AES CORP
Form 10-Q
November 04, 2016

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended 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:

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

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, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 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.

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

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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		Carrying	Fair Value			
Assets	Measurement Date	Amount (1)	Level 1	Level 2	Level 3	Pretax Loss
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		Carrying	Fair Value			Pretax
Assets	Measurement Date	Amount (1)	Level 1	Level 2	Level 3	Loss
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

	September 30, 2016		December 31, 2015	
Fair Value	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

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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	—