fixed costs mainly due to higher bad debt and employee-related costs | $(17) |
| Regulatory penalties contingency provision in 2015, partially offset by higher regulatory penalties in 2016 | 10 |
| Other | (8) |
| Total Eletropaulo Decrease | (15) |
| Tietê | |
| Lower rates for energy sold under new contracts | (24) |
| Other | (5) |
| Total Tietê Decrease | (29) |
| Other business drivers | 6 |
| Total Brazil SBU Operating Margin Decrease | $(38) |

Adjusted Operating Margin decreased by $7 million, primarily due to the drivers discussed above, adjusted for the impact of NCI. As of September 30, 2016, AES owns 16% of Eletropaulo, 46% of Uruguaiana and 24% of Tietê.
Adjusted PTC decreased by $9 million, driven by the decrease of $7 million in Adjusted Operating Margin as described above.
Proportional Free Cash Flow decreased by $7 million, primarily driven by the unfavorable timing of non-income tax payments of $34 million, higher maintenance capital expenditures at Eletropaulo and Sul of $9 million, higher interest payments at Sul and Eletropaulo of $9 million, and a decrease in Adjusted Operating Margin of $12 million (net of $5 million in non-cash impacts, primarily contingency expenses at Eletropaulo in 2015). These negative impacts were offset by favorable timing of $32 million in net collections of higher costs deferred in net regulatory assets in the prior year at Eletropaulo and Sul as a result of unfavorable hydrology in prior periods, and favorable timing of $27 million in collections on current year energy sales.
Including unfavorable FX impacts of $16 million, Operating Margin for the nine months ended September 30, 2016 decreased by $318 million, or 65%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Eletropaulo | |
| Negative impact of reversal of contingent regulatory liability in 2015 | $(97) |
| Higher fixed costs mainly due to higher bad debt and employee-related costs | (67) |
| Lower demand mainly due to economic decline | (42) |
| Higher regulatory penalties in 2016 partially offset by regulatory penalties contingency provision in 2015 | (31) |
| Higher tariffs | 71 |
| Other | (4) |
| Total Eletropaulo Decrease | (170) |
| Tietê | |
| Lower rates for energy sold under new contracts | (183) |
| Unfavorable FX impacts | (19) |
| Lower rates for energy purchases mainly due to decrease in spot market prices | 71 |
| Other | (4) |
| Total Tietê Decrease | (135) |
| Other business drivers | (13) |
| Total Brazil SBU Operating Margin Decrease | $(318) |

Adjusted Operating Margin decreased by $66 million, primarily due to the drivers discussed above, adjusted for the impact of NCI. As of September 30, 2016, AES owns 16% of Eletropaulo, 46% of Uruguaiana and 24% of Tietê.
Adjusted PTC decreased by $79 million, driven by the decrease of $66 million in Adjusted Operating Margin as described above, as well as higher interest expense of $10 million related to the reversal of a contingent regulatory liability at Eletropaulo in 2015.

Proportional Free Cash Flow increased by $142 million, primarily driven by favorable timing of $311 million in net collections of higher costs deferred in net regulatory assets in the prior year at Eletropaulo and Sul as a result of unfavorable hydrology in prior periods, favorable timing of $119 million in collections on current year energy sales, and lower energy purchases of $22 million at Tietê due to favorable hydrology. These positive impacts were partially offset by unfavorable timing of $211 million in payments for energy purchases and regulatory charges at Eletropaulo and Sul, and a $56 million decrease in in Adjusted Operating Margin (net of $10 million in non-cash impacts, primarily due to the reversal of a contingent regulatory liability at Eletropaulo in 2015).

MCAC SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow (in millions) for our MCAC SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $140 | $148 | $(8) | -5% | $370 | $416 | $(46) | -11% |
| Noncontrolling Interests Adjustment | (31) | (27) | | | (77) | (79) | | |
| Derivatives Adjustment | (2) | — | | | (3) | (2) | | |
| Adjusted Operating Margin | $107 | $121 | $(14) | -12% | $290 | $335 | $(45) | -13% |
| Adjusted PTC | $74 | $92 | $(18) | -20% | $197 | $248 | $(51) | -21% |
| Proportional Free Cash Flow | $91 | $259 | $(168) | -65% | $98 | $391 | $(293) | -75% |

Operating Margin for the three months ended September 30, 2016 decreased by $8 million, or 5%, primarily due to lower availability in Puerto Rico.

Adjusted Operating Margin decreased by $14 million due to the driver above as well as additional impacts of NCI and excluding unrealized gains and losses on derivatives. As of September 30, 2016, AES owns 90% of Changuinola and 49% of its other generation facilities in Panama, 90% of Andres and Los Mina (92% in 2015) and 45% of Itabo (46% in 2015) in the Dominican Republic, 99% of TEG/TEP and 55% of Merida in Mexico, and a weighted average of 77% of its businesses in El Salvador.

Adjusted PTC decreased by $18 million, driven by the decrease of $14 million in Adjusted Operating Margin as described above and lower interest income due to lower accounts receivable balance in the Dominican Republic.

Proportional Free Cash Flow decreased by $168 million, primarily driven by $177 million in collections of overdue receivables in the Dominican Republic in September 2015, and the $14 million decrease in Adjusted Operating Margin described above. These negative impacts were partially offset by a favorable change in working capital in Puerto Rico of $17 million, primarily driven by the timing of collections.

Operating Margin for the nine months ended September 30, 2016 decreased by $46 million, or 11%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Mexico | |
| Lower availability and related costs | $(12) |
| Other | (3) |
| Total Mexico Decrease | (15) |
| Puerto Rico | |
| Lower availability | (10) |
| Other | (4) |
| Total Puerto Rico Decrease | (14) |
| Panama | |
| Expenses related to the ongoing construction of a natural gas generation plant and a liquefied natural gas terminal | (15) |
| Lower generation and higher energy purchases driven by weaker hydrological conditions | (10) |
| Commencement of power barge operations at the end of March 2015 | 11 |
| Other | 1 |
| Total Panama Decrease | (13) |
| Other business drivers | (4) |
| Total MCAC SBU Operating Margin Decrease | $(46) |

Adjusted Operating Margin decreased by $45 million due to the drivers above, adjusted for the impact of NCI and excluding unrealized gains and losses on derivatives. As of September 30, 2016, AES owns 90% of Changuinola and 49% of its other generation facilities in Panama, 90% of Andres and Los Mina (92% in 2015) and 45% of Itabo (46%

in 2015) in the Dominican Republic, 99% of TEG/TEP and 55% of Merida in Mexico, and a weighted average of 77% of its businesses in El Salvador.

Adjusted PTC decreased by $51 million, driven by the decrease of $45 million in Adjusted Operating Margin as described above and lower interest income due to lower accounts receivables balance in the Dominican Republic.

Proportional Free Cash Flow decreased by $293 million, primarily driven by $177 million in collections of overdue receivables in the Dominican Republic in September 2015, the $45 million decrease in Adjusted Operating Margin described above, lower collections of $40 million in Puerto Rico due to lower sales, higher income tax payments of $14 million in El Salvador as a result of higher taxable income in 2015, and $13 million of higher withholding taxes paid on dividend distributions to AES affiliates in the Dominican Republic.

EUROPE SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow (in millions) for our Europe SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $54 | $59 | $ (5 ) | -8 % | $184 | $226 | $ (42 ) | -19 % |
| Noncontrolling Interests Adjustment | (8 ) | (7 ) | | | (23 ) | (21 ) | | |
| Derivatives Adjustment | (10 ) | — | | | (5 ) | 1 | | |
| Adjusted Operating Margin | $36 | $52 | $ (16 ) | -31 % | $156 | $206 | $ (50 ) | -24 % |
| Adjusted PTC | $24 | $45 | $ (21 ) | -47 % | $127 | $171 | $ (44 ) | -26 % |
| Proportional Free Cash Flow | $43 | $33 | $ 10 | 30 % | $462 | $207 | $ 255 | NM |

Including unfavorable FX impacts of $7 million, Operating Margin for the three months ended September 30, 2016 decreased by $5 million, or 8%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Maritza | |
| Lower contracted capacity prices due to PPA amendment | $(6) |
| Lower availability as well as higher fixed costs due to planned outages | (5 ) |
| Other | (1 ) |
| Total Maritza Decrease | (12) |
| Kilroot | |
| Higher availability due to lower planned outages offset by lower plant dispatch | 4 |
| Lower depreciation due to impairment in prior year | 3 |
| Other | 2 |
| Total Kilroot Increase | 9 |
| Other business drivers | (2 ) |
| Total Europe SBU Operating Margin Decrease | $(5) |

Adjusted Operating Margin decreased by $16 million due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives. As of September 30, 2016, AES owns 89% of Kavarna in Bulgaria, and 37% and 36% respectively, of the Amman East and IPP4 projects in Jordan.

Adjusted PTC decreased by $21 million, driven by the decrease of $16 million in Adjusted Operating Margin described above as well as the sale of a solar project in Spain in 2015.

Proportional Free Cash Flow increased by $10 million, primarily driven by $44 million of increased collections at Maritza from NEK, net of payments to the fuel supplier. This favorable increase was partially offset by the $16 million decrease in Adjusted Operating Margin, an $8 million decrease in $CO_2$ allowances due to a price decrease, and higher collections of $5 million in 2015 at Kavarna.

Including unfavorable FX impacts of $30 million, Operating Margin for the nine months ended September 30, 2016 decreased by $42 million, or 19%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Kazakhstan | |
| FX impact | $(27) |
| Total Kazakhstan Decrease | (27 ) |
| Maritza | |
| Lower contracted capacity prices due to PPA amendment | (14 ) |
| Other | (1 ) |
| Total Maritza Decrease | (15 ) |
| Total Europe SBU Operating Margin Decrease | $(42) |

Adjusted Operating Margin decreased by $50 million due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives. As of September 30, 2016, AES owns 89% of Kavarna in Bulgaria, and

37% and 36% respectively, of the Amman East and IPP4 projects in Jordan.
Adjusted PTC decreased by $44 million, driven by the decrease of $50 million in Adjusted Operating Margin described above, partially offset by lower interest expense in Bulgaria due to less debt and a non-recurring provision in Kazakhstan in 2015.
Proportional Free Cash Flow increased by $255 million, primarily driven by $337 million of increased collections at Maritza from NEK, net of payments to the fuel supplier (MMI). This favorable increase was partially offset by the $50 million decrease in Adjusted Operating Margin, a $25 million decrease in $CO_2$ allowances due to a price decrease, and higher payments of $7 million at Kavarna due to the settlement of overdue invoices to the national grid operator.

ASIA SBU

The following table summarizes Operating Margin, Adjusted Operating Margin, Adjusted PTC, and Proportional Free Cash Flow (in millions) for our Asia SBU for the periods indicated:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | % Change | 2016 | 2015 | $ Change | % Change |
| Operating Margin | $41 | $33 | $ 8 | 24 % | $124 | $104 | $ 20 | 19 % |
| Noncontrolling Interests Adjustment | (22 ) | (17 ) | | | (66 ) | (55 ) | | |
| Adjusted Operating Margin | $19 | $16 | $ 3 | 19 % | $58 | $49 | $ 9 | 18 % |
| Adjusted PTC | $22 | $24 | $ (2 ) | -8 % | $70 | $66 | $ 4 | 6 % |
| Proportional Free Cash Flow | $48 | $50 | $ (2 ) | -4 % | $110 | $59 | $ 51 | 86 % |

Operating Margin for the three months ended September 30, 2016 increased by $8 million, or 24%, due to better availability at Mong Duong in Vietnam.

Adjusted Operating Margin increased by $3 million due to Operating Margin adjusted for the impact of NCI. As of September 30, 2016, AES owns 51% of Masinloc, prior to its sale in January 2016 AES owned 90% of Kelanitissa and 51% of Mong Duong.

Adjusted PTC decreased by $2 million, primarily driven by higher interest expense and lower interest income at Mong Duong partially offset by the increase of $3 million in Adjusted Operating Margin described above.

Proportional Free Cash Flow decreased by $2 million, primarily driven by a $7 million decrease in Masinloc working capital due to timing, which was partially offset by the $3 million increase in Adjusted Operating Margin as described above.

Operating margin for the nine months ended September 30, 2016 increased by $20 million, or 19%, which was driven primarily by the following (in millions):

| | |
|---|---|
| Mong Duong | |
| Impact of full year operations for 2016 compared to commencement of principal operations in April 2015 | $16 |
| Total Mong Duong Increase | 16 |
| Other business drivers | 4 |
| Total Asia SBU Operating Margin Increase | $20 |

Adjusted Operating Margin increased by $9 million due to the driver above adjusted for the impact of NCI. As of September 30, 2016, AES owns 51% of Masinloc, prior to its sale in January 2016 AES owned 90% of Kelanitissa and 51% of Mong Duong.

Adjusted PTC increased by $4 million, primarily driven by the increase of $9 million in Adjusted Operating Margin described above.

Proportional Free Cash Flow increased by $51 million, primarily driven by a decrease of $28 million in working capital requirements at Mong Duong due to a build up in the prior year in preparation for commencement of plant operations, and an increase in Adjusted Operating Margin of $30 million (net of proportional non-cash service concession expense of $21 million). These positive impacts were partially offset by higher proportional interest expense of $13 million as interest is no longer capitalized as part of service concession asset expenditures.

Key Trends and Uncertainties

During the remainder of 2016 and beyond, we expect to face the following challenges at certain of our businesses. Management expects that improved operating performance at certain businesses, growth from new businesses and global cost reduction initiatives may lessen or offset their impact. If these favorable effects do not occur, or if the challenges described below and elsewhere in this section impact us more significantly than we currently anticipate, or if volatile foreign currencies and commodities move more unfavorably, then these adverse factors, a combination of factors, (or other adverse factors unknown to us) may have a material impact on our operating margin, net income attributable to The AES Corporation and cash flows. We continue to monitor our operations and address challenges as they arise.

Macroeconomic and Political

During the past few years, economic conditions in some countries where our subsidiaries conduct business have deteriorated. Global economic conditions remain volatile and could have an adverse impact on our businesses in the event these recent trends continue.

Brazil — Dilma Rousseff was removed from office as Brazil’s president on August 31, 2016. At this time Michel

Temer was confirmed as president until December 2018. President Temer, with majority congressional support, has committed to implement the fiscal reforms needed in order to improve the country's finances. If enacted, these market reforms would improve the economic outlook, which may benefit our businesses in Brazil.

In June 2016, AES announced the sale of the Company's 100% ownership interest in AES Sul. The sale is due to a recent portfolio evaluation where it was determined that AES Sul is no longer aligned with the Company's strategic goals and therefore its disposal is part of a strategic shift in the Brazil distribution sector. The Company concluded the sale on October 31, 2016 and will realize an after-tax loss on disposal of approximately $700 million, subject to adjustments to the final sale proceeds, in the fourth quarter of 2016. The cumulative impact on earnings of the impairment and loss on sale is expected to be approximately $1.1 billion. This includes the reclassification of approximately $1 billion of cumulative foreign currency translation losses, resulting in an expected net reduction to AES equity of approximately $100 million.

United Kingdom — On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union ("E.U."), commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unclear what the long-term global implications will be, it is possible that the European or U.K. economy could weaken and our businesses may experience a decline in demand. While the full impact of the Brexit is uncertain, these changes may adversely affect our operations and financial results. The most immediate impact has been a devaluation of the pound and euro against the U.S. dollar. For 2016 and 2017, the Company has hedged against these foreign currency movements, however, the impact could be greater in future years.

Puerto Rico — Our subsidiaries in Puerto Rico have long term PPAs with state-owned PREPA. Due to the ongoing economic situation in the territory, PREPA faces significant financial challenges.

On June 28, 2014, the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") was signed into law, which allows public corporations, including PREPA, to adjust their debts. As a result of this event, on July 6, 2014, PREPA entered into a Forbearance Agreement with its lenders in order to permit an opportunity for negotiation of a possible financial restructuring of PREPA. In February 2015, the negotiating position of PREPA was weakened when the federal court deemed the Recovery Act unconstitutional. The Supreme Court upheld the federal court's opinion on June 13, 2016. Despite this setback, PREPA managed to extend the expiration of the Forbearance Agreement several times, achieving in December 2015 certain preliminary restructuring agreements, called Restructuring Support Agreements ("RSAs"). Under these agreements, bondholders would take a reduction in principal after exchanging their bonds for new securities that would be backed by a special charge on clients' bills. For its part, the utility would receive five-year debt-service relief, while freeing up cash to modernize its power plants.

On June 28, 2016, PREPA authorized the issuance of the restructuring bonds, based on the approval of the Puerto Rico Energy Commission of a transition charge and adjustment mechanism that PREPA had proposed to pay for the utility's securitized debt. PREPA is expecting to complete this new bond issuance by December 31, 2016. As a result of the impending restructuring, Fitch has downgraded PREPA's bonds to "C", from "CC", causing the downgrade of AES Puerto Rico, as PREPA is our only off taker.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA creates a structure for exercising federal oversight over the fiscal affairs of U.S. territories and allows for the establishment of an Oversight Board with broad powers of budgetary and financial control over Puerto Rico. PROMESA also creates procedures for adjusting debts accumulated by the Puerto Rico government and, potentially, other territories. Finally, PROMESA expedites the approval of key energy projects and other critical projects in Puerto Rico. The impact PROMESA will have on PREPA's contracts and PPA is uncertain.

Other than the downgrade of AES Puerto Rico discussed above, there have been no adverse impacts to AES Puerto Rico due to PREPA's financial challenges. If PREPA continues to face challenges, or those challenges worsen, or otherwise impact PREPA's ability to make payments to AES Puerto Rico, there could be a material impact on the Company.

United States of America — The outcome of the 2016 U.S. elections could result in significant changes to U.S. environmental policies, energy policies and tax laws, the impact of which is uncertain.

Philippines — In October 2016, President Rodrigo Duterte announced a change in policy towards the U.S, the impact of which on our businesses in the Philippines is uncertain.

Macroeconomic and Political — Summary

If global economic conditions deteriorate further, it could also affect the prices we receive for the electricity we



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generate or transmit. Utility regulators or parties to our generation contracts may seek to lower our prices based on prevailing market conditions pursuant to PPAs, concession agreements or other contracts as they come up for renewal or reset. In addition, rising fuel and other costs coupled with contractual price or tariff decreases could restrict our ability to operate profitably in a given market. Additionally, we operate in multiple countries and as such are subject to volatility in exchange rates at the subsidiary level and between our functional currency, the U.S. Dollar, and currencies of the countries in which we operate. The above mentioned market drivers have already impacted us significantly in 2016 and we expect them to continue to do so during the remainder of the year. See Item 3.—Quantitative and Qualitative Disclosures About Market Risk for further information. Each of these factors, as well as those discussed above, could result in a decline in the value of our assets including those at the businesses we operate, our equity investments and projects under development that could result in asset impairments that could be material to our operations. We continue to monitor our projects and businesses.

Regulatory

In March 2016, the IURC issued an order authorizing IPL to increase its basic rates and charges by approximately $31 million annually. The order also authorized IPL to collect, over a ten-year period, approximately $118 million of previously deferred regulatory assets related to IPL’s participation in the regional transmission organization known as MISO. Such deferred costs will be amortized to expense over ten years. The rate order also authorized an increase in IPL’s depreciation rates of $24 million annually compared to the twelve months ended June 30, 2014, which is the period upon which the rate increase was calculated. IPL also received approval to implement three new rate riders for current recovery of ongoing MISO costs, capacity costs and sharing of wholesale sales margins with customers at 50%. The order approved recovery of IPL’s pension expenses and return on IPL’s discretionary pension fundings. As part of the order, the IURC also noted that they found IPL’s service company cost allocations to be reasonable and directed IPL to request FERC to review its Service Company allocations. The IURC also closed their investigation into IPL’s underground network. Some of the intervening parties in the IURC rate case have filed petitions for reconsideration of the IURC's March 2016 order with respect to certain issues. The IURC has not yet acted on those petitions. In addition, the Indiana Office of Utility Consumer Counselor and some other intervening parties have filed notices of appeal of the order.

In June 2016, the Supreme Court of Ohio issued an opinion to repeal the current electric security plan (“ESP”) of DPL which had been approved by the Public Utilities Commission of Ohio (“PUCO”) in September 2013 and was in effect for the years 2014-2016 (“ESP 2”). ESP 2, among other matters, permitted DPL to collect a non-bypassable service stability rider (“SSR”) equal to approximately $9 million per month for each of those years. In the opinion, the court briefly stated, without expanding upon the basis, that the PUCO’s approval of ESP 2 was reversed on the authority of one of the court’s prior rulings in a separate case not involving DPL. In view of that reversal, on July 27, 2016, DPL filed a motion to withdraw its ESP 2 and implement rates consistent with those in effect under its June 2009 ESP (“ESP 1”).

PUCO granted DPL’s request on August 26, 2016, thereby terminating ESP 2 and implementing the provisions, terms and conditions of ESP 1 until the rates consistent with the outcome of DPL’s pending ESP filed in February 2016 (“ESP 3”) become effective. The impact of reverting to the ESP 1 rates is not expected to be material during this interim period.

On September 23, 2016, DP&L filed to withdraw its request for a Reliable Electricity Rider (“RER”) in the pending ESP 3 case. On October 11, 2016, DP&L filed an amended application supporting the alternative to the RER proposed in its initial ESP filing, named the Distribution Modernization Rider (“DMR”), requesting to recover $145 million per year for seven years. There can be no assurance that ESP 3 will be approved as filed or on a timely basis. If ESP 3 is not approved on a timely basis or if the final ESP 3 provides for terms that are more adverse than those submitted in DP&L's application, our results of operations, financial condition and cash flows could be materially impacted.

Operational

Sensitivity to Hydrological Conditions — Our hydroelectric generation facilities are sensitive to changes in the weather, particularly the level of water inflows into generation facilities. At times, dry hydrological conditions in Panama, Brazil, Colombia and Chile have presented challenges for our businesses in these markets. There is a risk that low rainfall and water inflows could reduce reservoir levels, generation output, and increase prices for electricity. Alternatively, wet conditions could also have an adverse impact by depressing spot prices for excess energy sales for

generation businesses. For distribution businesses, wet conditions could result in lowered demand as well as floods and other damage which could disrupt service and require emergency repairs. Future hydrology conditions are always uncertain, but currently the Company does not expect a material impact due to hydrology in 2016.

Foreign Exchange and Commodities

Our businesses are exposed to and proactively manage market risk. Our primary market risk exposure is to the price of commodities, particularly electricity, oil, natural gas, coal, and environmental credits. In 2015, large declines in commodities and appreciation in the USD had a significant impact on our results. During the nine months ended September 30, 2016, commodities and FX have remained volatile; continued volatility in these markets could have a material impact on our full year 2016 results. For additional information, refer to Item 3.—Quantitative and Qualitative Disclosures About Market Risk.

Impairments

Long-lived Assets — Due to decreased wind production and a decline in forward power curves the Company tested the recoverability of its long-lived assets at Buffalo Gap I, II, and III during the nine months ended September 30, 2016. See Note 14—Asset Impairment Expense included in Item 1.—Financial Statements of this Form 10-Q for further information. After recognizing asset impairment expense at Buffalo Gap I and II, the carrying value of the long-lived asset groups at Buffalo Gap I, II, and III totaled $241 million at September 30, 2016.

During the nine months ended September 30, 2016, the Company recognized an asset impairment expense of $235 million at DPL. See Note 14—Asset Impairment Expense included in Item 1.—Financial Statements of this Form 10-Q for further information. After recognizing this asset impairment expense at DPL, the carrying value of the long-lived asset groups at DPL, including those that were not impaired, totaled $1.1 billion at September 30, 2016.

Events or changes in circumstances that may necessitate further recoverability tests and potential impairments of long-lived assets may include, but are not limited to, adverse changes in the regulatory environment, unfavorable changes in power prices or fuel costs, increased competition due to additional capacity in the grid, technological advancements, declining trends in demand, or an expectation that it is more likely than not that the asset will be disposed of before the end of its previously estimated useful life.

Construction

During the third quarter of 2016, the Alto Maipo project in Chile experienced technical difficulties in construction which resulted in an increase in projected costs of 10% to 20% over the original $2 billion budget. The additional cost is expected to be funded through a combination of non-recourse debt and sponsors' equity. The Company’s subsidiary, AES Gener, is currently working with its partner, as well as external lenders, to secure additional funding for the completion of the project. Currently, the Company's indirect equity interest in the project is 40%.

Environmental

The Company is subject to numerous environmental laws and regulations in the jurisdictions in which it operates. The Company expenses environmental regulation compliance costs as incurred unless the underlying expenditure qualifies for capitalization under its property, plant and equipment policies. The Company faces certain risks and uncertainties related to these environmental laws and regulations, including existing and potential GHG legislation or regulations, and actual or potential laws and regulations pertaining to water discharges, waste management (including disposal of coal combustion byproducts) and certain air emissions, such as $SO_2$, $NO_x$, particulate matter and mercury. Such risks and uncertainties could result in increased capital expenditures or other compliance costs which could have a material adverse effect on certain of our U.S. or international subsidiaries and our consolidated results of operations. For further information about these risks, see Item 1A.—Risk Factors—Our businesses are subject to stringent environmental laws and regulations; Our businesses are subject to enforcement initiatives from environmental regulatory agencies; and Regulators, politicians, non-governmental organizations and other private parties have expressed concern about greenhouse gas, or GHG, emissions and the potential risks associated with climate change and are taking actions which could have a material adverse impact on our consolidated results of operations, financial condition and cash flows included in the 2015 Form 10-K. The following discussion of the impact of environmental laws and regulations on the Company updates the discussion provided in Item 1.—Business—Environmental and Land Use Regulations of the 2015 Form 10-K.

Update on CSAPR — On September 7, 2016, the EPA finalized an update to the CSAPR to address the 2008 ozone NAAQS ("CSAPR Update Rule"). CSAPR addresses the "good neighbor" provision of the CAA, which prohibits sources within each state from emitting any air pollutant in an amount which will contribute significantly to any other state’s nonattainment, or interference with maintenance of, any NAAQS. The final rule finds that $NO_x$ ozone season emissions in 22 states (including Indiana, Maryland, Ohio and Oklahoma) affect the ability of downwind states to

attain and maintain the 2008 ozone NAAQS. For these 22 states, the EPA is issuing federal implementation plans that generally update existing CSAPR $NO_x$ ozone season emission budgets for electric generating units within these states, and implement these budgets through modifications to the existing CSAPR

$NO_x$ ozone season allowance trading program. Implementation will start in the 2017 ozone season (May—September 2017). Affected facilities will receive fewer ozone season $NO_x$ allowances in 2017 and later, resulting in the need to purchase additional allowances. At this time, we cannot predict what the impact will be with respect to these new standards and requirements, but it could be material if certain facilities will need to purchase additional allowances based on reduced allocations.

Selenium Rule — IPL's NPDES permits may be updated to include Selenium water quality based effluent limits based on a site specific evaluation process which includes determining if there is a reasonable potential to exceed the revised final Selenium water quality standards for the specific receiving water body utilizing actual and/or project discharge information for the IPL generating facilities. As a result, it is not yet possible to predict the total impacts of this final rule at this time, including any challenges to such final rule and the outcome of any such challenges. However, if additional capital expenditures are necessary, they could be material. IPL would seek recovery of these capital expenditures; however, there is no guarantee it would be successful in this regard.

Capital Resources and Liquidity

Overview — As of September 30, 2016, the Company had unrestricted cash and cash equivalents of $1.3 billion, of which $42 million was held at the Parent Company and qualified holding companies. The Company had $596 million in short-term investments, held primarily at subsidiaries. In addition, we had restricted cash and debt service reserves of $935 million. The Company also had non-recourse and recourse aggregate principal amounts of debt outstanding of $15.9 billion and $4.9 billion, respectively. Of the approximately $1.1 billion of our current non-recourse debt, $1.0 billion was presented as such because it is due in the next 12 months and $134 million relates to debt considered in default due to covenant violations. The defaults are not payment defaults, but are instead technical defaults triggered by failure to comply with other covenants and/or conditions such as (but not limited to) failure to meet information covenants, complete construction or milestones in an allocated time, and meet minimum or maximum financial ratios, or other requirements contained in the non-recourse debt documents of the Company.

We expect such current maturities will be repaid from net cash provided by operating activities of the subsidiary to which the debt relates, through opportunistic refinancing activity, or some combination thereof. None of our recourse debt matures within the next twelve months. From time to time, we may elect to repurchase our outstanding debt through cash purchases, privately negotiated transactions, or otherwise when management believes that such securities are attractively priced. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and other factors. The amounts involved in any such repurchases may be material.

We rely mainly on long-term debt obligations to fund our construction activities. We have, to the extent available at acceptable terms, utilized non-recourse debt to fund a significant portion of the capital expenditures and investments required to construct and acquire our electric power plants, distribution companies and related assets. Our non-recourse financing is designed to limit cross-default risk to the Parent Company or other subsidiaries and affiliates. Our non-recourse long-term debt is a combination of fixed and variable interest rate instruments. Generally, a portion or all of the variable rate debt is fixed through the use of interest rate swaps. In addition, the debt is typically denominated in the currency that matches the currency of the revenue expected to be generated from the benefiting project, thereby reducing currency risk. In certain cases, the currency is matched through the use of derivative instruments. The majority of our non-recourse debt is funded by international commercial banks, with debt capacity supplemented by multilaterals and local regional banks.

Given our long-term debt obligations, the Company is subject to interest rate risk on debt balances that accrue interest at variable rates. When possible, the Company will borrow funds at fixed interest rates or hedge its variable rate debt to fix its interest costs on such obligations. In addition, the Company has historically tried to maintain at least 70% of its consolidated long-term obligations at fixed interest rates, including fixing the interest rate through the use of interest rate swaps. These efforts apply to the notional amount of the swaps compared to the amount of related underlying debt. Presently, the Parent Company's only material unhedged exposure to variable interest rate debt relates to indebtedness under its floating rate senior unsecured notes due 2019. On a consolidated basis, of the Company's $20.8 billion of total debt outstanding as of September 30, 2016, approximately $3.9 billion bore interest at variable rates that were not subject to a derivative instrument which fixed the interest rate. Brazil holds $1.4 billion of our floating rate non-recourse exposure as we have no ability to fix local debt interest rates efficiently.

In addition to utilizing non-recourse debt at a subsidiary level when available, the Parent Company provides a portion, or in certain instances all, of the remaining long-term financing or credit required to fund development, construction or acquisition of a particular project. These investments have generally taken the form of equity investments or intercompany loans, which are subordinated to the project's non-recourse loans. We generally obtain the funds for these investments from our cash flows from operations, proceeds from the sales of assets and/

or the proceeds from our issuances of debt, common stock and other securities. Similarly, in certain of our businesses, the Parent Company may provide financial guarantees or other credit support for the benefit of counterparties who have entered into contracts for the purchase or sale of electricity, equipment or other services with our subsidiaries or lenders. In such circumstances, if a business defaults on its payment or supply obligation, the Parent Company will be responsible for the business' obligations up to the amount provided for in the relevant guarantee or other credit support. At September 30, 2016, the Parent Company had provided outstanding financial and performance-related guarantees, indemnities or other credit support commitments to or for the benefit of our businesses, which were limited by the terms of the agreements, of approximately $524 million in aggregate (excluding those collateralized by letters of credit and other obligations discussed below). These amounts exclude normal and customary representations and warranties in agreements for the sale of assets (including ownership in associated legal entities) where the associated risk is considered to be nominal.

As a result of the Parent Company's below-investment-grade rating, counterparties may be unwilling to accept our general unsecured commitments to provide credit support. Accordingly, with respect to both new and existing commitments, the Parent Company may be required to provide some other form of assurance, such as a letter of credit, to backstop or replace our credit support. The Parent Company may not be able to provide adequate assurances to such counterparties. To the extent we are required and able to provide letters of credit or other collateral to such counterparties, this will reduce the amount of credit available to us to meet our other liquidity needs. At September 30, 2016, we had $6 million in letters of credit outstanding, provided under our senior secured credit facility, $146 million in letters of credit outstanding under unsecured credit facilities and $3 million in cash collateralized letters of credit outstanding outside of our senior secured credit facility. These letters of credit operate to guarantee performance relating to certain project development activities, construction activities and subsidiary operations. During the quarter ended September 30, 2016, the Company paid letter of credit fees ranging from 0.2% to 2.5% per annum on the outstanding amounts.

We expect to continue to seek, where possible, non-recourse debt financing in connection with the assets or businesses that we or our affiliates may develop, construct or acquire. However, depending on local and global market conditions and the unique characteristics of individual businesses, non-recourse debt may not be available on economically attractive terms or at all. If we decide not to provide any additional funding or credit support to a subsidiary project that is under construction or has near-term debt payment obligations and that subsidiary is unable to obtain additional non-recourse debt, such subsidiary may become insolvent, and we may lose our investment in that subsidiary. Additionally, if any of our subsidiaries lose a significant customer, the subsidiary may need to withdraw from a project or restructure the non-recourse debt financing. If we or the subsidiary choose not to proceed with a project or are unable to successfully complete a restructuring of the non-recourse debt, we may lose our investment in that subsidiary.

Many of our subsidiaries depend on timely and continued access to capital markets to manage their liquidity needs. The inability to raise capital on favorable terms, to refinance existing indebtedness or to fund operations and other commitments during times of political or economic uncertainty may have material adverse effects on the financial condition and results of operations of those subsidiaries. In addition, changes in the timing of tariff increases or delays in the regulatory determinations under the relevant concessions could affect the cash flows and results of operations of our businesses.

Long-Term Receivables — As of September 30, 2016, the Company had approximately $245 million and $37 million of accounts receivable classified as Noncurrent assets—other and Current assets—Accounts receivable, respectively, related to certain of its generation businesses in Argentina and the United States, and its utility business in Brazil. The noncurrent portion primarily consists of accounts receivable in Argentina that, pursuant to amended agreements or government resolutions, have collection periods that extend beyond September 30, 2017, or one year from the latest balance sheet date. The majority of Argentinian receivables have been converted into long-term financing for the construction of power plants. See Note 5—Financing Receivables included in Part I—Item 1.—Financial Statements of this Form 10-Q and Item 1.—Business—Regulatory Matters—Argentina included in our 2015 Form 10-K for further information.

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Consolidated Cash Flows

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| Cash flows provided by (used in): | 2016 | 2015 | $ Change | 2016 | 2015 | $ Change |
| Operating activities | $819 | $915 | $ (96 ) | $2,182 | $1,505 | $ 677 |
| Investing activities | (543 ) | (569 ) | 26 | (1,869 ) | (1,639 ) | (230 ) |
| Financing activities | (215 ) | 97 | (312 ) | (258 ) | 86 | (344 ) |

Operating Activities

The following table summarizes the key components of our consolidated operating cash flows:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2016 | 2015 | $ Change | 2016 | 2015 | $ Change |
| Net Income | $229 | $203 | $ 26 | $(84) | $721 | $(805 ) |
| Depreciation and amortization | 291 | 283 | 8 | 877 | 880 | (3 ) |
| Impairment expenses | 79 | | | | | |