

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2021
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

(State or other jurisdiction of incorporation or organization)

54-1163725

(I.R.S. Employer Identification No.)

4300 Wilson Boulevard

Arlington, Virginia

(Address of principal executive offices)

22203

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.01 per share	AES	New York Stock Exchange
Corporate Units	AESC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐ Non-accelerated filer ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of Registrant's Common Stock, par value \$0.01 per share, on November 1, 2021 was 666,713,829.

The AES Corporation

Form 10-Q for the Quarterly Period ended September 30, 2021

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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 Pre-tax Contribution, a non-GAAP measure of operating performance
AES	The Parent Company and its subsidiaries and affiliates
AES Andes	AES Andes S.A., formerly branded as AES Gener
AES Brasil	AES Tietê Energia S.A., formerly branded as AES Tietê
AES Indiana	Indianapolis Power & Light Company, formerly branded as IPL. AES Indiana is wholly-owned by IPALCO
AES Ohio	The Dayton Power & Light Company, formerly branded as DP&L. AES Ohio is wholly-owned by DPL
AES Renewable Holdings	AES Renewable Holdings, LLC, formerly branded as AES Distributed Energy
AIMCo	Alberta Management Investment Corporation
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CAA	United States Clean Air Act
CAMMESA	Wholesale Electric Market Administrator in Argentina
CCR	Coal Combustion Residuals, which includes bottom ash, fly ash and air pollution control wastes generated at coal-fired generation plant sites
CECL	Current Expected Credit Loss
CO ₂	Carbon Dioxide
CSAPR	Cross-State Air Pollution Rule
DPL	DPL Inc.
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement and Construction
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
GILTI	Global Intangible Low Taxed Income
GW	Gigawatts
GWh	Gigawatt Hours
HLBV	Hypothetical Liquidation Book Value
IDEM	Indiana Department of Environmental Management
IPALCO	IPALCO Enterprises, Inc.
LIBOR	London Interbank Offered Rate
LNG	Liquid Natural Gas
MMBtu	Million British Thermal Units
MW	Megawatts
MWh	Megawatt Hours
NAAQS	National Ambient Air Quality Standards
NCI	Noncontrolling Interest
NM	Not Meaningful
NOV	Notice of Violation
NO _x	Nitrogen Oxide
OPGC	Odisha Power Generation Corporation, Ltd.
OTC Policy	Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling
PPA	Power Purchase Agreement
PREPA	Puerto Rico Electric Power Authority
PUCO	The Public Utilities Commission of Ohio
RSU	Restricted Stock Unit
SBU	Strategic Business Unit
SEC	United States Securities and Exchange Commission
SO ₂	Sulfur Dioxide
SWRCB	California State Water Resources Board
TCJA	Tax Cuts and Jobs Act
TDSIC	Transmission, Distribution, and Storage System Improvement Charge
U.S.	United States
USD	United States Dollar
VAT	Value-Added Tax
VIE	Variable Interest Entity

PART I: FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2021	December 31, 2020
(in millions, except share and per share amounts)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,411	\$ 1,089
Restricted cash	250	297
Short-term investments	170	335
Accounts receivable, net of allowance for doubtful accounts of \$9 and \$13, respectively	1,400	1,300
Inventory	577	461
Prepaid expenses	133	102
Other current assets	889	726
Current held-for-sale assets	860	1,104
Total current assets	5,690	5,414
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	412	417
Electric generation, distribution assets and other	24,943	26,707
Accumulated depreciation	(8,112)	(8,472)
Construction in progress	5,545	4,174
Property, plant and equipment, net	22,788	22,826
Other Assets:		
Investments in and advances to affiliates	781	835
Debt service reserves and other deposits	313	441
Goodwill	1,110	1,061
Other intangible assets, net of accumulated amortization of \$379 and \$330, respectively	928	827
Deferred income taxes	314	288
Other noncurrent assets, net of allowance of \$23 and \$21, respectively	1,917	1,660
Noncurrent held-for-sale assets	1,189	1,251
Total other assets	6,552	6,363
TOTAL ASSETS	\$ 35,030	\$ 34,603
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,015	\$ 1,156
Accrued interest	220	191
Accrued non-income taxes	237	257
Deferred income	84	438
Accrued and other liabilities	1,053	1,223
Non-recourse debt, including \$324 and \$336, respectively, related to variable interest entities	1,494	1,430
Current held-for-sale liabilities	555	667
Total current liabilities	4,658	5,362
NONCURRENT LIABILITIES		
Recourse debt	3,393	3,446
Non-recourse debt, including \$3,990 and \$3,918, respectively, related to variable interest entities	15,124	15,005
Deferred income taxes	1,144	1,100
Other noncurrent liabilities	3,214	3,241
Noncurrent held-for-sale liabilities	799	857
Total noncurrent liabilities	23,674	23,649
Commitments and Contingencies (see Note 9)		
Redeemable stock of subsidiaries	934	872
EQUITY		
THE AES CORPORATION STOCKHOLDERS' EQUITY		
Preferred stock (without par value, 50,000,000 shares authorized; 1,043,050 issued and outstanding at September 30, 2021)	1,043	—
Common stock (\$0.01 par value, 1,200,000,000 shares authorized; 818,717,043 issued and 666,713,829 outstanding at September 30, 2021 and 818,398,654 issued and 665,370,128 outstanding at December 31, 2020)	8	8
Additional paid-in capital	7,099	7,561
Accumulated deficit	(457)	(680)
Accumulated other comprehensive loss	(2,365)	(2,397)
Treasury stock, at cost (152,003,214 and 153,028,526 shares at September 30, 2021 and December 31, 2020, respectively)	(1,846)	(1,858)
Total AES Corporation stockholders' equity	3,482	2,634
NONCONTROLLING INTERESTS		
Total equity	5,764	4,720
TOTAL LIABILITIES AND EQUITY	\$ 35,030	\$ 34,603

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions, except share and per share amounts)				
Revenue:				
Regulated	\$ 768	\$ 680	\$ 2,147	\$ 2,016
Non-Regulated	2,268	1,865	6,224	5,084
Total revenue	3,036	2,545	8,371	7,100
Cost of Sales:				
Regulated	(644)	(548)	(1,806)	(1,675)
Non-Regulated	(1,632)	(1,241)	(4,413)	(3,638)
Total cost of sales	(2,276)	(1,789)	(6,219)	(5,313)
Operating margin	760	756	2,152	1,787
General and administrative expenses	(39)	(41)	(130)	(119)
Interest expense	(242)	(290)	(669)	(741)
Interest income	71	64	212	198
Loss on extinguishment of debt	(22)	(54)	(41)	(95)
Other expense	(12)	(20)	(32)	(27)
Other income	48	6	274	60
Gain (loss) on disposal and sale of business interests	22	(90)	81	(117)
Asset impairment expense	(29)	(849)	(1,374)	(855)
Foreign currency transaction gains (losses)	29	2	(8)	20
Other non-operating expense	—	—	—	(202)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	586	(516)	465	(91)
Income tax benefit (expense)	(126)	147	(75)	(55)
Net equity in earnings (losses) of affiliates	25	(112)	(15)	(106)
INCOME (LOSS) FROM CONTINUING OPERATIONS	485	(481)	375	(252)
Gain from disposal of discontinued businesses	—	—	4	3
NET INCOME (LOSS)	485	(481)	379	(249)
Less: Net loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	(142)	148	(156)	(23)
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ 343	\$ (333)	\$ 223	\$ (272)
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income (loss) from continuing operations, net of tax	\$ 343	\$ (333)	\$ 219	\$ (275)
Income from discontinued operations, net of tax	—	—	4	3
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ 343	\$ (333)	\$ 223	\$ (272)
BASIC EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$ 0.52	\$ (0.50)	\$ 0.32	\$ (0.41)
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	—	—	0.01	—
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$ 0.52	\$ (0.50)	\$ 0.33	\$ (0.41)
DILUTED EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	\$ 0.48	\$ (0.50)	\$ 0.31	\$ (0.41)
Income from discontinued operations attributable to The AES Corporation common stockholders, net of tax	—	—	0.01	—
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	\$ 0.48	\$ (0.50)	\$ 0.32	\$ (0.41)
DILUTED SHARES OUTSTANDING	710	665	700	665

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
NET INCOME (LOSS)	\$ 485	\$ (481)	\$ 379	\$ (249)
Foreign currency translation activity:				
Foreign currency translation adjustments, net of \$0 income tax for all periods	(58)	30	(89)	(105)
Reclassification to earnings, net of \$0 income tax for all periods	—	80	3	78
Total foreign currency translation adjustments	(58)	110	(86)	(27)
Derivative activity:				
Change in derivative fair value, net of income tax benefit (expense) of \$2, \$(8), \$(17), and \$139, respectively	(6)	23	62	(471)
Reclassification to earnings, net of income tax expense of \$10, \$10, \$23, and \$24, respectively	30	27	79	84
Total change in fair value of derivatives	24	50	141	(387)
Pension activity:				
Change in pension adjustments due to net actuarial gain (loss) for the period, net of income tax expense of \$1, \$0, \$1, and \$0, respectively	(1)	—	(1)	—
Reclassification to earnings, net of income tax benefit (expense) of \$1, \$0, \$0, and \$(1), respectively	4	1	5	1
Total pension adjustments	3	1	4	1
OTHER COMPREHENSIVE INCOME (LOSS)	(31)	161	59	(413)
COMPREHENSIVE INCOME (LOSS)	454	(320)	438	(662)
Less: Comprehensive loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	(125)	166	(172)	106
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ 329	\$ (154)	\$ 266	\$ (556)

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Changes in Equity (Unaudited)

Nine Months Ended September 30, 2021										
	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount	Shares	Amount	Shares	Amount				
	(in millions)									
Balance at January 1, 2021	—	\$ —	818.4	\$ 8	153.0	\$(1,858)	\$ 7,561	\$ (680)	\$ (2,397)	\$ 2,086
Net income (loss)	—	—	—	—	—	—	—	(148)	—	119
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	(53)	(16)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	219	27
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	—	1
Total other comprehensive income	—	—	—	—	—	—	—	—	166	12
Fair value adjustment ⁽¹⁾	—	—	—	—	—	—	33	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(17)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(5)	—	(6)	(3)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	94
Issuance of preferred stock	1.0	1,043	—	—	—	—	(235)	—	—	—
Dividends declared on common stock (\$0.1505/share)	—	—	—	—	—	—	(101)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.2	—	(0.7)	8	(12)	—	—	—
Balance at March 31, 2021	1.0	\$ 1,043	818.6	\$ 8	152.3	\$(1,850)	\$ 7,241	\$ (828)	\$ (2,237)	\$ 2,291
Net income (loss)	—	—	—	—	—	—	—	28	—	(103)
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	30	11
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	(140)	(9)
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	1	(1)
Total other comprehensive income (loss)	—	—	—	—	—	—	—	—	(109)	1
Fair value adjustment ⁽¹⁾	—	—	—	—	—	—	(36)	—	—	—
Disposition of business interests ⁽²⁾	—	—	—	—	—	—	—	—	—	(109)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(117)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(2)	—	(1)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	1
Sales to noncontrolling interests	—	—	—	—	—	—	—	—	—	17
Issuance of preferred shares in subsidiaries	—	—	—	—	—	—	—	—	—	151
Issuance of preferred stock	—	—	—	—	—	—	1	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.1	—	—	—	7	—	—	—
Balance at June 30, 2021	1.0	\$ 1,043	818.7	\$ 8	152.3	\$(1,850)	\$ 7,211	\$ (800)	\$ (2,347)	\$ 2,132
Net income	—	—	—	—	—	—	—	343	—	145
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	(33)	(25)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	18	6
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	1	2
Total other comprehensive loss	—	—	—	—	—	—	—	—	(14)	(17)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(40)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(8)	—	(4)	—
Sales to noncontrolling interests	—	—	—	—	—	—	(6)	—	—	62
Dividends declared on AES common stock (\$0.1505/share)	—	—	—	—	—	—	(100)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	—	—	(0.3)	4	2	—	—	—
Balance at September 30, 2021	1.0	\$ 1,043	818.7	\$ 8	152.0	\$(1,846)	\$ 7,099	\$ (457)	\$ (2,365)	\$ 2,282

⁽¹⁾ Adjustment to record the redeemable stock of Colon at fair value.

⁽²⁾ See Note 18—*Held-For-Sale and Dispositions* for further information.

See Notes to Condensed Consolidated Financial Statements.

Nine Months Ended September 30, 2020

	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests
	Shares	Amount	Shares	Amount	Shares	Amount				
	(in millions)									
Balance at January 1, 2020	—	\$ —	817.8	\$ 8	153.9	\$(1,867)	\$ 7,776	\$ (692)	\$ (2,229)	\$ 2,233
Net income	—	—	—	—	—	—	—	144	—	82
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	(96)	(56)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	(366)	(25)
Total other comprehensive loss	—	—	—	—	—	—	—	—	(462)	(81)
Cumulative effect of a change in accounting principle ⁽¹⁾	—	—	—	—	—	—	—	(35)	—	(16)
Fair value adjustment ⁽²⁾	—	—	—	—	—	—	(7)	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(33)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	2	—	(1)	(8)
Sales to noncontrolling interests	—	—	—	—	—	—	(1)	—	—	1
Dividends declared on common stock (\$0.1433/share)	—	—	—	—	—	—	(95)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.1	—	(0.8)	9	(11)	—	—	—
Balance at March 31, 2020	—	\$ —	817.9	\$ 8	153.1	\$(1,858)	\$ 7,664	\$ (583)	\$ (2,692)	\$ 2,178
Net income (loss)	—	—	—	—	—	—	—	(83)	—	83
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	17	(2)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	(18)	(2)
Total other comprehensive income (loss)	—	—	—	—	—	—	—	—	(1)	(4)
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	—	1	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(89)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	3	—	—	(2)
Sales to noncontrolling interests	—	—	—	—	—	—	(2)	—	—	14
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	—	—	(0.1)	—	5	—	—	—
Balance at June 30, 2020	—	\$ —	817.9	\$ 8	153.0	\$(1,858)	\$ 7,670	\$ (665)	\$ (2,693)	\$ 2,180
Net loss	—	—	—	—	—	—	—	(333)	—	(153)
Total foreign currency translation adjustment, net of income tax	—	—	—	—	—	—	—	—	114	(4)
Total change in derivative fair value, net of income tax	—	—	—	—	—	—	—	—	65	(12)
Total pension adjustments, net of income tax	—	—	—	—	—	—	—	—	—	1
Total other comprehensive income (loss)	—	—	—	—	—	—	—	—	179	(15)
Fair value adjustment ⁽²⁾	—	—	—	—	—	—	10	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(66)
Acquisitions of noncontrolling interests	—	—	—	—	—	—	(88)	—	(114)	(37)
Sales to noncontrolling interests	—	—	—	—	—	—	(19)	—	—	47
Issuance of preferred shares in subsidiaries	—	—	—	—	—	—	—	—	—	113
Dividends declared on AES common stock (\$0.1433/share)	—	—	—	—	—	—	(95)	—	—	—
Issuance and exercise of stock-based compensation benefit plans, net of income tax	—	—	0.2	—	—	—	2	—	—	—
Balance at September 30, 2020	—	\$ —	818.1	\$ 8	153.0	\$(1,858)	\$ 7,480	\$ (998)	\$ (2,628)	\$ 2,069

⁽¹⁾ Includes \$39 million adjustment due to ASC 326 adoption, partially offset by \$4 million adjustment due to ASC 842 adoption at sPower. See Note 1—*Financial Statement Presentation—New Accounting Pronouncements* in Item 8.—*Financial Statements and Supplementary Data* of our 2020 Form 10-K for further information.

⁽²⁾ Adjustment to record the redeemable stock of Colon at fair value.

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
	(in millions)	
OPERATING ACTIVITIES:		
Net income (loss)	\$ 379	\$ (249)
Adjustments to net income (loss):		
Depreciation and amortization	795	803
Loss (gain) on disposal and sale of business interests	(81)	117
Impairment expense	1,374	1,057
Deferred income taxes	(77)	(342)
Loss on extinguishment of debt	41	95
Gain on sale and disposal of assets	(9)	(37)
Gain on remeasurement to acquisition date fair value	(220)	—
Loss of affiliates, net of dividends	28	116
Other	363	134
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(118)	(40)
(Increase) decrease in inventory	(70)	(15)
(Increase) decrease in prepaid expenses and other current assets	(36)	33
(Increase) decrease in other assets	25	(252)
Increase (decrease) in accounts payable and other current liabilities	(257)	(98)
Increase (decrease) in income tax payables, net and other tax payables	(375)	62
Increase (decrease) in deferred income	(360)	606
Increase (decrease) in other liabilities	(23)	97
Net cash provided by operating activities	1,379	2,087
INVESTING ACTIVITIES:		
Capital expenditures	(1,534)	(1,375)
Acquisitions of business interests, net of cash and restricted cash acquired	(93)	(94)
Proceeds from the sale of business interests, net of cash and restricted cash sold	91	41
Sale of short-term investments	525	439
Purchase of short-term investments	(372)	(546)
Contributions and loans to equity affiliates	(321)	(286)
Affiliate repayments and returns of capital	195	110
Other investing	(219)	(145)
Net cash used in investing activities	(1,728)	(1,856)
FINANCING ACTIVITIES:		
Borrowings under the revolving credit facilities	1,251	2,099
Repayments under the revolving credit facilities	(1,031)	(1,515)
Issuance of recourse debt	7	1,619
Repayments of recourse debt	(7)	(1,596)
Issuance of non-recourse debt	978	4,229
Repayments of non-recourse debt	(1,342)	(3,451)
Payments for financing fees	(19)	(79)
Distributions to noncontrolling interests	(173)	(194)
Acquisitions of noncontrolling interests	(17)	(240)
Contributions from noncontrolling interests	95	—
Sales to noncontrolling interests	81	41
Issuance of preferred shares in subsidiaries	151	113
Issuance of preferred stock	1,014	—
Dividends paid on AES common stock	(301)	(286)
Payments for financed capital expenditures	(6)	(59)
Other financing	(160)	(24)
Net cash provided by financing activities	521	657
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(25)	(33)
Increase in cash, cash equivalents and restricted cash of held-for-sale businesses	—	(46)
Total increase in cash, cash equivalents and restricted cash	147	809
Cash, cash equivalents and restricted cash, beginning	1,827	1,572
Cash, cash equivalents and restricted cash, ending	\$ 1,974	\$ 2,381
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	\$ 576	\$ 618
Cash payments for income taxes, net of refunds	407	258
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Notes payable issued for the acquisition of business interests (see Notes 12 and 19)	258	—
Non-cash consideration transferred for the Clean Energy transaction (see Note 19)	99	—

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2021 and 2020

(Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

Consolidation — In this Quarterly Report, the terms “AES,” “the Company,” “us” or “we” refer to the consolidated entity, including its subsidiaries and affiliates. The terms “The AES Corporation” or “the Parent Company” refer only to the publicly held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, VIEs in which the Company has a variable interest have been consolidated where the Company is the primary beneficiary. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

Interim Financial Presentation — The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with GAAP, as contained in the FASB ASC, for interim financial information and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, comprehensive income, changes in equity, and cash flows. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of expected results for the year ending December 31, 2021. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2020 audited consolidated financial statements and notes thereto, which are included in the 2020 Form 10-K filed with the SEC on February 24, 2021 (the “2020 Form 10-K”).

Cash, Cash Equivalents, and Restricted Cash — The following table provides a summary of cash, cash equivalents, and restricted cash amounts reported on the Condensed Consolidated Balance Sheet that reconcile to the total of such amounts as shown on the Condensed Consolidated Statements of Cash Flows (in millions):

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 1,411	\$ 1,089
Restricted cash	250	297
Debt service reserves and other deposits	313	441
Cash, Cash Equivalents, and Restricted Cash	<u>\$ 1,974</u>	<u>\$ 1,827</u>

ASC 326 - Financial Instruments - Credit Losses - The following table represents the rollforward of the allowance for credit losses for the period indicated (in millions):

Nine Months Ended September 30, 2021	Accounts Receivable ⁽¹⁾	Mong Duong Loan Receivable ⁽²⁾	Argentina Receivables	Other	Total
CECL reserve balance at beginning of period	\$ 11	\$ 32	\$ 20	\$ 1	\$ 64
Current period provision	3	—	5	—	8
Write-offs charged against allowance	(8)	—	—	—	(8)
Recoveries collected	2	(1)	—	(1)	—
Foreign exchange	—	—	(3)	—	(3)
CECL reserve balance at end of period	<u>\$ 8</u>	<u>\$ 31</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 61</u>

Nine Months Ended September 30, 2020	Accounts Receivable ⁽¹⁾	Mong Duong Loan Receivable ⁽²⁾	Argentina Receivables	Other	Total
CECL reserve balance at beginning of period	\$ 4	\$ 34	\$ 29	\$ 1	\$ 68
Current period provision	9	—	1	—	10
Write-offs charged against allowance	(9)	—	—	—	(9)
Recoveries collected	5	(1)	(2)	—	2
Foreign exchange	—	—	(6)	—	(6)
CECL reserve balance at end of period	<u>\$ 9</u>	<u>\$ 33</u>	<u>\$ 22</u>	<u>\$ 1</u>	<u>\$ 65</u>

⁽¹⁾ Excludes operating lease receivable allowances and contractual dispute allowances of \$2 million and \$4 million as of September 30, 2021 and September 30, 2020, respectively. Those reserves are not in scope under ASC 326.

⁽²⁾ Mong Duong Loan Receivable credit losses allowance was reclassified to held-for-sale assets on the Consolidated Balance Sheet as of September 30, 2021.

New Accounting Pronouncements Adopted in 2021 — The Company assessed and determined that the new accounting pronouncements adopted did not have a material impact on the Company's consolidated financial statements.

New Accounting Pronouncements Issued But Not Yet Effective — The following table provides a brief description of recent accounting pronouncements that could have a material impact on the Company's consolidated financial statements once adopted. 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 Issued But Not Yet Effective			
ASU Number and Name	Description	Date of Adoption	Effect on the financial statements upon adoption
2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments	The amendments in this update affect lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (a) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3, (b) The lessor would have otherwise recognized a day-one loss. This update could be applied either (1) retrospectively to leases that commenced or were modified on or after the adoption of Update 2016-02 or (2) prospectively to leases that commence or are modified on or after the date that an entity first applies the amendments. Earlier application is permitted.	For fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2020-06, Debt - Debt with conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Equity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Equity's Own Equity	The amendments in this update affect entities that issue convertible instruments and/or contracts indexed to and potentially settled in an entity's own equity. The new ASU eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation.	For fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.
2020-04 and 2021-01, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	The amendments in these updates provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference to LIBOR or another reference rate expected to be discontinued by reference rate reform, and clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. These amendments are effective for a limited period of time (March 12, 2020 - December 31, 2022).	Effective for all entities as of March 12, 2020 through December 31, 2022.	The Company is currently evaluating the impact of adopting the standard on its consolidated financial statements.

2. INVENTORY

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

	September 30, 2021	December 31, 2020
Fuel and other raw materials	\$ 312	\$ 223
Spare parts and supplies	265	238
Total	<u>\$ 577</u>	<u>\$ 461</u>

3. ASSET RETIREMENT OBLIGATIONS

The Company uses the cost approach to determine the initial value of ARO liabilities, which is estimated by discounting expected cash outflows to their present value using market-based rates at the initial recording of the liabilities. Cash outflows are based on the approximate future disposal costs as determined by market information, historical information, or other management estimates. Subsequent downward revisions of ARO liabilities are discounted using the market-based rates that existed when the liability was initially recognized.

During the nine months ended September 30, 2020, the Company increased the asset retirement obligation and corresponding asset at Hawaii by \$12 million in conjunction with the shortened useful life of the coal plant resulting from the passage of Senate Bill 2629, which prohibits issuing or renewing permits for coal power plants after December 31, 2022 and calls for ceasing all coal burning for electricity generation by that date.

4. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves, and other deposits approximate their reported carrying amounts. The estimated fair values of the Company's assets and liabilities have been determined using available market information. Because these amounts are 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. For further information on our valuation techniques and policies, see Note 5—*Fair Value* in Item 8.—*Financial Statements and Supplementary Data* of our 2020 Form 10-K.

Recurring Measurements

The following table presents, by level within the fair value hierarchy, the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of the dates indicated (in millions). For the Company's investments in marketable debt securities, the security classes presented were 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, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
DEBT SECURITIES:								
Available-for-sale:								
Unsecured debentures	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21	\$ —	\$ 21
Certificates of deposit	—	137	—	137	—	238	—	238
Total debt securities	—	137	—	137	—	259	—	259
EQUITY SECURITIES:								
Mutual funds	30	12	—	42	28	51	—	79
Total equity securities	30	12	—	42	28	51	—	79
DERIVATIVES:								
Interest rate derivatives	—	53	1	54	—	13	—	13
Cross-currency derivatives	—	—	3	3	—	5	—	5
Foreign currency derivatives	—	19	117	136	—	15	146	161
Commodity derivatives	—	68	3	71	—	8	2	10
Total derivatives — assets	—	140	124	264	—	41	148	189
TOTAL ASSETS	\$ 30	\$ 289	\$ 124	\$ 443	\$ 28	\$ 351	\$ 148	\$ 527
Liabilities								
DERIVATIVES:								
Interest rate derivatives	\$ —	\$ 362	\$ 91	\$ 453	\$ —	\$ 374	\$ 236	\$ 610
Cross-currency derivatives	—	—	13	13	—	2	2	4
Foreign currency derivatives	—	32	—	32	—	43	—	43
Commodity derivatives	—	58	5	63	—	22	—	22
Total derivatives — liabilities	—	452	109	561	—	441	238	679
TOTAL LIABILITIES	\$ —	\$ 452	\$ 109	\$ 561	\$ —	\$ 441	\$ 238	\$ 679

As of September 30, 2021, all available-for-sale debt securities had stated maturities within one year. There were no other-than-temporary impairments of marketable securities during the three and nine months ended September 30, 2021. Credit-related impairments are recognized in earnings under ASC 326. Gains and losses on the sale of investments are determined using the specific-identification method. The following table presents gross proceeds from the sale of available-for-sale securities during the periods indicated (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Gross proceeds from sale of available-for-sale securities	\$ 207	\$ 97	\$ 507	\$ 410

The following tables present a reconciliation of net derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2021 and 2020 (presented net by type of derivative in millions). Transfers between Level 3 and Level 2 principally result from changes in the significance of unobservable inputs used to calculate the credit valuation adjustment.

Three Months Ended September 30, 2021	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at July 1	\$ (192)	\$ (32)	\$ 97	\$ 15	\$ (112)
Total realized and unrealized gains (losses):					
Included in earnings	12	20	22	(1)	53
Included in other comprehensive income — derivative activity	(14)	—	7	(15)	(22)
Included in other comprehensive income — foreign currency	—	2	—	—	2
Included in regulatory (assets) liabilities	—	—	—	(2)	(2)
Settlements	12	—	(9)	1	4
Transfers of assets (liabilities), net into Level 3	(4)	—	—	—	(4)
Transfers of (assets)/liabilities, net out of Level 3	96	—	—	—	96
Balance at September 30	\$ (90)	\$ (10)	\$ 117	\$ (2)	\$ 15
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	\$ —	\$ 4	\$ 15	\$ (1)	\$ 18

Three Months Ended September 30, 2020	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at July 1	\$ (286)	\$ (23)	\$ 76	\$ 1	\$ (232)
Total realized and unrealized gains (losses):					
Included in earnings	—	—	8	1	9
Included in other comprehensive income — derivative activity	(8)	3	3	—	(2)
Included in regulatory (assets) liabilities	—	—	—	(1)	(1)
Settlements	12	9	(9)	1	13
Transfers of assets (liabilities), net into Level 3	—	—	—	—	—
Transfers of (assets)/liabilities, net out of Level 3	13	—	1	—	14
Balance at September 30	\$ (269)	\$ (11)	\$ 79	\$ 2	\$ (199)
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	\$ —	\$ —	\$ —	\$ 1	\$ 1

Nine Months Ended September 30, 2021	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	\$ (236)	\$ (2)	\$ 146	\$ 2	\$ (90)
Total realized and unrealized gains (losses):					
Included in earnings	13	(13)	(1)	(1)	(2)
Included in other comprehensive income — derivative activity	6	—	(1)	(3)	2
Included in other comprehensive income — foreign currency translation activity	—	4	—	—	4
Included in regulatory (assets) liabilities	—	—	—	1	1
Settlements	35	1	(27)	(1)	8
Transfers of assets (liabilities), net into Level 3	(4)	—	—	—	(4)
Transfers of (assets) liabilities, net out of Level 3	96	—	—	—	96
Balance at September 30	\$ (90)	\$ (10)	\$ 117	\$ (2)	\$ 15
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	\$ 1	\$ 4	\$ (29)	\$ (1)	\$ (25)

Nine Months Ended September 30, 2020	Interest Rate	Cross Currency	Foreign Currency	Commodity	Total
Balance at January 1	\$ (184)	\$ (11)	\$ 94	\$ (1)	\$ (102)
Total realized and unrealized gains (losses):					
Included in earnings	2	—	10	2	14
Included in other comprehensive income — derivative activity	(79)	(10)	4	—	(85)
Included in regulatory (assets) liabilities	—	—	—	1	1
Settlements	20	10	(30)	—	—
Transfers of assets (liabilities), net into Level 3	(28)	—	—	—	(28)
Transfers of (assets) liabilities, net out of Level 3	—	—	1	—	1
Balance at September 30	\$ (269)	\$ (11)	\$ 79	\$ 2	\$ (199)
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities held at the end of the period	\$ —	\$ —	\$ (13)	\$ 2	\$ (11)

The following table summarizes the significant unobservable inputs used for Level 3 derivative assets (liabilities) as of September 30, 2021 (in millions, except range amounts):

Type of Derivative	Fair Value	Unobservable Input	Amount or Range (Weighted Average)
Interest rate	\$ (90)	Subsidiaries' credit spreads	0.6% - 3.4% (3.4%)
Cross-currency	(10)	Subsidiaries' credit spreads	3.4 %
Foreign currency:			
Argentine peso	117	Argentine peso to U.S. dollar currency exchange rate after one year	100 - 626 (293)
Commodity:			
Other	(2)		
Total	<u>\$ 15</u>		

For interest rate derivatives and foreign currency derivatives, increases (decreases) in the estimates of the Company's own credit spreads would decrease (increase) the value of the derivatives in a liability position. For foreign currency derivatives, increases (decreases) in the estimate of the above exchange rate would increase (decrease) the value of the derivative.

Nonrecurring Measurements

The Company measures fair value using the applicable fair value measurement guidance. Impairment expense, shown as pre-tax loss below, is measured by comparing the fair value at the evaluation date to the then-latest available carrying amount and is included in *Asset impairment expense* or *Other non-operating expense*, as applicable, on the Condensed Consolidated Statements of Operations. The following table summarizes our major categories of assets measured at fair value on a nonrecurring basis and their level within the fair value hierarchy (in millions):

Nine Months Ended September 30, 2021	Measurement Date	Carrying Amount ⁽¹⁾	Fair Value			Pre-tax Loss
			Level 1	Level 2	Level 3	
Long-lived assets held-for-sale:						
Estrella del Mar I	09/30/2021	\$ 17	\$ —	\$ 6	\$ —	\$ 11
Long-lived assets held and used:						
Puerto Rico	03/31/2021	\$ 548	\$ —	\$ —	\$ 73	\$ 475
Mountain View I & II	04/30/2021	78	—	—	11	67
Ventanas 3 & 4	06/30/2021	661	—	—	12	649
Angamos	06/30/2021	241	—	—	86	155
Nine Months Ended September 30, 2020	Measurement Date	Carrying Amount ⁽¹⁾	Fair Value			Pre-tax Loss
			Level 1	Level 2	Level 3	
Long-lived assets held and used:						
Angamos	08/01/2020	\$ 870	\$ —	\$ —	\$ 306	\$ 564
Ventanas 1 & 2	08/01/2020	213	—	—	—	213
Hawaii	08/31/2020	114	—	—	76	38
Estrella del Mar I	09/30/2020	44	—	—	14	30
Equity method investments:						
OPGC ⁽²⁾	3/31/2020	\$ 195	\$ —	\$ —	\$ 152	\$ 43
OPGC ⁽³⁾	6/30/2020	272	—	104	—	158

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

(2) Excludes \$115 million of cumulative translation adjustment (debit balance) in the carrying value.

(3) Includes \$114 million of cumulative translation adjustment (debit balance) in the carrying value. Pre-tax loss is limited to the carrying value of the equity method investment excluding CTA.

The following table summarizes the significant unobservable inputs used in the Level 3 measurement of long-lived assets held and used measured on a nonrecurring basis during the nine months ended September 30, 2021 (in millions, except range amounts):

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Long-lived assets held and used:				
Puerto Rico	\$ 73	Discounted cash flow	Annual revenue growth	(80)% to 8%
			Annual variable margin	37% to 97%
			Weighted-average cost of capital	18.2%
Mountain View I & II	11	Discounted cash flow	Annual revenue growth	(69)% to 54% (-0.02%)
			Annual variable margin	(10)% to 56% (45.99%)
			Weighted-average cost of capital	7.5%
Ventanas 3 & 4	12	Discounted cash flow	Annual revenue growth	(18)% to 23% (2%)
			Annual variable margin	(5)% to 21% (6%)
			Weighted-average cost of capital	11%
Angamos	86	Discounted cash flow	Annual revenue growth	(8)% to 58% (8%)
			Annual variable margin	(8)% to 53% (11%)
			Weighted-average cost of capital	11%
Total	<u>\$ 171</u>			

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

The following table presents (in millions) the carrying amount, fair value, and fair value hierarchy of the Company's financial assets and liabilities that are not measured at fair value in the Condensed Consolidated Balance Sheets as of the periods indicated, but for which fair value is disclosed:

		September 30, 2021				
	Carrying Amount	Fair Value				
		Total	Level 1	Level 2	Level 3	
Assets: Accounts receivable — noncurrent ⁽¹⁾	\$ 80	\$ 162	\$ —	\$ —	\$ 162	
Liabilities: Non-recourse debt	16,501	18,644	—	18,615	29	
Recourse debt	3,395	3,543	—	3,543	—	

		December 31, 2020				
	Carrying Amount	Fair Value				
		Total	Level 1	Level 2	Level 3	
Assets: Accounts receivable — noncurrent ⁽¹⁾	\$ 97	\$ 197	\$ —	\$ —	\$ 197	
Liabilities: Non-recourse debt	16,354	18,403	5	15,301	3,097	
Recourse debt	3,446	3,677	—	3,677	—	

⁽¹⁾ These amounts primarily relate to amounts due from CAMMESA, the administrator of the wholesale electricity market in Argentina, and amounts impacted by the Stabilization Fund enacted by the Chilean government, 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 \$2 million and \$4 million as of September 30, 2021 and December 31, 2020, respectively.

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

For further information on the Company's derivative and hedge accounting policies, see Note 1—*General and Summary of Significant Accounting Policies—Derivative Instruments and Hedging Activities* of Item 8.—*Financial Statements and Supplementary Data* in the 2020 Form 10-K.

Volume of Activity — The following tables present the Company's maximum notional (in millions) over the remaining contractual period by type of derivative as of September 30, 2021, regardless of whether they are in qualifying cash flow hedging relationships, and the dates through which the maturities for each type of derivative range:

Interest Rate and Foreign Currency Derivatives	Maximum Notional Translated to USD	Latest Maturity
Interest rate (LIBOR and EURIBOR)	\$ 5,313	2059
Cross-currency swaps (Chilean Unidad de Fomento and Brazilian Real)	254	2026
Foreign Currency:		
Argentine peso	13	2026
Chilean peso	196	2024
Colombian peso	145	2023
Euro	101	2023
Mexican Peso	127	2022
Brazilian Real	70	2022
Others, primarily with weighted average remaining maturities of a year or less	3	2021

Commodity Derivatives	Maximum Notional	Latest Maturity
Natural Gas (in MMBtu)	88	2029
Power (in MWhs)	23	2043
Coal (in Tons or Metric Tons)	8	2027

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 the periods indicated (in millions):

Fair Value	September 30, 2021			December 31, 2020		
	Designated	Not Designated	Total	Designated	Not Designated	Total
Assets						
Interest rate derivatives	\$ 54	\$ —	\$ 54	\$ 13	\$ —	\$ 13
Cross-currency derivatives	3	—	3	5	—	5
Foreign currency derivatives	30	106	136	40	121	161
Commodity derivatives	20	51	71	2	8	10
Total assets	\$ 107	\$ 157	\$ 264	\$ 60	\$ 129	\$ 189
Liabilities						
Interest rate derivatives	\$ 447	\$ 6	\$ 453	\$ 506	\$ 104	\$ 610
Cross-currency derivatives	13	—	13	4	—	4
Foreign currency derivatives	17	15	32	8	35	43
Commodity derivatives	3	60	63	—	22	22
Total liabilities	\$ 480	\$ 81	\$ 561	\$ 518	\$ 161	\$ 679

Fair Value	September 30, 2021		December 31, 2020	
	Assets	Liabilities	Assets	Liabilities
Current	\$ 108	\$ 146	\$ 51	\$ 236
Noncurrent	156	415	138	443
Total	\$ 264	\$ 561	\$ 189	\$ 679

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash flow hedges				
Gains (losses) recognized in AOCL				
Interest rate derivatives	\$ 10	\$ 20	\$ 97	\$ (575)
Cross-currency derivatives	(14)	11	(11)	(25)
Foreign currency derivatives	(7)	—	(27)	(14)
Commodity derivatives	3	—	20	4
Total	<u>\$ (8)</u>	<u>\$ 31</u>	<u>\$ 79</u>	<u>\$ (610)</u>
Gains (losses) reclassified from AOCL into earnings				
Interest rate derivatives	\$ (24)	\$ (38)	\$ (76)	\$ (83)
Cross-currency derivatives	(13)	4	(15)	(11)
Foreign currency derivatives	(7)	(3)	(12)	(16)
Commodity derivatives	4	—	1	2
Total	<u>\$ (40)</u>	<u>\$ (37)</u>	<u>\$ (102)</u>	<u>\$ (108)</u>
Gains (Losses) on fair value hedging relationship				
Cross-currency derivatives	\$ (22)	\$ —	\$ (10)	\$ —
Hedged items	27	—	8	—
Total	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ —</u>
Gains reclassified from AOCL to earnings due to discontinuance of hedge accounting	\$ —	\$ —	\$ —	\$ —
Gains (losses) recognized in earnings related to				
Not designated as hedging instruments:				
Interest rate derivatives	\$ (1)	\$ —	\$ 104	\$ (1)
Foreign currency derivatives	28	8	24	30
Commodity derivatives and other	17	(56)	(64)	(50)
Total	<u>\$ 44</u>	<u>\$ (48)</u>	<u>\$ 64</u>	<u>\$ (21)</u>

AOCL is expected to decrease pre-tax income from continuing operations for the twelve months ended September 30, 2022 by \$90 million, primarily due to interest rate derivatives.

6. FINANCING RECEIVABLES

Receivables with contractual maturities of greater than one year are considered financing receivables. The following table presents financing receivables by country as of the dates indicated (in millions):

	September 30, 2021			December 31, 2020		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Argentina	\$ 12	\$ 2	\$ 10	\$ 48	\$ 9	\$ 39
Chile	46	—	46	31	—	31
Other	26	—	26	31	—	31
Total	<u>\$ 84</u>	<u>\$ 2</u>	<u>\$ 82</u>	<u>\$ 110</u>	<u>\$ 9</u>	<u>\$ 101</u>

Chile — AES Andes has recorded noncurrent receivables pertaining to revenues recognized on regulated energy contracts that were impacted by the Stabilization Fund created by the Chilean government in October 2019, in conjunction with the Tariff Stabilization Law. Historically, the government updated the prices for these contracts every six months to reflect the indexation the contracts have to exchange rates and commodities prices. The Stabilization Fund does not allow the pass-through of these contractual indexation updates to customers beyond the pricing in effect at July 1, 2019, until new lower-cost renewable contracts are incorporated into pricing in 2023. Consequently, costs incurred in excess of the July 1, 2019 price will be accumulated and borne by generators.

AES Andes executed an agreement in December 2020 for the sale of the receivables generated pursuant the Tariff Stabilization Law, of which \$65 million was collected in 2021.

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

assumptions that it believes to be reasonable, but are inherently uncertain. Actual future cash flows could differ from these estimates.

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES

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

Nine Months Ended September 30,	50%-or-less Owned Affiliates		Majority-Owned Unconsolidated Subsidiaries	
	2021	2020	2021	2020
Revenue	\$ 866	\$ 1,404	\$ 1	\$ 1
Operating margin (loss)	45	203	—	(2)
Net loss	(108)	(444)	(4)	(3)

Gas Natural Atlántico II — On September 13, 2021, the Company acquired the remaining equity interest in Gas Natural Atlántico II, S. de R.L., a partnership whose purpose is to construct transmission lines for Colon. After additional assets were acquired, the Company remeasured the investment at the acquisition-date fair value, resulting in the recognition of a \$6 million gain, recorded in *Other income* on the Condensed Consolidated Statement of Operations. The partnership, previously recorded as an equity method investment, is now consolidated by AES and is reported in the MCAC SBU reportable segment.

Uplight — On July 27, 2021, the Company closed on a transaction involving existing and new shareholders of Uplight. As part of the transaction, the Company contributed \$37 million to Uplight however AES's ownership interest in Uplight decreased from 32.3% to 30.6%. The transaction was accounted for as a partial disposition in which AES recognized a loss of \$11 million in *Gain (loss) on disposal and sale of business interests*, mainly as a result of payments to holders of stock options and income units as well as expenses associated with the transaction. As the Company still does not control Uplight after the transaction, it continues to be accounted for as an equity method investment and is reported as part of Corporate and Other.

Fluence — On June 9, 2021, Fluence issued new shares to the Qatar Investment Authority ("QIA") for \$125 million, which following the completion of the transaction, represented a 13.6% ownership interest in Fluence. As a result of the transaction, which AES has accounted for as a partial disposition, AES' ownership interest in Fluence decreased from 50% to 43.2%. The Company recognized a gain of \$60 million in *Gain (loss) on disposal and sale of business interests*. As the Company still does not control Fluence after the transaction, it continues to be accounted for as an equity method investment and is reported as part of Corporate and Other.

Grupo Energía Gas Panamá — In April 2021, Grupo Energía Gas Panamá, a joint venture between AES and InterEnergy Power & Gas Limited, completed the acquisition of a combined cycle natural gas development project. AES holds a 49% ownership interest in the affiliate and as of September 30, 2021, the Company contributed \$21 million to the joint venture. As the Company does not control the joint venture, it is accounted for as an equity method investment and is reported in the MCAC SBU reportable segment.

sPower — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, a consolidated entity, which will serve as the development vehicle for all future renewable projects in the U.S. Since the sPower development platform was carved-out of AES' existing equity method investment, this transaction resulted in a \$102 million decrease in the carrying value of the sPower investment. See Note 19—*Acquisitions* for further information. As the Company still does not control sPower after the transaction, it continues to be accounted for as an equity method investment and is reported in the US and Utilities SBU reportable segment.

Guacolda — In September 2020, Guacolda management reviewed the recoverability of the Guacolda asset group and determined the undiscounted cash flows did not exceed the carrying amount. Impairment indicators were identified primarily as a result of inability to re-contract Guacolda's generation after expiration of its existing PPAs driven by lower energy prices in Chile and reduced forecasted cash flows resulting from decarbonization initiatives of the Chilean Government. Guacolda recognized a long-lived asset impairment at the investee level, which negatively impacted the Company's *Net equity in earnings (losses) of affiliates* by \$127 million. As a result, the Company's basis in its investment in Guacolda was reduced to zero and the equity method of accounting was suspended.

In February 2021, AES Andes entered into an agreement to sell its 50% ownership interest in Guacolda for \$34 million. On July 20, 2021, the Company completed the sale, resulting in a pre-tax gain on sale of \$34 million, recorded in *Gain (loss) on disposal and sale of business interests*. Prior to its sale, the Guacolda equity method investment was reported in the South America SBU reportable segment.

OPGC — In March 2020, an other-than-temporary impairment was identified at OPGC primarily due to the estimated market value of the Company's investment and the economic slowdown. A calculation of the fair value of the Company's investment in OPGC was required to evaluate whether there was a loss in the carrying value of the investment. Based on management's estimate of fair value of \$152 million, the Company recognized an other-than-temporary impairment of \$43 million.

In June 2020, the Company agreed to sell its entire 49% stake in OPGC resulting in an additional other-than-temporary impairment of \$158 million. Total other-than-temporary impairment for the six months ended June 30, 2020 was \$201 million recognized in *Other non-operating expense*. In December 2020, the Company completed the sale of its interest in OPGC. Prior to its sale, the OPGC equity method investment was reported in the Eurasia SBU reportable segment.

8. DEBT

Recourse Debt

In September 2021, AES executed an amendment to its revolving credit facility. The aggregate commitment under the new agreement is \$1.25 billion and matures in September 2026. The existing credit agreement had an aggregate commitment of \$1 billion and matured on December 20, 2024. As of September 30, 2021, AES did not have any outstanding drawings under its revolving credit facility.

In July 2021, AES offered to exchange up to \$800 million of the newly registered 1.375% Senior Notes due in 2026 for up to \$800 million of the existing unregistered 1.375% Senior Notes due in 2026 and up to \$1 billion of our newly registered 2.45% Senior Notes due in 2031 for up to \$1 billion of the existing unregistered 2.45% Senior Notes due in 2031. The terms of the new notes are identical in all material respects to the terms of the old notes with the exception that the new notes have been registered under the Securities Act of 1933, as amended, and the transfer restrictions and registration rights relating to the old notes do not apply to the new notes. In August 2021, \$798 million and \$997 million of the 2026 and 2031 Notes were exchanged under the offer, respectively. Although not all investors participated in the exchange, there was no change to the outstanding indebtedness.

During the first quarter of 2020, the Company drew \$840 million on its revolving lines of credit at the Parent Company, of which approximately \$250 million was used to enhance our liquidity position due to the uncertain economic conditions surrounding the COVID-19 pandemic, and the remaining \$590 million was used for other general corporate purposes. During the second and third quarters of 2020, the Parent Company drew an additional \$600 million and repaid \$695 million on these revolving lines of credit. The entire \$250 million related to the COVID-19 pandemic was repaid during the second quarter of 2020.

In May 2020, the Company issued \$900 million aggregate principal of 3.30% senior secured notes due in 2025 and \$700 million of 3.95% senior secured notes due in 2030. The Company used the net proceeds from these issuances to purchase via tender offer a portion of the 4.00% senior notes due in 2021, the 4.50% senior notes due in 2023, and the 4.875% senior notes due in 2023. Subsequent to the tender offers, the Company redeemed the remaining balance of its 4.00% and 4.875% senior notes due in 2021 and 2023, respectively, and \$7 million of the remaining 4.50% senior notes due in 2023. As a result of these transactions, the Company recognized a loss on extinguishment of debt of \$37 million.

Non-Recourse Debt

During the nine months ended September 30, 2021, the Company's subsidiaries had the following significant debt transactions:

Subsidiary	Transaction Period	Issuances	Repayments	Loss on Extinguishment of Debt
AES Brasil	Q1	140	—	—
Andres ⁽¹⁾	Q2	300	(274)	(14)
AES Clean Energy Development ⁽²⁾	Q3	116	—	—
AES Andes	Q3	101	(129)	(14)
IPALCO	Q3	95	(95)	—

⁽¹⁾ Repayments relate to Andres and DPP.

⁽²⁾ Includes AES Clean Energy and AES Renewable Holdings.

Panama — In August 2020, AES Panama issued \$1.4 billion aggregate principal of 4.375% senior secured notes and a \$105 million term loan due in 2030 and 2023, respectively. The proceeds from the issuance were used to repay \$447 million, \$171 million and \$610 million of outstanding indebtedness at AES Panama, Changuinola, and Colon, respectively. As a result of these transactions, the Company recognized a loss on extinguishment of debt of \$16 million for the nine months ended September 30, 2020.

Cochrane — In July 2020, Cochrane issued \$485 million aggregate principal of 6.25% senior secured notes due in 2034. The net proceeds from the issuance were used to prepay the outstanding principal of \$445 million plus accrued interest on its senior secured facility agreement executed in 2019.

DPL — In June 2020, DPL issued \$415 million aggregate principal of 4.125% senior secured notes due in 2025. In July 2020, the net proceeds from the issuance were used to prepay the outstanding principal of \$380 million of its 7.25% senior unsecured notes due in 2021. As a result of these transactions, the Company recognized a loss on extinguishment of debt of \$34 million for the nine months ended September 30, 2020.

IPALCO — In April 2020, IPALCO issued \$475 million aggregate principal of 4.25% senior secured notes due in 2030. The net proceeds from the issuance were used to prepay the outstanding principal of \$405 million of its 3.45% senior unsecured notes and a \$65 million term loan both due in July 2020. As a result of these transactions, the Company recognized a loss on extinguishment of debt of \$2 million for the nine months ended September 30, 2020.

Non-Recourse Debt in Default — The following table summarizes the Company's subsidiary non-recourse debt in default (in millions) as of September 30, 2021. 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
AES Puerto Rico	Covenant	\$ 218	\$ (189)
AES Ilumina (Puerto Rico)	Covenant	29	25
AES Jordan Solar	Covenant	7	5
Total		<u>\$ 254</u>	

The above defaults are not payment defaults. In Puerto Rico, the subsidiary non-recourse debt defaults were triggered by failure to comply with covenants or other requirements contained in the non-recourse debt documents due to the bankruptcy of the offtaker.

The AES Corporation's recourse debt agreements include cross-default clauses that will trigger if a subsidiary or group of subsidiaries for which the non-recourse debt is in default provides 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, 2021, the Company had no defaults which resulted in, or were 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 revolving credit facility, restricted payments will be limited to regular quarterly shareholder dividends at the then-prevailing rate. Payment defaults and bankruptcy defaults would preclude the making of any restricted payments.

9. COMMITMENTS AND CONTINGENCIES

Guarantees, Letters of Credit and Commitments — In connection with certain project financings, acquisitions and dispositions, power purchases and other agreements, the Parent Company has expressly undertaken limited obligations and commitments, most of which will only be effective or will be terminated upon the occurrence of future events. In the normal course of business, the Parent Company has entered into various agreements, mainly guarantees and letters of credit, to provide financial or performance assurance to third parties on behalf of AES businesses. These agreements are entered into primarily to support or enhance the creditworthiness otherwise achieved by a business on a stand-alone basis, thereby facilitating the availability of sufficient credit to accomplish their intended business purposes. Most of the contingent obligations relate to future performance commitments which the Company or its businesses expect to fulfill within the normal course of business. The expiration dates of these guarantees vary from less than one year to no more than 15 years.

The following table summarizes the Parent Company's contingent contractual obligations as of September 30, 2021. Amounts presented in the following table represent the Parent Company's current undiscounted exposure to guarantees and the range of maximum undiscounted potential exposure. The maximum exposure is not reduced by

the amounts, if any, that could be recovered under the recourse or collateralization provisions in the guarantees.

Contingent Contractual Obligations	Amount (in millions)	Number of Agreements	Maximum Exposure Range for Each Agreement (in millions)
Guarantees and commitments	\$ 2,091	82	\$0 — 400
Letters of credit under the unsecured credit facilities	106	32	\$0 — 47
Letters of credit under the revolving credit facility	75	27	\$0 — 30
Surety bond	2	2	\$1
Total	<u>\$ 2,274</u>	<u>143</u>	

During the nine months ended September 30, 2021, the Company paid letter of credit fees ranging from 1% to 3% 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. For the periods ended September 30, 2021 and December 31, 2020, the Company recognized liabilities of \$3 million and \$5 million, respectively, for projected environmental remediation costs. Due to the uncertainties associated with environmental assessment and remediation activities, future costs of compliance or remediation could be higher or lower than the amount currently accrued. Moreover, where no liability has been recognized, it is reasonably possible that the Company may be required to incur remediation costs or make expenditures in amounts that could be material but could not be estimated as of September 30, 2021. In aggregate, the Company estimates the range of potential losses related to environmental matters, where estimable, to be up to \$12 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 recognized aggregate liabilities for all claims of approximately \$46 million and \$28 million as of September 30, 2021 and December 31, 2020, respectively. These amounts are reported on the Condensed Consolidated Balance Sheets within *Accrued and other liabilities* and *Other noncurrent liabilities*. A significant portion of these accrued liabilities relate to regulatory matters and commercial disputes in international jurisdictions. There can be no assurance that these accrued liabilities will be adequate to cover all existing and future claims or that we will have the liquidity to pay such claims as they arise.

Where no accrued liability has been recognized, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material but could not be estimated as of September 30, 2021. The material contingencies where a loss is reasonably possible primarily include disputes with offtakers, suppliers and EPC contractors; alleged breaches of contract; alleged violation of laws and regulations; income tax and non-income tax matters with tax authorities; and regulatory matters. In aggregate, the Company estimates the range of potential losses, where estimable, related to these reasonably possible material contingencies to be between \$256 million and \$893 million. The amounts considered reasonably possible do not include the amounts accrued, as discussed above. These material contingencies do not include income tax-related contingencies which are considered part of our uncertain tax positions.

Tietê GSF Settlement — In December 2020, ANEEL published a regulation establishing the terms and conditions for compensation to Tietê for the non-hydrological risk charged to hydro generators through the incorrect application of the GSF mechanism from 2013 until 2018. In accordance with the regulation, this compensation will be in the form of a concession extension period of 2.7 years. As a result, the previously recognized contingent liabilities related to GSF payments were updated to reflect the Company's best estimate for the fair value of compensation to be received from the concession extension offered in conjunction with the regulation. This compensation was estimated to have a fair value of \$184 million, and was recorded as a reversal of *Non-Regulated Cost of Sales* on the Consolidated Statements of Operations for the year ended December 31, 2020. The concession extension also met the criteria for recognition as a definite-lived intangible asset, which will be amortized from the date of the agreement until the end of the new concession period. The value of the concession extension was based on a preliminary time-value equivalent calculation made by the CCEE and subsequent adjustments requested by Tietê, which was determined to be fair value. In March 2021, the CCEE's final calculation of fair value was \$190 million and the Company recognized an additional reversal of *Non-Regulated Cost of Sales* of \$6 million. Both the concession extension period and its equivalent asset value are subject to a final agreement between ANEEL and AES.

10. LEASES

LESSOR — The Company has operating leases for certain generation contracts that contain provisions to provide capacity to a customer, which is a stand-ready obligation to deliver energy when required by the customer. Capacity receipts are generally considered lease elements as they cover the majority of available output from a facility. The allocation of contract payments between the lease and non-lease elements is made at the inception of the lease. Lease receipts from such contracts are recognized as lease revenue on a straight-line basis over the lease term, whereas variable lease receipts are recognized when earned.

The following table presents lease revenue from operating leases in which the Company is the lessor for the periods indicated (in millions):

Operating Lease Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total lease revenue	\$ 193	\$ 154	\$ 454	\$ 442
Less: Variable lease revenue	24	24	63	58
Total Non-variable lease revenue	\$ 169	\$ 130	\$ 391	\$ 384

The following table presents the underlying gross assets and accumulated depreciation of operating leases included in *Property, Plant and Equipment* for the periods indicated (in millions):

Property, Plant and Equipment	September 30, 2021	December 31, 2020
Gross assets	\$ 2,514	\$ 3,103
Accumulated depreciation	(821)	(1,011)
Net assets ⁽¹⁾	\$ 1,693	\$ 2,092

⁽¹⁾ The decrease in net assets is primarily related to the asset impairment at Puerto Rico. See Note 16—*Asset Impairment Expense* for further information.

The option to extend or terminate a lease is based on customary early termination provisions in the contract, such as payment defaults, bankruptcy, and lack of performance on energy delivery. The Company has not recognized any early terminations as of September 30, 2021. Certain leases may provide for variable lease payments based on usage or index-based (e.g., the U.S. Consumer Price Index) adjustments to lease payments.

The following table shows the future lease receipts as of September 30, 2021 for the remainder of 2021 through 2025 and thereafter (in millions):

	Future Cash Receipts for	
	Sales-Type Leases ⁽¹⁾	Operating Leases
2021	\$ 5	\$ 118
2022	20	465
2023	20	401
2024	21	402
2025	21	402
Thereafter	336	1,031
Total	\$ 423	\$ 2,819
Less: Imputed interest	(202)	
Present value of total lease receipts	\$ 221	

⁽¹⁾ The sales-type lease receivable balance is primarily related to AES Energy Storage Alamitos project that commenced in January 2021.

Battery Storage Lease Arrangements — The Company is constructing and operating projects that pair BESS with solar energy systems, which allows the project more flexibility on when to provide energy to the grid. The Company will enter into PPAs for the full output of the facility that allow customers the ability to determine when to charge and discharge the BESS. These arrangements include both lease and non-lease elements under ASC 842, with the BESS component constituting a sales-type lease. Upon commencement of the lease, the book value of the leased asset is removed from the balance sheet and a net investment in sales-type lease is recognized based on the present value of fixed payments under the contract and the residual value of the underlying asset. Due to the variable nature of lease payments under these contracts, the Company recorded losses at commencement of sales-type leases of \$13 million for the nine months ended September 30, 2021. These amounts are recognized in *Other expense* in the Consolidated Statement of Operations. See Note 15—*Other Income and Expense* for further information. The Company recognized lease income on sales-type leases through interest income of \$3 million and \$11 million for the three and nine months ended September 30, 2021, respectively.

11. REDEEMABLE STOCK OF SUBSIDIARIES

The following table summarizes the Company's redeemable stock of subsidiaries balances as of the periods indicated (in millions):

	September 30, 2021	December 31, 2020
IPALCO common stock	\$ 618	\$ 618
AES Clean Energy Development common stock	256	—
Colon quotas ⁽¹⁾	—	194
AES Indiana preferred stock	60	60
Total redeemable stock of subsidiaries	<u>\$ 934</u>	<u>\$ 872</u>

⁽¹⁾ Characteristics of quotas are similar to common stock.

Colon — On September 13, 2021, the Company acquired the remaining 49.9% minority ownership interest in Colon, reducing the value of the Colon temporary equity to zero. See Note 12—*Equity* for further information.

AES Clean Energy Development — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, which will serve as the development vehicle for all future renewable projects in the U.S. As part of the transaction, AIMCo, our existing partner in the sPower equity method investment, received a 25% minority ownership interest in the newly formed entity along with certain partnership rights, though not currently in effect, that would enable AIMCo to exit in the future. As a result, the minority ownership interest is considered temporary equity.

During the second quarter of 2021, the Company recorded measurement period adjustments to the estimated fair values of the sPower and AES Renewable Holdings development platforms and the value of the partnership rights initially recorded in the first quarter of 2021, which resulted in an \$81 million increase in the value of the temporary equity. These measurement period adjustments primarily relate to higher expected developer profits and a higher growth rate, reflective of additional information that became available regarding market participants' views of the value of early-stage renewable development projects as of the date of acquisition. The temporary equity will be adjusted for earnings or losses allocated to the noncontrolling interest under ASC 810. Any subsequent changes in the redemption value of the exit rights will be recognized against permanent equity in accordance with ASC 480-10-S99, as it is probable that the shares will become redeemable. See Note 19—*Acquisitions* for further information.

12. EQUITY

Equity Units

In March 2021, the Company issued 10,430,500 Equity Units with a total notional value of \$1,043 million. Each Equity Unit has a stated amount of \$100 and was initially issued as a Corporate Unit, consisting of a forward stock purchase contract ("2024 Purchase Contracts") and a 10% undivided beneficial ownership interest in one share of 0% Series A Cumulative Perpetual Convertible Preferred Stock, with a liquidation preference of \$1,000 per share ("Series A Preferred Stock"). The Company received approximately \$1 billion proceeds from the Equity Units, net of underwriting costs and commissions, before offering expenses, and issued 1,043,050 shares of Series A Preferred Stock, recording \$1,043 million in *Preferred stock* on the Condensed Consolidated Balance Sheet. The proceeds will be used for the development of the AES renewable businesses, U.S. utility businesses, LNG infrastructure, and for other developments determined by management.

Convertible Preferred Stock — The Series A Preferred Stock will initially not bear any dividends and the liquidation preference of the convertible preferred stock will not accrete. The Series A Preferred Stock has no maturity date and will remain outstanding unless converted by holders or redeemed by the Company. Holders of the shares of the convertible preferred stock will have limited voting rights.

The Series A Preferred Stock is pledged as collateral to support holders' purchase obligations under the 2024 Purchase Contracts and can be remarketed. In connection with any successful remarketing, the Company may increase the dividend rate, increase the conversion rate, and modify the earliest redemption date for the convertible preferred stock. After any successful remarketing in connection with which the dividend rate on the convertible preferred stock is increased, the Company will pay cumulative dividends on the convertible preferred stock, if declared by the board of directors, quarterly in arrears from the applicable remarketing settlement date.

Holders of Corporate Units may create Treasury Units or Cash Settled Units from their Corporate Units as provided in the Purchase Contract Agreement by substituting Treasury securities or cash, respectively, for the Convertible Preferred Stock comprising a part of the Corporate Units.

Prior to February 15, 2024, the Series A Preferred Stock may be converted at the option of the holder only under limited circumstances in connection with a fundamental change, as defined in the certificate of designations of the Series A Preferred Stock. On and after February 15, 2024, the Series A Preferred Stock may be converted freely at the option of the holder. The conversion rate is initially 31.5428 shares of common stock per one share of Series A Preferred Stock, which is equivalent to an initial conversion price of approximately \$31.70 per share of common stock. Upon conversion, the Company will deliver in respect of each \$1,000 liquidation preference of the Series A Preferred Stock being converted (i) one share of the Company's Series B Preferred Stock, or, solely with respect to conversions in connection with a redemption, up to \$1,000 in cash and (ii) shares of common stock, if any, in respect of any conversion value in excess of the liquidation preference of the preferred stock being converted.

The Company may not redeem the Series A Preferred Stock prior to March 22, 2024. At the election of the Company, on or after March 22, 2024, the Company may redeem for cash, all or any portion of the outstanding shares of the Series A Preferred Stock at a redemption price equal to 100% of the liquidation preference, plus any accumulated and unpaid dividends.

2024 Purchase Contracts — The 2024 Purchase Contracts obligate the holders to purchase, on February 15, 2024, for a price of \$100 in cash, a maximum number of 57,215,465 shares of the Company's common stock (subject to customary anti-dilution adjustments). The 2024 Purchase Contract holders may elect to settle their obligation early, in cash. The Series A Preferred Stock is pledged as collateral to guarantee the holders' obligations to purchase common stock under the terms of the 2024 Purchase Contracts. The initial settlement rate determining the number of shares that each holder must purchase will not exceed the maximum settlement rate of 3.864, determined over a market value averaging period preceding February 15, 2024.

The settlement rate will be calculated using an initial reference price of \$25.88, equal to the last reported sale price of the Company's common stock on March 4, 2021. If the applicable market value of the Company's common stock is less than or equal to the reference price, the settlement rate will be the maximum settlement rate; and if the applicable market value of common stock is greater than the reference price, the settlement rate will be a number of shares of the Company's common stock equal to \$100 divided by the applicable market value. Upon settlement of the 2024 Purchase Contracts, the Company expects to receive additional cash proceeds of \$1 billion.

The Company will pay the holders of the 2024 Purchase Contracts quarterly payments ("Contract Adjustment Payments") at a rate of 6.875% per annum, payable quarterly in arrears on February 15, May 15, August 15, and November 15, commencing on May 15, 2021. The \$205 million present value of the Contract Adjustment Payments reduced additional paid-in capital at inception. As each quarterly Contract Adjustment Payment is made, the related liability is reduced and the difference between the cash payment and the present value will accrete to interest expense, approximately \$5 million over the three-year term.

The holders can settle the purchase contracts early, for cash, subject to certain exceptions and conditions in the prospectus supplement. Upon early settlement of any purchase contracts, the Company will deliver the number of shares of its common stock equal to 85% of the number of shares of common stock that would have otherwise been deliverable.

Equity Transactions with Noncontrolling Interests

Colon — On September 13, 2021, the Company acquired the remaining 49.9% minority ownership interest in Colon. Following the completion of the transaction, the Company is now the sole owner of Colon. In conjunction with the acquisition, a note payable was recorded that is expected to be satisfied over two installments by the end of 2023. This transaction resulted in a \$12 million decrease in Parent Company Stockholders' Equity due to a decrease in additional paid-in-capital of \$8 million and the reclassification of accumulated other comprehensive losses from *Redeemable stock of subsidiaries* to AOCL of \$4 million. Colon is reported in the MCAC SBU reportable segment.

Chile Renovables — On July 29, 2021, AES Andes completed the sale of a 49% ownership interest in Chile Renovables SpA ("Chile Renovables"), a subsidiary which owns the Los Cururos wind facility, to Global Infrastructure Management, LLC ("GIP") for \$53 million. AES Andes retained a 51% ownership interest in Chile Renovables and the transaction decreased the Company's indirect ownership in the subsidiary to 34%. As part of the transaction, AES Andes will contribute a specified pipeline of renewable development projects to Chile Renovables as the projects reach commercial operations, and GIP will make additional contributions to maintain its 49% ownership interest. As the Company maintained control after the transaction, Chile Renovables continues to be consolidated by the Company within the South America SBU reportable segment.

Guaimbê Holding — In April 2021, Guaimbê Solar Holding S.A. (“Guaimbê Holding”), a subsidiary of AES Brasil which wholly owns the Guaimbê solar complex and the Alto Sertão II wind facility, issued preferred shares representing 19.9% ownership in the subsidiary for total proceeds of \$158 million. The transaction decreased the Company’s indirect ownership interest in the operational entities from 45.3% to 36.3%. As the Company maintained control after the transaction, Guaimbê Holding continues to be consolidated by the Company within the South America SBU reportable segment.

AES Andes — On December 29, 2020, AES Andes commenced a preemptive rights offering for its existing shareholders to subscribe for up to 1.98 billion of newly issued shares to fund its renewable growth program. The period ended on February 5, 2021 and Inversiones Cachagua SpA, an AES subsidiary, subscribed for 1.35 billion shares at a cost of \$205 million, increasing AES’ indirect beneficial interest in AES Andes from 67% to 67.1%. The noncontrolling interest holders subscribed for 629 million shares, resulting in additional capital contributions of \$94 million. AES Andes is reported in the South America SBU reportable segment.

Cochrane — In September 2020, AES Andes completed the sale of a portion of its stake in Cochrane. The transaction included the issuance of preferred shares and the sale of 5% of its stake in the subsidiary for \$113 million, which decreased the Company’s economic interest in Cochrane to 38%. As the Company maintained control after the sale, Cochrane continues to be consolidated by the Company within the South America SBU reportable segment.

AES Brasil — In August 2020, AES Holding Brasil Ltda. (“AHB”) completed the acquisition of an additional 18.5% ownership in AES Brasil for \$240 million which increased the Company’s economic interest in AES Brasil to 42.9%. This transaction resulted in a \$202 million decrease in Parent Company Stockholders’ Equity due to a decrease in additional paid-in-capital of \$88 million and the reclassification of accumulated other comprehensive losses from NCI to AOCL of \$114 million. During the fourth quarter of 2020, AHB acquired another 1.3% ownership in AES Brasil to increase its economic interest to 44.1%.

In addition, AHB committed to migrate AES Tietê to the Novo Mercado, which is a listing segment of the Brazilian stock exchange that requires equity capital to be composed only of common shares. On December 18, 2020, the AES Tietê board approved a proposal for the corporate reorganization and exchange of shares issued by AES Tietê with newly issued shares of AES Brasil, a formerly wholly-owned entity of AES Tietê, with the intent to list AES Brasil on Novo Mercado as the 100% shareholder of AES Tietê. The reorganization and the exchange of shares was completed on March 26, 2021, and the shares issued by AES Brasil started trading on Novo Mercado on March 29, 2021. The Company maintains majority representation on AES Brasil’s board of directors, and as such, continues to consolidate AES Brasil’s results in the South America SBU reportable segment.

Through multiple transactions in 2021, AHB acquired an additional 1.6% ownership in AES Brasil for \$17 million. These transactions increased the Company’s economic interest in AES Brasil to 45.7% and resulted in a \$13 million decrease in Parent Company Stockholder’s Equity due to a decrease in additional paid-in-capital of \$6 million and the reclassification of accumulated other comprehensive losses from NCI to AOCL of \$7 million.

Accumulated Other Comprehensive Loss — The following table summarizes the changes in AOCL by component, net of tax and NCI, for the nine months ended September 30, 2021 (in millions):

	Foreign currency translation adjustment, net	Unrealized derivative gains (losses), net	Unfunded pension obligations, net	Total
Balance at the beginning of the period	\$ (1,644)	\$ (699)	\$ (54)	\$ (2,397)
Other comprehensive income (loss) before reclassifications	(59)	40	(1)	(20)
Amount reclassified to earnings	3	57	3	63
Other comprehensive income (loss)	(56)	97	2	43
Reclassification from NCI due to share repurchases	(7)	(4)	—	(11)
Balance at the end of the period	\$ (1,707)	\$ (606)	\$ (52)	\$ (2,365)

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

AOCL Components	Affected Line Item in the Condensed Consolidated Statements of Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Foreign currency translation adjustment, net					
	Gain (loss) on disposal and sale of business interests	\$ —	\$ (80)	\$ (3)	\$ (78)
	Net income (loss) attributable to The AES Corporation	\$ —	\$ (80)	\$ (3)	\$ (78)
Derivative gains (losses), net					
	Non-regulated revenue	\$ (1)	\$ —	\$ (1)	\$ (1)
	Non-regulated cost of sales	2	(1)	(2)	—
	Interest expense	(33)	(42)	(62)	(89)
	Asset impairment expense	—	—	(13)	—
	Foreign currency transaction gains (losses)	(7)	9	(12)	(14)
	Income (loss) from continuing operations before taxes and equity in earnings of affiliates	(39)	(34)	(90)	(104)
	Income tax benefit (expense)	10	10	23	24
	Net equity in earnings (losses) of affiliates	(1)	(3)	(12)	(4)
	Income (loss) from continuing operations	(30)	(27)	(79)	(84)
	Less: Net loss (income) attributable to noncontrolling interests and redeemable stock of subsidiaries	9	26	22	15
	Net income (loss) attributable to The AES Corporation	\$ (21)	\$ (1)	\$ (57)	\$ (69)
Amortization of defined benefit pension actuarial loss, net					
	Regulated cost of sales	\$ (2)	\$ —	\$ (3)	\$ —
	Non-regulated cost of sales	(1)	(1)	(1)	(1)
	Other expense	—	—	(1)	(1)
	Income (loss) from continuing operations before taxes and equity in earnings of affiliates	(3)	(1)	(5)	(2)
	Income tax benefit (expense)	(1)	—	—	1
	Income (loss) from continuing operations	(4)	(1)	(5)	(1)
	Less: Income from continuing operations attributable to noncontrolling interests and redeemable stock of subsidiaries	2	—	2	—
	Net income (loss) attributable to The AES Corporation	\$ (2)	\$ (1)	\$ (3)	\$ (1)
Total reclassifications for the period, net of income tax and noncontrolling interests		\$ (23)	\$ (82)	\$ (63)	\$ (148)

Common Stock Dividends — The Parent Company paid dividends of \$0.1505 per outstanding share to its common stockholders during the first, second, and third quarters of 2021 for dividends declared in December 2020, February 2021, and July 2021, respectively.

On October 8, 2021, the Board of Directors declared a quarterly common stock dividend of \$0.1505 per share payable on November 15, 2021, to shareholders of record at the close of business on November 2, 2021.

13. 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 mainly organized by geographic regions, which provides a socio-political-economic understanding of our business. The management reporting structure is organized by four SBUs led by our President and Chief Executive Officer: US and Utilities, South America, MCAC, and Eurasia SBUs. Using the accounting guidance on segment reporting, the Company determined that its four operating segments are aligned with its four reportable segments corresponding to its SBUs.

Corporate and Other — Included in "Corporate and Other" are the results of the AES self-insurance company and certain equity affiliates, corporate overhead costs which are not directly associated with the operations of our four reportable segments, and 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 pre-tax 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 and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; and (f) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. 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. The Company has concluded that Adjusted PTC better 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):

Total Revenue	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
US and Utilities SBU	\$ 1,327	\$ 1,061	\$ 3,248	\$ 2,945
South America SBU	896	850	2,744	2,273
MCAC SBU	559	442	1,584	1,255
Eurasia SBU	257	195	804	634
Corporate and Other	21	49	82	191
Eliminations	(24)	(52)	(91)	(198)
Total Revenue	<u>\$ 3,036</u>	<u>\$ 2,545</u>	<u>\$ 8,371</u>	<u>\$ 7,100</u>

Total Adjusted PTC	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Income (loss) from continuing operations before taxes and equity in earnings of affiliates	\$ 586	\$ (516)	\$ 465	\$ (91)
Add: Net equity in earnings (losses) of affiliates	25	(112)	(15)	(106)
Less: (Income) loss from continuing operations before taxes, attributable to noncontrolling interests	(117)	197	(140)	(40)
Pre-tax contribution	494	(431)	310	(237)
Unrealized derivative and equity securities losses (gains)	(53)	26	24	24
Unrealized foreign currency losses (gains)	11	(4)	5	(7)
Disposition/acquisition losses (gains)	(33)	100	(277)	130
Impairment losses	18	657	1,121	878
Loss on extinguishment of debt	27	55	51	103
Net gains from early contract terminations at Angamos	(36)	(72)	(256)	(72)
Total Adjusted PTC	<u>\$ 428</u>	<u>\$ 331</u>	<u>\$ 978</u>	<u>\$ 819</u>

Total Adjusted PTC	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
US and Utilities SBU	\$ 254	\$ 185	\$ 426	\$ 313
South America SBU	83	122	267	381
MCAC SBU	81	57	213	201
Eurasia SBU	45	40	144	133
Corporate and Other	(47)	(77)	(109)	(220)
Eliminations	12	4	37	11
Total Adjusted PTC	<u>\$ 428</u>	<u>\$ 331</u>	<u>\$ 978</u>	<u>\$ 819</u>

Total Assets	September 30, 2021		December 31, 2020	
US and Utilities SBU	\$ 15,277		\$ 14,464	
South America SBU	10,942		11,329	
MCAC SBU	4,581		4,847	
Eurasia SBU	3,481		3,621	
Corporate and Other	749		342	
Total Assets	<u>\$ 35,030</u>		<u>\$ 34,603</u>	

14. REVENUE

The following table presents our revenue from contracts with customers and other revenue for the periods indicated (in millions):

Three Months Ended September 30, 2021						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 760	\$ —	\$ —	\$ —	\$ —	\$ 760
Other regulated revenue	9	—	—	—	—	9
Total regulated revenue	769	—	—	—	—	769
Non-Regulated Revenue						
Revenue from contracts with customers	394	893	534	197	(3)	2,015
Other non-regulated revenue ⁽¹⁾	164	3	25	60	—	252
Total non-regulated revenue	558	896	559	257	(3)	2,267
Total revenue	\$ 1,327	\$ 896	\$ 559	\$ 257	\$ (3)	\$ 3,036
Three Months Ended September 30, 2020						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 674	\$ —	\$ —	\$ —	\$ —	\$ 674
Other regulated revenue	6	—	—	—	—	6
Total regulated revenue	680	—	—	—	—	680
Non-Regulated Revenue						
Revenue from contracts with customers	378	848	417	134	(3)	1,774
Other non-regulated revenue ⁽¹⁾	3	2	25	61	—	91
Total non-regulated revenue	381	850	442	195	(3)	1,865
Total revenue	\$ 1,061	\$ 850	\$ 442	\$ 195	\$ (3)	\$ 2,545
Nine Months Ended September 30, 2021						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 2,117	\$ —	\$ —	\$ —	\$ —	\$ 2,117
Other regulated revenue	30	—	—	—	—	30
Total regulated revenue	2,147	—	—	—	—	2,147
Non-Regulated Revenue						
Revenue from contracts with customers	850	2,735	1,509	621	(9)	5,706
Other non-regulated revenue ⁽¹⁾	251	9	75	183	—	518
Total non-regulated revenue	1,101	2,744	1,584	804	(9)	6,224
Total revenue	\$ 3,248	\$ 2,744	\$ 1,584	\$ 804	\$ (9)	\$ 8,371
Nine Months Ended September 30, 2020						
	US and Utilities SBU	South America SBU	MCAC SBU	Eurasia SBU	Corporate, Other and Eliminations	Total
Regulated Revenue						
Revenue from contracts with customers	\$ 1,987	\$ —	\$ —	\$ —	\$ —	\$ 1,987
Other regulated revenue	29	—	—	—	—	29
Total regulated revenue	2,016	—	—	—	—	2,016
Non-Regulated Revenue						
Revenue from contracts with customers	742	2,267	1,181	461	(7)	4,644
Other non-regulated revenue ⁽¹⁾	187	6	74	173	—	440
Total non-regulated revenue	929	2,273	1,255	634	(7)	5,084
Total revenue	\$ 2,945	\$ 2,273	\$ 1,255	\$ 634	\$ (7)	\$ 7,100

⁽¹⁾ Other non-regulated revenue primarily includes lease and derivative revenue not accounted for under ASC 606.

Contract Balances — The timing of revenue recognition, billings, and cash collections results in accounts receivable and contract liabilities. The contract liabilities from contracts with customers were \$174 million and \$531 million as of September 30, 2021 and December 31, 2020, respectively.

During the nine months ended September 30, 2021 and 2020, we recognized revenue of \$410 million and \$12 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods.

In August 2020, AES Andes reached an agreement with Minera Escondida and Minera Spence to early terminate two PPAs of the Angamos coal-fired plant in Chile, further accelerating AES Andes' decarbonization strategy. As a result of the termination payment, Angamos recognized a contract liability of \$655 million, of which \$55 million was derecognized each month through the end of the remaining performance obligation in August 2021.

A significant financing arrangement exists for our Mong Duong plant in Vietnam. The plant was constructed under a build, operate, and transfer contract and will be transferred to the Vietnamese government after the completion of a 25 year PPA. The performance obligation to construct the facility was substantially completed in 2015. As of September 30, 2021, approximately \$1.3 billion of contract consideration related to the construction, but not yet collected through the 25 year PPA, was reflected as a loan receivable, net of CECL reserve of \$31 million. Mong Duong met the held-for-sale criteria and the loan receivable balance was reclassified to held-for-sale assets as of September 30, 2021. Of the loan receivable balance, \$88 million was classified as *Current held-for-sale assets* and \$1.2 billion was classified as *Noncurrent held-for-sale assets* on the Consolidated Balance Sheet.

Remaining Performance Obligations — The transaction price allocated to remaining performance obligations represents future consideration for unsatisfied (or partially unsatisfied) performance obligations at the end of the reporting period. As of September 30, 2021, the aggregate amount of transaction price allocated to remaining performance obligations was \$10 million, primarily consisting of fixed consideration for the sale of renewable energy credits ("RECs") in long-term contracts in the U.S. We expect to recognize revenue on approximately one-fifth of the remaining performance obligations in 2022 and 2023, with the remainder recognized thereafter.

15. OTHER INCOME AND EXPENSE

Other income generally includes gains on insurance recoveries in excess of property damage, gains on asset sales and liability extinguishments, favorable judgments on contingencies, allowance for funds used during construction, and other income from miscellaneous transactions. Other expense generally includes losses on asset sales and dispositions, losses on legal contingencies, defined benefit plan non-service costs, and losses from other miscellaneous transactions. The components are summarized as follows (in millions):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Other Income	Gain on remeasurement to acquisition-date fair value ⁽¹⁾	\$ 8	\$ —	\$ 220	\$ —
	Gain on remeasurement of contingent consideration ⁽²⁾	32	—	32	—
	AFUDC (US Utilities)	2	2	6	4
	Gain on sale of assets ⁽³⁾	1	—	2	43
	Other	5	4	14	13
Total other income		<u>\$ 48</u>	<u>\$ 6</u>	<u>\$ 274</u>	<u>\$ 60</u>
Other Expense	Loss on sale and disposal of assets	\$ 6	\$ 4	\$ 13	\$ 6
	Loss on commencement of sales-type leases ⁽⁴⁾	—	—	13	—
	Legal contingencies and settlements	2	12	2	14
	Other	4	4	4	7
Total other expense		<u>\$ 12</u>	<u>\$ 20</u>	<u>\$ 32</u>	<u>\$ 27</u>

⁽¹⁾ For the three months ended September 30, 2021, primarily related to the \$6 million remeasurement of our existing equity interest in Gas Natural Atlántico II, S. de R.L.'s assets to their acquisition-date fair value. See Note 7—*Investments in and Advances to Affiliates* for further information. For the nine months ended September 30, 2021, primarily related to the \$214 million remeasurement of our existing equity interest in sPower's development platform as part of the step acquisition to form AES Clean Energy Development. See Note 19—*Acquisitions* for further information.

⁽²⁾ Related to the remeasurement of contingent consideration on the Great Cove Solar acquisition at Clean Energy. See Note 19—*Acquisitions* for further information.

⁽³⁾ Primarily associated with the gain on sale of Redondo Beach land at Southland for the nine months ended September 30, 2020. See Note 18—*Held-for-Sale and Dispositions* for further information.

⁽⁴⁾ Related to a loss recognized at commencement of a sales-type lease at AES Renewable Holdings. See Note 10—*Leases* for further information.

16. ASSET IMPAIRMENT EXPENSE

The following table presents our asset impairment expense for the periods indicated (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Ventanas 3 & 4	\$ —	\$ —	\$ 649	\$ —
Puerto Rico	—	—	475	—
Angamos	—	564	155	564
Mountain View I & II	—	—	67	—
Estrella del Mar I	11	30	11	30
Ventanas 1 & 2	—	213	—	213
Hawaii	—	38	—	38
Other	18	4	17	10
Total	\$ 29	\$ 849	\$ 1,374	\$ 855

Ventanas and Angamos — In August 2020, AES Andes reached an agreement with Minera Escondida and Minera Spence to early terminate two PPAs of the Angamos coal-fired plant in Chile, further accelerating AES Andes' decarbonization strategy. AES Andes also announced its intention to accelerate the retirement of the Ventanas 1 and Ventanas 2 coal-fired plants. Management will no longer be pursuing a contracting strategy for these assets and the plants will primarily be utilized as peaker plants and for grid stability. Due to these developments, the Company performed an impairment analysis and determined that the carrying amounts of these asset groups were not recoverable as of September 30, 2020. The Angamos asset group was determined to have a fair value of \$306 million, using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$564 million and \$213 million at Angamos and Ventanas 1 & 2, respectively.

In July 2021, AES Andes entered into an agreement committing to accelerate the retirement of the Ventanas 3, Ventanas 4, Angamos 1, and Angamos 2 coal-fired plants in Chile. Due to these strategic developments, the Company performed impairment analyses as of June 30, 2021, and determined that the carrying amounts of the asset groups were not recoverable. The Ventanas 3 & 4 and Angamos asset groups were determined to have fair values of \$12 million and \$86 million, respectively, using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$649 million and \$155 million, respectively. Ventanas and Angamos are reported in the South America SBU reportable segment.

Mountain View I & II — In April 2021, the Company approved plans to execute a repowering project for the Mountain View I & II wind facility and signed two new PPAs for the energy and capacity related to the repowered asset. As the repowering will result in decommissioning the majority of the existing wind turbines in advance of their depreciable lives, the execution of the new PPAs was identified as an impairment indicator. The asset group was determined to have a fair value of \$11 million using the income approach. As a result, the Company recognized pre-tax asset impairment expense of \$67 million. Mountain View I & II is reported in the US and Utilities SBU reportable segment.

Puerto Rico — New factors arose in the first quarter of 2021 associated with the economic costs and operational and reputational risks of disposal of coal combustion residuals off island. In addition, new legislative initiatives surrounding the prohibition of coal generation assets in Puerto Rico were introduced. Collectively, these factors along with management's decision on how to best achieve our stated decarbonization goals resulted in an indicator of impairment at our asset group in Puerto Rico. As such, management performed a recoverability test in accordance with ASC 360 and concluded that Puerto Rico's undiscounted cash flows did not exceed the carrying value of the asset group. The fair value of the asset group was determined to be \$73 million, resulting in pre-tax impairment expense of \$475 million. Puerto Rico is reported in the US and Utilities SBU reportable segment.

Estrella del Mar I — In August 2020, the Estrella del Mar I power barge was disconnected from the Panama grid. Upon disconnection, the Company concluded that the barge was no longer part of the AES Panama asset group and performed an impairment analysis. The Company determined that the carrying amount of the asset was not recoverable and recognized asset impairment expense of \$30 million. In September 2021, the Company recognized additional asset impairment expense of \$11 million due to a change in the estimated market value of the power barge. See Note 18—*Held-for-Sale and Dispositions* for further information. Estrella del Mar I is reported in the MCAC SBU reportable segment.

Hawaii — In July 2020, the Hawaii State Legislature passed Senate Bill 2629 which will prohibit AES Hawaii from generating electricity from coal after December 31, 2022. As this will restrict the Company from contracting the asset beyond the expiration of its existing PPA, management reassessed the economic useful life of the generation facility. A decrease in the useful life was identified as an impairment indicator. The Company performed an impairment analysis and determined that the carrying amount of the asset group was not recoverable. As a result,

the Company recognized asset impairment expense of \$38 million. Hawaii is reported in the US and Utilities SBU reportable segment.

17. INCOME TAXES

The Company's provision for income taxes is based on the estimated annual effective tax rate, plus discrete items. The effective tax rates for the three and nine months ended September 30, 2021 were 22% and 16%, respectively. The effective tax rates for the three and nine months ended September 30, 2020 were 28% and (60)%, respectively. The difference between the Company's effective tax rates for the 2021 and 2020 periods and the U.S. statutory tax rate of 21% related primarily to U.S. taxes on foreign earnings, foreign tax rate differentials, the impacts of foreign currency fluctuations at certain foreign subsidiaries, nondeductible expenses, and valuation allowance.

For the three and nine months ended September 30, 2021, the Company recorded discrete tax benefit of approximately \$96 million (\$44 million net of NCI) associated with the release of valuation allowance at one of our Brazilian subsidiaries.

For the nine months ended September 30, 2020, the Company recognized approximately \$11 million of discrete tax benefit from the impact of foreign currency devaluation in Mexico.

For the three and nine months ended September 30, 2020, the Company recognized discrete tax benefit of approximately \$28 million and \$20 million, respectively, on the Company's investment in Guacolda for equity losses primarily associated with the impairment of long-lived assets. Also for the nine months ended September 30, 2020, the Company recognized discrete tax expense of \$21 million as a result of incremental capitalized interest in Chile and discrete tax expense of approximately \$25 million as a result of incremental deferred taxes relating to DPL.

18. HELD-FOR-SALE AND DISPOSITIONS

Held-for-Sale

Mong Duong — In December 2020, the Company entered into an agreement to sell its entire 51% ownership interest in Mong Duong, a coal-fired plant in Vietnam, and 51% equity interest in Mong Duong Finance Holdings B.V, an SPV accounted for as an equity affiliate. The sale is subject to regulatory approval and is expected to close in early 2022. As of September 30, 2021, the Mong Duong plant and SPV were classified as held-for-sale, but did not meet the criteria to be reported as discontinued operations. On a consolidated basis, the carrying value of the plant and SPV held-for-sale as of September 30, 2021 was \$527 million. Mong Duong is reported in the Eurasia SBU reportable segment.

Estrella del Mar I — The Estrella del Mar I power barge met the held-for-sale criteria as of December 31, 2020, but did not meet criteria to be reported as discontinued operations. On a consolidated basis, the carrying value of the power barge held-for-sale as of September 30, 2021 was \$6 million. On October 6, 2021, the Company entered into an agreement to sell the power barge and the sale closed on October 27, 2021. Estrella del Mar I is reported in the MCAC SBU reportable segment. See Note 16—*Asset Impairment Expense* for further details.

Jordan — In November 2020, the Company signed an agreement to sell 26% ownership interest in IPP1 and IPP4 for \$58 million. The sale is expected to close in the fourth quarter of 2021. After completion of the sale, the Company will retain a 10% ownership interest in IPP1 and IPP4, which will be accounted for as an equity method investment. As of September 30, 2021, the generation plants were classified as held-for-sale, but do not meet the criteria to be reported as discontinued operations. On a consolidated basis, the carrying value of the plants held-for-sale as of September 30, 2021 was \$163 million. Jordan is reported in the Eurasia SBU reportable segment.

Excluding any impairment charges, pre-tax income attributable to AES of businesses held-for-sale as of September 30, 2021 was as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Mong Duong	\$ 12	\$ 12	\$ 42	\$ 42
Jordan	5	5	15	15
Estrella del Mar I	—	—	—	6
Total	\$ 17	\$ 17	\$ 57	\$ 63

Dispositions

AES Tietê Inova Soluções — In June 2021, the Company completed the sale of its ownership in AES Inova Soluções, an investment platform in distributed solar generation, for \$20 million, resulting in a pre-tax loss on sale of \$1 million. The sale did not meet the criteria to be reported as discontinued operations. AES Tietê Inova Soluções is reported in the South America SBU reportable segment.

Itabo — In April 2021, the Company completed the sale of its 43% ownership interest in Itabo, a coal-fired plant and gas turbine in Dominican Republic, for \$88 million, resulting in a pre-tax gain on sale of \$4 million. The sale did not meet the criteria to be reported as discontinued operations. Prior to its sale, Itabo was reported in the MCAC SBU reportable segment.

Uruguaiana — In September 2020, the Company completed the sale of its entire interest in AES Uruguaiana, resulting in a pre-tax loss on sale of \$95 million after post-closing adjustments, primarily due to the write-off of cumulative translation adjustments. As part of the sale agreement, the Company has guaranteed payment of certain contingent liabilities and provided indemnifications to the buyer which were estimated to have a fair value of \$22 million. The sale did not meet the criteria to be reported as discontinued operations. Prior to its sale, Uruguaiana was reported in the South America SBU reportable segment.

Kazakhstan Hydroelectric — Affiliates of the Company (the “Affiliates”) previously operated Shulbinsk HPP and Ust-Kamenogorsk HPP (the “HPPs”), two hydroelectric plants in Kazakhstan, under a concession agreement with the Republic of Kazakhstan (“ROK”). In April 2017, the ROK initiated the process to transfer these plants back to the ROK. The ROK indicated that arbitration would be necessary to determine the correct Return Share Transfer Payment (“RST”) and, rather than paying the Affiliates, deposited the RST into an escrow account. In exchange, the Affiliates transferred 100% of the shares in the HPPs to the ROK, under protest and with a full reservation of rights. In February 2018, the Affiliates initiated the arbitration process in international court to recover at least \$75 million of the RST placed in escrow, based on the September 30, 2017 RST calculation.

In May 2020, the arbitrator issued a final decision in favor of the Affiliates, awarding the Affiliates a net amount of damages of approximately \$45 million, which has been collected. AES recorded the remaining \$30 million as a loss on sale during the quarter ended June 30, 2020. Prior to their transfer, the Kazakhstan HPPs were reported in the Eurasia SBU reportable segment.

Redondo Beach Land — In March 2020, the Company completed the sale of land held by AES Redondo Beach, a gas-fired generating facility in California. The land’s carrying value was \$24 million, resulting in a pre-tax gain on sale of \$41 million, reported in *Other income* on the Condensed Consolidated Statement of Operations. AES Redondo Beach will lease back the land from the purchaser for the remainder of the generation facility’s useful life. Redondo Beach is reported in the US and Utilities SBU reportable segment.

Excluding any impairment charges or gain/loss on sale, pre-tax income (loss) attributable to AES of disposed businesses was as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Itabo	\$ —	\$ 9	\$ 5	\$ 28
Other	—	(1)	—	—
Total	<u>\$ —</u>	<u>\$ 8</u>	<u>\$ 5</u>	<u>\$ 28</u>

19. ACQUISITIONS

New York Wind — On July 30, 2021, AES Clean Energy Development, LLC entered into an agreement to acquire Cogentrix Valcour Intermediate Holdings, LLC for cash consideration, subject to customary purchase price adjustments, plus the assumption of related non-recourse debt. The transaction includes operating wind assets spread across six sites and will complement AES Clean Energy’s existing operating and development solar and energy storage assets in the state of New York. The transaction is subject to customary regulatory approvals and is expected to close by the end of 2021.

Serra Verde Wind Complex — On July 19, 2021, AES Brasil completed the acquisition of the Serra Verde Wind Complex for \$18 million, subject to customary working capital adjustments, of which \$6 million was paid in cash and the remaining \$12 million will be paid in two annual installments ending on July 19, 2023. The transaction was accounted for as an asset acquisition of variable interest entities that did not meet the definition of a business; therefore, the assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration. Any differences arising from post-closing adjustments will be allocated accordingly. Serra Verde is reported in the South America SBU.

Cajuína Wind Complex — On May 21, 2021, AES Brasil completed the acquisition of the Cajuína Wind Complex phase I for \$22 million, subject to customary working capital adjustments. On July 29, 2021, AES Brasil completed the acquisition of the Cajuína Wind Complex phase II for \$24 million, subject to customary working capital adjustments, including \$3 million of contingent consideration. The Company made initial cash payments of \$6 million for each acquisition and the remaining balances will be paid in three annual installments ending on March 31, 2024 and on July 29, 2024, respectively. These transactions were accounted for as asset acquisitions of variable interest entities that did not meet the definition of a business; therefore, the assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration. Any differences arising from post-closing adjustments will be allocated accordingly. Cajuína is reported in the South America SBU.

Cubico Wind Complex — On April 30, 2021, AES Brasil completed the acquisition of the Cubico Wind Complex for \$109 million, subject to customary working capital adjustments. The transaction was accounted for as an asset acquisition, therefore the consideration transferred, plus transaction costs, were allocated to the individual assets acquired and liabilities assumed based on their relative fair values. Any differences arising from post-closing adjustments will be allocated accordingly. Cubico is reported in the South America SBU.

AES Clean Energy Development — On February 1, 2021, the Company substantially completed the merger of the sPower and AES Renewable Holdings development platforms to form AES Clean Energy Development, which will serve as the development vehicle for all future renewable projects in the U.S. As part of the transaction, AES acquired an additional 25% ownership interest in the sPower development platform from AIMCo, our existing partner in the sPower equity method investment, in exchange for a 25% ownership interest in specifically identified development entities of AES Renewable Holdings, certain future exit rights in the new partnership, and \$7 million of cash.

The sPower development platform was carved-out of AES' existing equity method investment. AES' basis in the portion of assets transferred was \$102 million, and the contribution to AES Clean Energy Development resulted in a corresponding decrease in the carrying value of the sPower investment. See Note 7—*Investments in and Advances to Affiliates* for further information.

During the first quarter of 2021, the sPower development assets transferred were remeasured at their acquisition-date preliminary fair values, resulting in the recognition of a \$36 million gain, recorded in *Other income* on the Condensed Consolidated Statement of Operations. The Company recorded \$81 million in *Goodwill* as of the acquisition date, representing the difference between the fair value of the consideration transferred, the noncontrolling interest in the sPower development platform, and the acquisition-date fair value of the Company's previously held equity interest and the fair value of the identifiable assets acquired and liabilities assumed.

During the second quarter of 2021, the Company recorded measurement period adjustments as result of additional facts and circumstances that existed as of the date of the acquisition but were not yet known as of the time of the valuation performed in the first quarter of 2021. These measurement period adjustments primarily relate to higher expected developer profits and a higher growth rate, reflective of additional information that became available regarding market participants' views of the value of early-stage renewable development projects as of the date of acquisition. As a result, the estimated acquisition-date carrying value and fair values of the sPower development assets transferred were increased, which resulted in the recognition of an additional \$178 million gain, for an updated gain of \$214 million. Furthermore, the estimated goodwill as of the acquisition date was reduced to \$45 million, as a result of adjustments to the fair value of the consideration paid and updates to the fair values of separately identifiable intangible assets. The Company finalized the purchase price allocation in the third quarter of 2021, which did not result in any material measurement period adjustments.

Subsequent to the closing of the transaction, AES holds a 75% ownership interest in AES Clean Energy Development. AIMCo holds the remaining 25% minority interest along with certain partnership rights, though currently not in effect, that would enable AIMCo to exit in the future. AIMCo's minority interest is recorded as temporary equity in *Redeemable stock of subsidiaries* on the Condensed Consolidated Balance Sheet. See Note 11—*Redeemable Stock of Subsidiaries* for further information. AES Clean Energy Development is reported in the US and Utilities SBU reportable segment.

Great Cove Solar— On January 25, 2021 and May 3, 2021, AES Clean Energy Development, LLC completed the acquisitions of Great Cove I and II, respectively. The fair value of the initial consideration paid to acquire Great Cove I and Great Cove II was \$13 million and \$24 million, which included contingent consideration liabilities of \$6 million and \$22 million, respectively. These acquisitions were accounted for as asset acquisitions of variable interest entities that did not meet the definition of a business; therefore, the assets acquired and liabilities assumed were recorded at their fair values, which equaled the fair value of the consideration. During the third quarter of 2021, the contingent liabilities related primarily to certain price adjustment features were remeasured, resulting in contingent consideration assets of \$2 million and \$12 million for Great Cove I and Great Cove II, respectively. This remeasurement resulted in a gain of \$32 million recorded in *Other income* in the Consolidated Statement of Operations. Great Cove Solar is reported in the US and Utilities SBU reportable segment.

Penonome I— In May 2020, AES Panama completed the acquisition of the Penonome I wind farm from Goldwind International for \$80 million. The transaction was accounted for as an asset acquisition, therefore the consideration transferred, plus transaction costs, was allocated to the individual assets and liabilities assumed based on their relative fair values. Penonome I is reported in the MCAC SBU reportable segment.

20. 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 equity units. The effect of such potential common stock is computed using the treasury stock method for RSUs and stock options, and is computed using the if-converted method for equity units.

The following table is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation for income from continuing operations for the three and nine months ended September 30, 2021 and 2020, where income represents the numerator and weighted average shares represent the denominator.

Three Months Ended September 30, (in millions, except per share data)	2021			2020		
	Income	Shares	\$ per Share	Loss	Shares	\$ per Share
BASIC EARNINGS (LOSS) PER SHARE						
Income (loss) from continuing operations attributable to The AES Corporation common stockholders	\$ 343	667	\$ 0.52	\$ (333)	665	\$ (0.50)
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	1	—	—	—	—
Restricted stock units	—	2	(0.01)	—	—	—
Equity units	1	40	(0.03)	—	—	—
DILUTED EARNINGS (LOSS) PER SHARE	\$ 344	710	\$ 0.48	\$ (333)	665	\$ (0.50)
Nine Months Ended September 30, (in millions, except per share data)	2021			2020		
	Income	Shares	\$ per Share	Loss	Shares	\$ per Share
BASIC EARNINGS (LOSS) PER SHARE						
Income (loss) from continuing operations attributable to The AES Corporation common stockholders	\$ 219	666	\$ 0.32	\$ (275)	665	\$ (0.41)
EFFECT OF DILUTIVE SECURITIES						
Stock options	—	1	—	—	—	—
Restricted stock units	—	3	—	—	—	—
Equity units	1	30	(0.01)	—	—	—
DILUTED EARNINGS (LOSS) PER SHARE	\$ 220	700	\$ 0.31	\$ (275)	665	\$ (0.41)

The calculation of diluted earnings per share excluded 1 million outstanding stock awards for the three and nine months ended September 30, 2021, which would be anti-dilutive. These stock awards could potentially dilute basic earnings per share in the future.

For the three and nine months ended September 30, 2020, the calculation of diluted earnings per share excluded 6 million outstanding stock awards because their impact would be anti-dilutive given the loss from continuing operations. These stock awards could potentially dilute basic earnings per share in the future. Had the Company generated income, 3 million potential shares of common stock related to the stock awards would have been included in diluted weighted-average shares outstanding.

As described in Note 12—*Equity*, the Company issued \$1,043 million in Equity Units in March 2021, consisting of \$1,043 million of Series A Preferred Stock and the 2024 Purchase Contracts. Prior to February 15, 2024, the Series A Preferred Stock may be converted at the option of the holder only in connection with a fundamental change. On and after February 15, 2024, the Series A Preferred Stock may be converted freely at the option of the holder. Upon conversion, the Company will deliver to the holder with respect to each share of Series A Preferred Stock being converted (i) a share of our Series B Preferred Stock, or, solely with respect to conversions in connection with a redemption, cash and (ii) shares of our common stock, if any, in respect of any conversion value in excess of the liquidation preference of the preferred stock being converted. The conversion rate is initially 31.5428 shares of common stock per one share of Series A Preferred Stock, which is equivalent to an initial conversion price of approximately \$31.70 per share of common stock. The Series A Preferred Stock and the 2024 Purchase Contracts are being accounted for as one unit. In calculating diluted EPS, the Company has applied the if-converted method.

21. RISKS AND UNCERTAINTIES

COVID-19 Pandemic — The COVID-19 pandemic has severely impacted global economic activity, including electricity and energy consumption, and caused significant volatility and negative pressure in financial markets. The magnitude and duration of the COVID-19 pandemic is unknown at this time and may have material and adverse effects on our results of operations, financial condition, and cash flows in future periods.

Alto Maipo — On August 27, 2021, Alto Maipo updated its creditors with respect to the construction budget and long-term business plan for the hydroelectric project, which considers different scenarios for spot prices, decarbonization initiatives and hydrological conditions, among other significant variables. Under some of these scenarios, Alto Maipo may experience reduced future cash flows, which would limit its ability to repay debt. Alto Maipo's management has initiated negotiations with its creditors to restructure its obligations and achieve a sustainable long-term capital structure for Alto Maipo. There can be no assurance that Alto Maipo will succeed in its efforts to reach an agreement with its creditors. Currently, through its 67% ownership interest in AES Andes, AES now has an effective 62% indirect economic interest in Alto Maipo, which is part of the strategic asset group and AES Andes reporting unit. These finance agreements are non-recourse with respect to The AES Corporation and AES Andes.

If Alto Maipo is unable to renegotiate the terms of its financial arrangements with its creditors and is unable to meet its obligations under those arrangements as they come due, the creditors may enforce their rights under these agreements, which could result in a material loss of up to \$566 million, representative of the Company's after-tax investment (net of NCI) in Alto Maipo as of September 30, 2021. The project debt at Alto Maipo is currently not in default. We do not believe that a debt covenant violation is certain to occur in the near future. Therefore, Alto Maipo's debt continues to be classified as long-term, and management believes that the carrying value of our net investment in Alto Maipo is recoverable. These factors were not considered to be a triggering event for the asset groups or goodwill of the parent, AES Andes, under ASC 360 or ASC 350. Approximately \$60 million of deferred tax assets are included in the carrying value, and management believes it is more-likely-than-not that they will be realized. However, they could be reduced if estimates of future taxable income are decreased.

22. SUBSEQUENT EVENTS

Fluence — On November 1, 2021, Fluence completed its initial public offering of 35,650,000 of its Class A common stock at a price of \$28 per share, including the exercise of the underwriters' option. Fluence received approximately \$943 million in proceeds, before expenses, as a result of the transaction. AES' ownership interest in Fluence decreased from 43.2% to 34.2% and the Company expects that Fluence will continue to be accounted for as an equity method investment.

Estrella del Mar I — On October 27, 2021, the Company completed the sale of the power barge. See Note 18 —*Held-for-Sale and Dispositions* for further information.

AES Brasil — On October 1, 2021, AES Brasil concluded a follow-on offering for the issuance of 93,000,000 newly issued shares to fund its renewable energy portfolio at a cost of \$205 million. As a result of the offering, AES' indirect beneficial interest in AES Brasil increased from 45.7% to 46.7%.

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

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 2020 Form 10-K.

Forward-Looking Information

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations, including our expectations regarding the impact of the COVID-19 pandemic on our business, 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. These statements include, but are not limited to, statements regarding management's intents, beliefs, and current expectations and typically contain, but are not limited to, the terms "anticipate," "potential," "expect," "forecast," "target," "will," "would," "intend," "believe," "project," "estimate," "plan," and similar words. Forward-looking statements are not intended to be a guarantee of future results, but instead constitute current expectations based on reasonable assumptions. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A.—*Risk Factors* of this Form 10-Q, Item 1A.—*Risk Factors* and Item 7.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2020 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 four market-oriented SBUs: **US and Utilities** (United States, Puerto Rico and El Salvador); **South America** (Chile, Colombia, Argentina and Brazil); **MCAC** (Mexico, Central America and the Caribbean); and **Eurasia** (Europe and Asia). For additional information regarding our business, see Item 1.—*Business* of our 2020 Form 10-K.

We have two lines of business: generation and utilities. Each of our SBUs participates in our first business line, generation, in which we own and/or operate power plants to generate and sell power to customers, such as utilities, industrial users, and other intermediaries. Our US and Utilities SBU participates in our second business line, utilities, in which 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.

Executive Summary

Compared with last year, third quarter diluted earnings per share from continuing operations increased \$0.98 to \$0.48. This increase reflects higher prior year impairments and losses on sale of businesses, and higher margins at our US and Utilities SBU at new renewables, Southland Energy, and Southland; partially offset by higher income tax expense and lower margins from our South America SBU.

Adjusted EPS, a non-GAAP measure, increased \$0.08 to \$0.50, mainly reflecting higher contributions from our US and Utilities SBU, including new renewables, Southland Energy, and Southland; and lower Parent Company interest expense; partially offset by lower contributions from our South America SBU and the impact of the inclusion of shares underlying the purchase contract component of our March 2021 equity units issuance.

Compared with last year, diluted earnings per share from continuing operations for the nine months ended September 30, 2021 increased \$0.72 to \$0.31. This increase is mainly driven by higher margins at our South America SBU largely due to net gains from early contract terminations at Angamos and higher generation at Chivor due to the life extension project completed in the prior year and better hydrology, higher margins at our US and Utilities SBU at Southland and Southland Energy, lower Parent Company interest expense due to realized gains on de-designated interest rate swaps and lower interest rates, a gain on remeasurement of our interest in sPower's development platform, and a gain due to the issuance of new shares by Fluence, our equity method investment, which was accounted for as a partial disposition; partially offset by higher current year impairments and higher income tax expense.

Adjusted EPS, a non-GAAP measure, increased \$0.11 to \$1.07, mainly reflecting higher contributions from our US and Utilities SBU, including new renewables and Southland Energy, higher generation at Chivor due to the life extension project completed in the prior year and better hydrology, and lower Parent Company interest expense due to realized gains on de-designated interest rate swaps and lower interest rates; partially offset by a higher adjusted tax rate and prior year impacts of a gain on sale of land in the U.S., incremental capitalized interest in Chile, recovery of previously expensed payments from customers in Chile, and the impact of the inclusion of shares underlying the purchase contract component of our March 2021 equity units issuance.



Accelerating the future of energy, together.

Business Overview

119 Generation
Facilities

6 Utility
Companies

Three Months Ended September 30,			
	2021		2020
Diluted earnings (loss) per share	\$ 0.48	\$	(0.50)
Adjusted EPS ⁽¹⁾	0.50		0.42

29,688 Gross
MW

31,667 GWh ⁽²⁾

Nine Months Ended September 30,			
	2021		2020
Diluted earnings (loss) per share	\$ 0.31	\$	(0.41)
Adjusted EPS ⁽¹⁾	1.07		0.96

Operating Margin (in millions)



Adjusted PTC ⁽¹⁾ (in millions)



Operating Cash Flow (in millions)



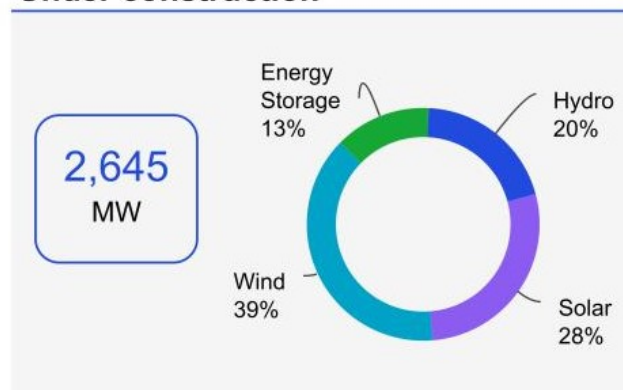
Key events in 2021

- Signed PPAs for 4,000 MW of renewables
- Fluence delivered or awarded a total of 3.7 GW and signed an agreement with Northvolt to co-develop next-generation battery technology

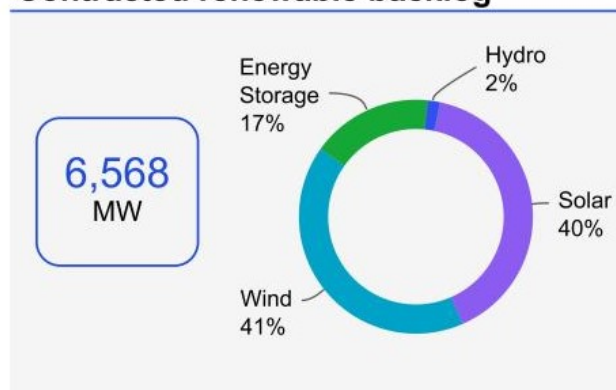
Strategic outlook

- 100% renewables backlog of 9,213 MW
- Sign 5 GW of renewable PPAs in 2021
- Targeting a reduction in coal-fired generation to below 10% of total generation by year-end 2025; goal to reach net zero from electricity by 2040

Under construction



Contracted renewable backlog



⁽¹⁾ See Item 2.—Management's Discussion and Analysis of Financial Condition and Results of Operations—SBU Performance Analysis—Non-GAAP Measures for reconciliation and definition.

⁽²⁾ GWh sold in 2020.

Overview of Strategic Performance

AES is leading the industry's transition to clean energy by investing in clean power growth and innovative technology businesses. The Company is well-positioned to benefit from very favorable trends in clean power generation, distribution, and supporting technologies.

- Year-to-date 2021, the Company completed construction or the acquisition of 643 MW of renewables and energy storage, primarily including:
 - 344 MW of solar and solar plus storage in the US at AES Clean Energy;
 - 159 MW Mandacaru and Salinas wind facility in Brazil;
 - 59 MW San Fernando solar facility in Colombia; and
 - 50 MW Bayasol solar facility in the Dominican Republic.
- Since the Company's second quarter 2021 earnings call in August, the Company has signed 1,088 MW of renewables and energy storage under long-term PPAs, primarily including 1,076 MW of solar, energy storage, and wind at AES Clean Energy in the US.
- Year-to-date 2021, the Company signed or agreed to acquire 4,000 MW of renewables and energy storage under long-term PPAs, bringing the Company's backlog to 9,213 MW expected to be completed through 2024, including:
 - 2,645 MW under construction; and
 - 6,568 MW of renewables signed under long-term PPAs.

Review of Consolidated Results of Operations (Unaudited)

(in millions, except per share amounts)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ change	% change	2021	2020	\$ change	% change
Revenue:								
US and Utilities SBU	\$ 1,327	\$ 1,061	\$ 266	25%	\$ 3,248	\$ 2,945	\$ 303	10%
South America SBU	896	850	46	5%	2,744	2,273	471	21%
MCAC SBU	559	442	117	26%	1,584	1,255	329	26%
Eurasia SBU	257	195	62	32%	804	634	170	27%
Corporate and Other	21	49	(28)	-57%	82	191	(109)	-57%
Eliminations	(24)	(52)	28	54%	(91)	(198)	107	54%
Total Revenue	3,036	2,545	491	19%	8,371	7,100	1,271	18%
Operating Margin:								
US and Utilities SBU	349	235	114	49%	621	491	130	26%
South America SBU	199	337	(138)	-41%	896	707	189	27%
MCAC SBU	138	137	1	1%	381	411	(30)	-7%
Eurasia SBU	46	42	4	10%	158	142	16	11%
Corporate and Other	31	23	8	35%	107	70	37	53%
Eliminations	(3)	(18)	15	83%	(11)	(34)	23	68%
Total Operating Margin	760	756	4	1%	2,152	1,787	365	20%
General and administrative expenses	(39)	(41)	2	-5%	(130)	(119)	(11)	9%
Interest expense	(242)	(290)	48	-17%	(669)	(741)	72	-10%
Interest income	71	64	7	11%	212	198	14	7%
Loss on extinguishment of debt	(22)	(54)	32	-59%	(41)	(95)	54	-57%
Other expense	(12)	(20)	8	-40%	(32)	(27)	(5)	19%
Other income	48	6	42	NM	274	60	214	NM
Gain (loss) on disposal and sale of business interests	22	(90)	112	NM	81	(117)	198	NM
Asset impairment expense	(29)	(849)	820	-97%	(1,374)	(855)	(519)	61%
Foreign currency transaction gains (losses)	29	2	27	NM	(8)	20	(28)	NM
Other non-operating expense	—	—	—	—%	—	(202)	202	-100%
Income tax benefit (expense)	(126)	147	(273)	NM	(75)	(55)	(20)	36%
Net equity in earnings (losses) of affiliates	25	(112)	137	NM	(15)	(106)	91	-86%
INCOME (LOSS) FROM CONTINUING OPERATIONS	485	(481)	966	NM	375	(252)	627	NM
Gain from disposal of discontinued businesses	—	—	—	—%	4	3	1	33%
NET INCOME (LOSS)	485	(481)	966	NM	379	(249)	628	NM
Less: Loss (income) from continuing operations attributable to noncontrolling interests and redeemable stock of subsidiaries	(142)	148	(290)	NM	(156)	(23)	(133)	NM
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ 343	\$ (333)	\$ 676	NM	\$ 223	\$ (272)	\$ 495	NM
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:								
Income (loss) from continuing operations, net of tax	\$ 343	\$ (333)	\$ 676	NM	\$ 219	\$ (275)	\$ 494	NM
Income from discontinued operations, net of tax	—	—	—	—%	4	3	1	33%
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	\$ 343	\$ (333)	\$ 676	NM	\$ 223	\$ (272)	\$ 495	NM
Net cash provided by operating activities	<u>\$ 775</u>	<u>\$ 1,267</u>	<u>\$ (492)</u>	-39%	<u>\$ 1,379</u>	<u>\$ 2,087</u>	<u>\$ (708)</u>	-34%

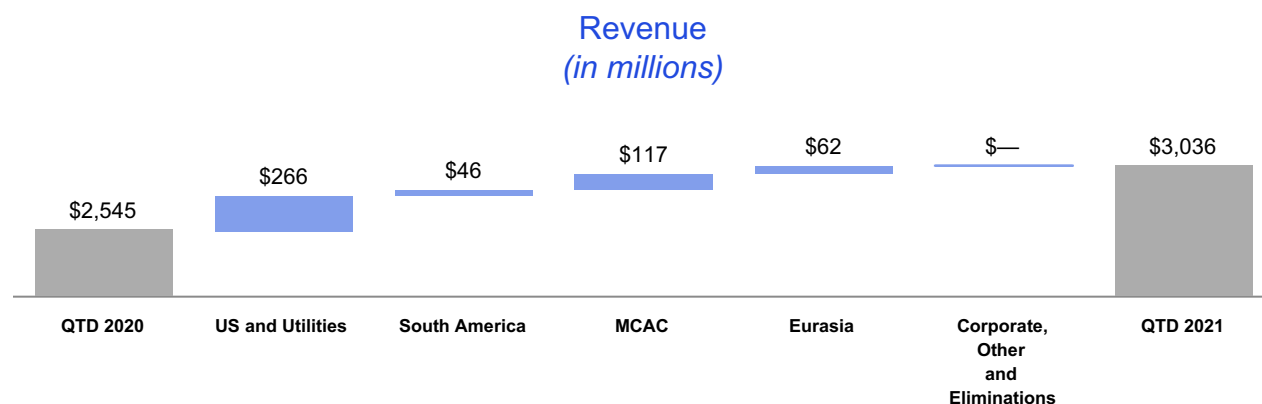
Components of Revenue, Cost of Sales, and Operating Margin — Revenue includes revenue earned from the sale of energy from our utilities and the production and sale of energy from our generation plants, which are classified as regulated and non-regulated, respectively, on the Condensed Consolidated Statements 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 expenses, 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.

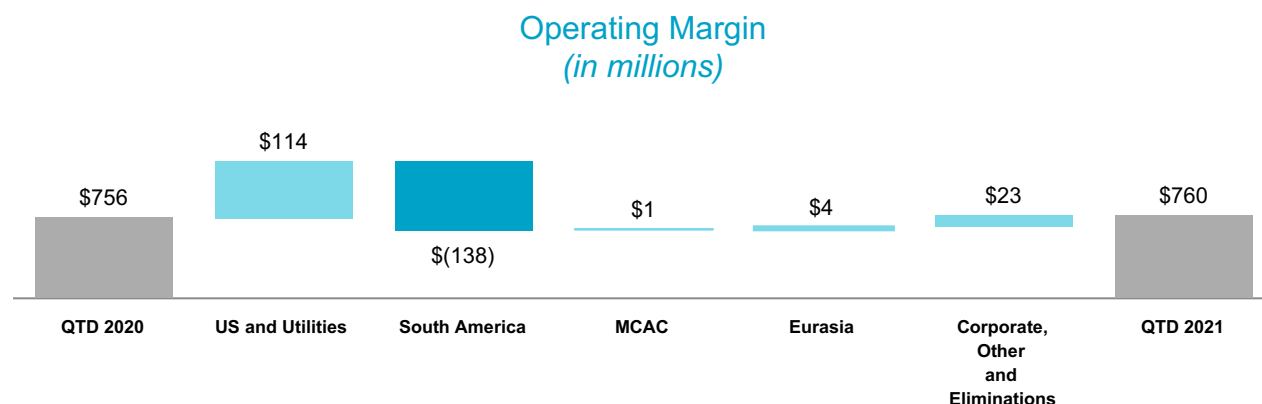
Consolidated Revenue and Operating Margin

Three Months Ended September 30, 2021



Consolidated Revenue — Revenue increased \$491 million, or 19%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, driven by:

- \$266 million in US and Utilities mainly driven by increases in capacity sales and in realized gains resulting from the commercial hedging strategy at Southland; higher demand at El Salvador due to the economic recovery from the COVID-19 impact; higher demand at AES Indiana due to favorable weather; and higher sales due to the timing of the commencement of the PPA annual put option period at Southland Energy;
- \$117 million in MCAC driven by higher LNG sales and higher contract sales in the Dominican Republic; higher pass-through fuel prices in Mexico; and higher contract sales in Panama due to increased demand; partially offset by the impact from the sale of Itabo in April 2021;
- \$62 million in Eurasia mainly driven by higher sales and generation in Bulgaria and Vietnam; and
- \$46 million in South America primarily driven by higher volume and generation at AES Brasil, partially due to the acquisition of the Ventus and Cubico wind complexes; and higher generation and prices (Resolution 440/2021) at Argentina.



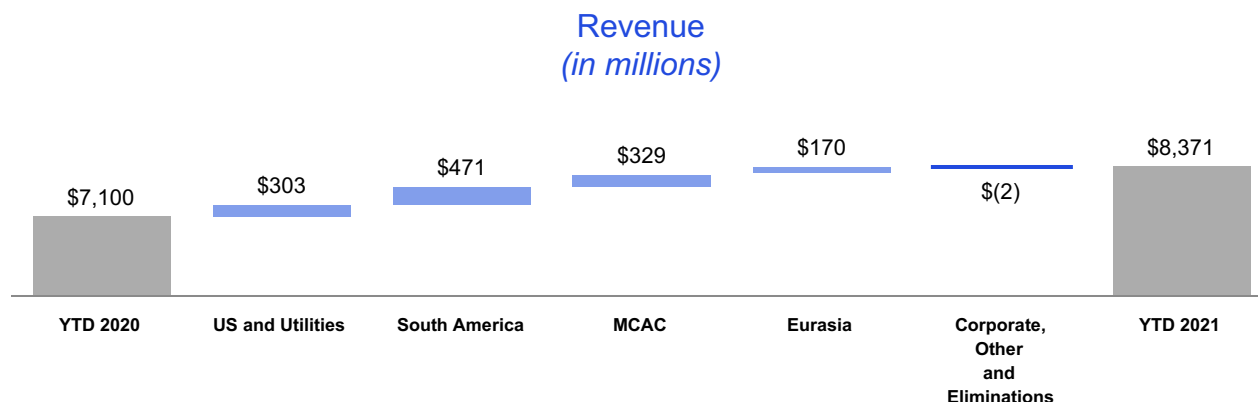
Consolidated Operating Margin — Operating margin increased \$4 million, or 1%, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, driven by:

- \$114 million in US and Utilities mainly driven by increases in capacity sales and in realized gains resulting from the commercial hedging strategy at Southland; higher sales due to the timing of the commencement of the PPA annual put option period at Southland Energy; and decreased maintenance costs at Puerto Rico; partially offset by increased costs associated with growing and accelerating the development pipeline at Clean Energy; and
- \$23 million at Corporate and Other, mainly eliminated at consolidated level, driven by increases in IT costs reallocated to the operating segments and premiums earned by the AES self-insurance company.

These favorable impacts were partially offset by a decrease of:

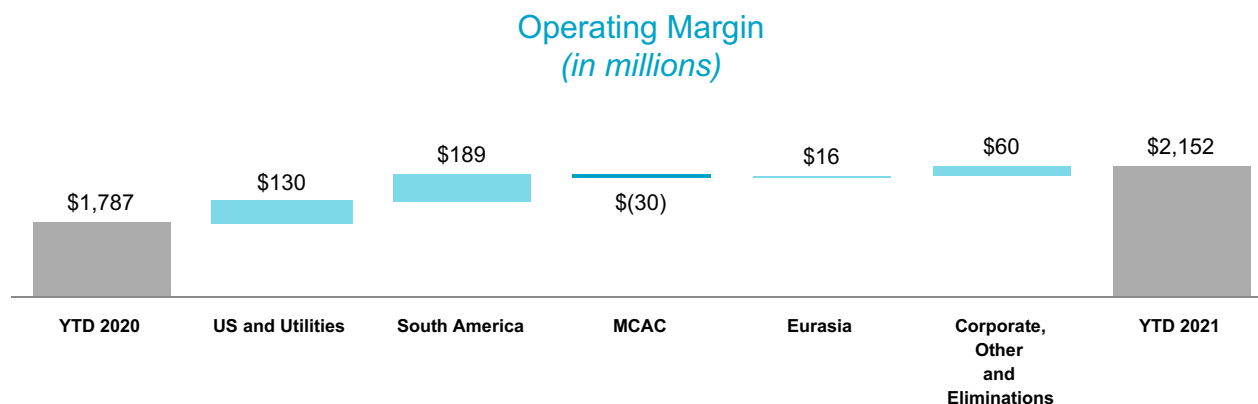
- \$138 million in South America primarily driven by a decrease in the revenue recognized at Angamos for the early termination of contracts with Minera Escondida and Minera Spence; higher spot prices on energy purchases in Chile; higher energy purchases due to drier hydrology at Tietê; and unfavorable FX impact.

Nine Months Ended September 30, 2021



Consolidated Revenue — Revenue increased \$1.3 billion, or 18%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, driven by:

- \$471 million in South America primarily driven by the revenue recognized at Angamos for the early termination of contracts with Minera Escondida and Minera Spence; higher generation and prices (Resolution 440/2021) at Argentina; higher availability at Colombia from higher reservoir levels; and higher volume and generation at AES Brasil, partially due to the acquisition of the Ventus and Cubico wind complexes; partially offset by unfavorable FX impact and by the prior period recovery of previously expensed payments from customers in Chile;
- \$329 million in MCAC driven by higher LNG sales and higher contract sales in the Dominican Republic; higher pass-through fuel prices in Mexico; and higher contract sales in Panama due to increased demand; partially offset by the impact from the sale of Itabo in April 2021;
- \$303 million in US and Utilities driven by higher sales at Southland Energy due to the timing of the commencement of the PPA annual put option period; higher demand at El Salvador due to the economic recovery from the COVID-19 impact; higher demand at AES Indiana due to favorable weather; and increases in capacity sales and in realized gains resulting from the commercial hedging strategy at Southland; partially offset by decreased capacity at DPL due to its exit from the generation business; and
- \$170 million in Eurasia mainly driven by higher sales and generation in Bulgaria.



Consolidated Operating Margin — Operating margin increased \$365 million, or 20%, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, driven by:

- \$189 million in South America primarily due to the drivers discussed above; partially offset by higher energy purchases due to drier hydrology at Tietê;

- \$130 million in US and Utilities primarily from higher sales at Southland Energy due to the commencement of the PPA annual put option period; increases in capacity sales and in realized gains resulting from the commercial hedging strategy at Southland; and higher demand at El Salvador due to the economic recovery from the COVID-19 impact; partially offset by increased costs associated with growing and accelerating the development pipeline at Clean Energy and by higher maintenance expenses at AES Indiana;
- \$60 million at Corporate and Other, mainly eliminated at consolidated level, driven by increases in IT costs reallocated to the operating segments and premiums earned by the AES self-insurance company; and
- \$16 million in Eurasia mainly driven by lower fixed costs at OPGC due to its sale in December 2020 and favorable FX impact and higher energy prices in Bulgaria.

These favorable impacts were partially offset by a decrease of:

- \$30 million in MCAC mainly driven by the impact from the sale of Itabo in April 2021; the disconnection of the Estrella del Mar I power barge in the prior year; and decreased availability and higher fixed costs in Mexico; partially offset by higher LNG sales in the Dominican Republic driven by the Eastern Pipeline COD in 2020 and by higher demand and better hydrology in Panama.

See Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations*—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 \$2 million, or 5%, to \$39 million for the three months ended September 30, 2021, compared to \$41 million for the three months ended September 30, 2020, with no material drivers.

General and administrative expenses increased \$11 million, or 9%, to \$130 million for the nine months ended September 30, 2021, compared to \$119 million for the nine months ended September 30, 2020, primarily due to an increase in business development activity, including costs at Clean Energy that had previously been incurred at sPower and reported within earnings from equity affiliates.

Interest expense

Interest expense decreased \$48 million, or 17%, to \$242 million for the three months ended September 30, 2021, compared to \$290 million for the three months ended September 30, 2020. This decrease is primarily due to lower interest rates related to refinancing at the Parent Company, lower interest expense at Angamos due to debt prepayment in 2020 and lower monetary correction due to the GSF settlement in March 2021.

Interest expense decreased \$72 million, or 10%, to \$669 million for the nine months ended September 30, 2021, compared to \$741 million for the nine months ended September 30, 2020. This decrease is primarily due to realized gains on de-designated interest rate swaps and lower interest rates related to refinancing at the Parent Company and lower interest expense at Angamos due to debt prepayment in 2020, partially offset by prior period incremental capitalized interest in Chile.

Interest income

Interest income increased \$7 million, or 11%, to \$71 million for the three months ended September 30, 2021, compared to \$64 million for the three months ended September 30, 2020 and increased \$14 million, or 7%, to \$212 million for the nine months ended September 30, 2021, compared to \$198 million for the nine months ended September 30, 2020, primarily due to sales-type lease receivables at AES Energy Storage Alamitos project and higher CAMMESA interest rates on receivables in Argentina, partially offset by lower loan receivable balance in Vietnam.

Loss on extinguishment of debt

Loss on extinguishment of debt decreased \$32 million, or 59%, to \$22 million for the three months ended September 30, 2021, compared to \$54 million for the three months ended September 30, 2020, primarily due to prior year losses of \$34 million at DPL and \$16 million resulting from the Panama refinancing in 2020, partially offset by a loss at AES Andes of \$14 million resulting from the refinancing of senior notes in July 2021.

Loss on extinguishment of debt decreased \$54 million, or 57%, to \$41 million for the nine months ended September 30, 2021, compared to \$95 million for the nine months ended September 30, 2020, primarily due to the drivers noted above as well as the loss of \$37 million at the Parent Company resulting from the redemption of senior notes in 2020, partially offset by the loss of \$14 million at Andres due to the refinancing in May 2021.

See Note 8—*Debt* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Other income and expense

Other income increased \$42 million to \$48 million for the three months ended September 30, 2021, compared to \$6 million for the three months ended September 30, 2020, primarily due to the current year gain on remeasurement of contingent consideration at Clean Energy and a gain on remeasurement of our equity interest in Gas Natural Atlántico II, S. de. R.L.'s assets to their acquisition-date fair value.

Other income increased \$214 million to \$274 million for the nine months ended September 30, 2021, compared to \$60 million for the nine months ended September 30, 2020, primarily due to the current year gain on remeasurement of our equity interest in the sPower development platform to its acquisition-date fair value, recognized as part of the merger to form AES Clean Energy Development, partially offset by the prior year gain on sale of Redondo Beach land at Southland.

Other expense decreased \$8 million to \$12 million for the three months ended September 30, 2021, compared to \$20 million for the three months ended September 30, 2020, primarily due to compliance with an arbitration decision in 2020.

Other expense increased \$5 million to \$32 million for the nine months ended September 30, 2021, compared to \$27 million for the nine months ended September 30, 2020, primarily due to a current year loss recognized at commencement of a sales-type lease at AES Renewable Holdings, partially offset by compliance with an arbitration decision in 2020.

See Note 15—*Other Income and Expense*, Note 7—*Investments in and Advances to Affiliates*, and Note 19—*Acquisitions* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Gain (loss) on disposal and sale of business interests

Gain on disposal and sale of business interests was \$22 million for the three months ended September 30, 2021, primarily due to the gain on sale of Guacolda, partially offset by the loss on the partial disposition of the Company's investment in Uplight, as compared to a loss of \$90 million for the three months ended September 30, 2020, primarily due to the loss on sale of Uruguaiiana.

Gain on disposal and sale of business interests was \$81 million for the nine months ended September 30, 2021, primarily due the the issuance of new shares by Fluence, our equity method investment, to a new investor, which AES has accounted for as a gain on the partial disposition of its investment in Fluence, and the gain on sale of Guacolda, partially offset by the loss on the partial disposition of the Company's investment in Uplight, as compared to a loss of \$117 million for the nine months ended September 30, 2020, primarily due to the loss on sale of Uruguaiiana and the settlement of arbitration related to the sale of Kazakhstan HPPs.

See Note 7—*Investments in and Advances to Affiliates* and Note 18—*Held-For-Sale and Dispositions* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Asset impairment expense

Asset impairment expense decreased \$820 million to \$29 million for the three months ended September 30, 2021, compared to \$849 million for the three months ended September 30, 2020. This decrease was primarily due to the \$564 million and \$213 million impairments related to the Angamos and Ventanas 1 & 2 coal-fired plants in Chile in the prior year and the \$38 million impairment of the generation facility in Hawaii during 2020.

Asset impairment expense increased \$519 million to \$1.4 billion for the nine months ended September 30, 2021, compared to \$855 million for the nine months ended September 30, 2020. This increase was primarily due to impairments of \$649 million and \$155 million related to AES Andes' commitment to accelerate the retirement of the Ventanas 3 & 4 and Angamos coal-fired plants, respectively, a \$475 million impairment at Puerto Rico associated with the economic costs and reputational risks of disposal of coal combustion residuals off island, and a \$67 million impairment at the Mountain View I & II wind facilities related to a repowering project that will result in decommissioning the majority of the existing wind turbines in advance of their depreciable lives. The increase was partially offset by the \$564 million and \$213 million impairments related to the Angamos and Ventanas 1 & 2 coal-fired plants in Chile in the prior year and the \$38 million impairment of the generation facility in Hawaii during 2020.

See Note 16—*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,	
	2021	2020	2021	2020
Argentina	\$ 18	\$ (4)	\$ (22)	\$ (11)
Corporate	(3)	4	(4)	8
Dominican Republic	(1)	—	(2)	9
Chile	6	3	16	13
Brazil	6	—	2	—
Other	3	(1)	2	1
Total ⁽¹⁾	\$ 29	\$ 2	\$ (8)	\$ 20

⁽¹⁾ Includes gains of \$53 million and \$2 million on foreign currency derivative contracts for the three months ended September 30, 2021 and 2020, respectively, and gains of \$8 million and gains of \$20 million on foreign currency derivative contracts for the nine months ended September 30, 2021 and 2020, respectively.

The Company recognized net foreign currency transaction gains of \$29 million for the three months ended September 30, 2021, primarily due to unrealized gains on foreign currency derivatives related to government receivables in Argentina.

The Company recognized net foreign currency transaction losses of \$8 million for the nine months ended September 30, 2021, primarily due to unrealized losses on foreign currency derivatives related to government receivables in Argentina, partially offset by unrealized derivative gains on foreign currency derivatives in South America due to the depreciating Colombian peso.

The Company recognized net foreign currency transaction gains of \$2 million for the three months ended September 30, 2020 with no material drivers.

The Company recognized net foreign currency transaction gains of \$20 million for the nine months ended September 30, 2020, primarily due to realized gains on foreign currency derivatives in South America due to the depreciating Colombian peso, gains in the Dominican Republic due to the depreciating Dominican peso, and gains at the Parent Company resulting from the appreciation of intercompany receivables denominated in Euro, partially offset by losses in Argentina due to depreciating receivables denominated in the Argentine peso.

Other non-operating expense

Other non-operating expense was \$202 million for the nine months ended September 30, 2020. In March 2020, the Company recognized a \$43 million other-than-temporary impairment of the OPGC equity method investment due to the economic slowdown. In June 2020, the Company agreed to sell its entire stake in the OPGC investment, resulting in an additional other-than-temporary impairment of \$158 million. There were no other non-operating expenses during the three and nine months ended September 30, 2021.

See Note 7—*Investments in and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Income tax benefit (expense)

Income tax expense was \$126 million for the three months ended September 30, 2021, compared to income tax benefit of \$147 million for the three months ended September 30, 2020. The Company's effective tax rates were 22% and 28% for the three months ended September 30, 2021 and 2020, respectively. This net decrease in the effective tax rate was primarily due to the 2021 benefit associated with the release of valuation allowance due to a change in expected realizability of net operating loss carryforwards at one of our Brazilian subsidiaries. The third quarter 2020 effective tax rate was impacted by the tax benefit on the Company's investment in Guacolda relating to equity losses for the impairment of long-lived assets. Partially offsetting this tax benefit was an unfavorable impact from the loss on sale of the Company's entire interest in AES Uruguiana in 2020.

Income tax expense increased \$20 million, or 36%, to \$75 million for the nine months ended September 30, 2021, compared to \$55 million for the nine months ended September 30, 2020. The Company's effective tax rates were 16% and (60)% for the nine months ended September 30, 2021 and 2020, respectively. This net change in the effective tax rate was primarily due to the impact of the aforementioned valuation allowance release benefit, as well as asset impairments in Chile and Puerto Rico recorded in 2021. The prior year effective tax rate was impacted by both the impact of the other-than-temporary impairment of the OPGC equity method investment and the loss on sale of the Company's entire interest in AES Uruguiana. These impacts were partially offset by the recognition of

the 2020 tax benefit related to a depreciating Peso in certain of our Argentine subsidiaries, as well as the aforementioned impact of the Company's investment in Guacolda.

See Note 16—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for details of the asset impairments and Note 7—*Investments In and Advances to Affiliates* included in Item 1.—*Financial Statements* of this Form 10-Q for further information regarding the other-than-temporary impairment. See Note 18—*Held-for-Sale and Dispositions* included in Item 1.—*Financial Statements* of this Form 10-Q for details of the sale of the Company's entire interest in AES Uruguiana.

Our effective tax rate reflects the tax effect of significant operations outside the U.S., which are generally taxed at rates different than the U.S. statutory rate of 21%. Furthermore, our foreign earnings may be subjected to incremental U.S. taxation under the GILTI rules. 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 (losses) of affiliates

Net equity in earnings of affiliates increased \$137 million to \$25 million for the three months ended September 30, 2021, compared to losses of \$112 million for the three months ended September 30, 2020. This increase was driven by \$106 million of losses at Gener in 2020 mainly due to a long-lived asset impairment at its investee, Guacolda, and the suspension of equity method accounting at Guacolda in September 2020, and a \$31 million increase at sPower due to higher allocation of earnings driven by renewable projects that came online in 2021.

Net equity in losses of affiliates decreased \$91 million, or 86%, to \$15 million for the nine months ended September 30, 2021, compared to \$106 million for the nine months ended September 30, 2020. This decrease was driven by \$75 million of losses at Gener in 2020 mainly due to a long-lived asset impairment at its investee, Guacolda, and the suspension of equity method accounting at Guacolda in September 2020, and a \$49 million higher allocation of earnings at sPower driven by renewable projects that came online in 2021. This decrease in losses was partially offset by an increase in losses at Fluence of \$15 million due to timing, an incident in which inventory was damaged, and higher overhead costs associated with the growing business as well as a \$13 million increase in losses in Mexico due to lower income tax in 2020 as a result of foreign currency devaluation.

See Note 7—*Investments 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 and redeemable stock of subsidiaries

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased \$290 million, to income of \$142 million for the three months ended September 30, 2021, compared to a loss of \$148 million for the three months ended September 30, 2020. This increase was primarily due to:

- Higher earnings in Chile primarily due to prior year long-lived asset impairments at AES Andes;
- Higher deferred tax benefits recorded at AES Brasil, partially offset by lower allocation of earnings due to change in NCI partner ownership;
- Allocation of earnings at Southland Energy to noncontrolling interests;
- Higher earnings at AES Renewable Holdings from an increase in businesses commencing operations; and
- Higher earnings in Panama primarily due to the prior year asset impairment and loss on extinguishment of debt.

These increases were partially offset by:

- Increased costs associated with growing and accelerating the U.S. renewables development pipeline; and
- Lower earnings in the Dominican Republic due to the sale of Itabo in the second quarter.

Net income attributable to noncontrolling interests and redeemable stock of subsidiaries increased \$133 million to \$156 million for the nine months ended September 30, 2021, compared to \$23 million for the nine months ended September 30, 2020. This increase was primarily due to:

- Higher earnings in Chile due to net gains from early contract terminations at Angamos, gain on sale of Guacolda, and net higher long-lived asset impairments in the prior year;
- Allocation of earnings at Southland Energy to noncontrolling interests;

- Higher deferred tax benefits recorded at AES Brasil, partially offset by lower allocation of earnings due to change in NCI partner ownership;
- Higher earnings in Colombia due to the life extension project at the Chivor hydroelectric plant completed in the prior year and better hydrology; and
- Higher earnings in Panama primarily due to the prior year asset impairment and loss on extinguishment of debt.

These increases were partially offset by:

- Lower earnings in the Dominican Republic due to the sale of Itabo in the second quarter; and
- Increased costs associated with growing and accelerating the U.S. renewables development pipeline.

Net income (loss) attributable to The AES Corporation

Net income attributable to The AES Corporation increased \$676 million, to income of \$343 million for the three months ended September 30, 2021, compared to a loss of \$333 million for the three months ended September 30, 2020. This increase was primarily due to:

- Prior year long-lived asset impairments at AES Andes, Hawaii, and Guacolda;
- Higher margins at our US and Utilities SBU primarily due to favorable price variances under the commercial hedging strategy at Southland; and
- Prior year loss on sale of Uruguaiana.

These increases were partially offset by:

- Higher income tax expense.

Net income attributable to The AES Corporation increased \$495 million, to income of \$223 million for the nine months ended September 30, 2021, compared to a loss of \$272 million for the nine months ended September 30, 2020. This increase was primarily due to:

- Higher margins at our South America SBU due to net gains from early contract terminations at Angamos;
- Higher margins at our US and Utilities SBU primarily due to favorable price variances under the commercial hedging strategy at Southland and commencement of the PPA put option period at Southland Energy;
- Lower Parent interest expense due to realized gains on de-designated interest rate swaps and lower interest rates;
- Gain on remeasurement of our equity interest in the sPower development platform to acquisition-date fair value;
- Gain due to the issuance of new shares by Fluence, which was accounted for as a partial disposition;
- Prior year loss on sale of Uruguaiana; and
- Prior year losses on extinguishment of debt at the Parent and DPL.

These increases were partially offset by:

- Net higher impairments in the current year; and
- Higher income tax expense.

SBU Performance Analysis

Non-GAAP Measures

Adjusted Operating Margin, Adjusted PTC, and Adjusted EPS are non-GAAP supplemental measures that are used by management and external users of our condensed consolidated financial statements such as investors, industry analysts, and lenders.

During the year ended December 31, 2020, the Company changed the definitions of Adjusted Operating Margin, Adjusted PTC, and Adjusted EPS to exclude net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. We believe the inclusion of the effects of this non-recurring transaction would result in a lack of comparability in our

results of operations and would distort the metrics that our investors use to measure us.

Effective January 1, 2021, the Company changed the definitions of Adjusted Operating Margin, Adjusted PTC, and Adjusted EPS to remove the adjustment for costs directly associated with a major restructuring program, including, but not limited to, workforce reduction efforts, relocations, and office consolidation. As this adjustment was specific to the major restructuring program announced by the Company in 2018, we believe removing this adjustment from our non-GAAP definitions provides simplification and clarity for our investors.

Adjusted Operating Margin

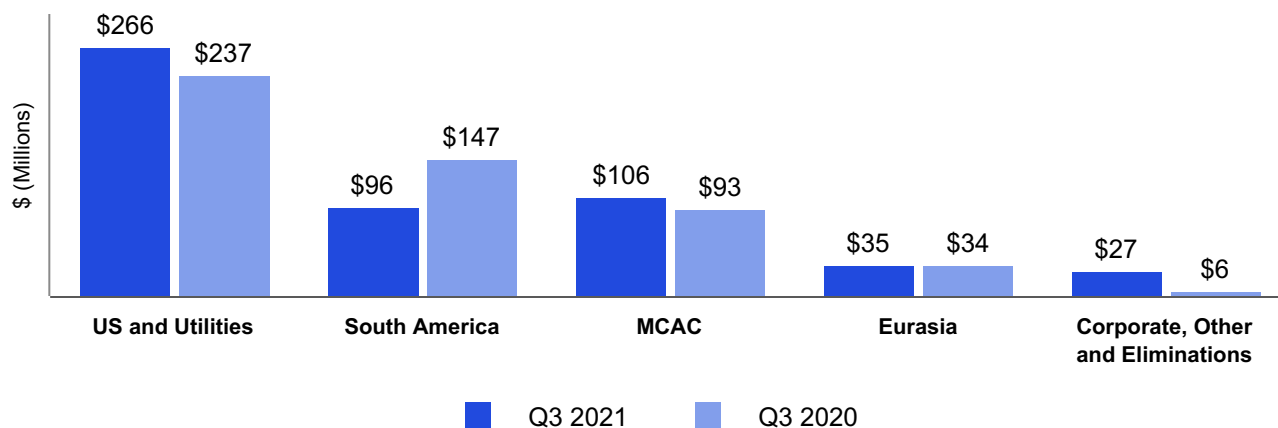
We define Adjusted Operating Margin as Operating Margin, adjusted for the impact of NCI, excluding (a) unrealized gains or losses related to derivative transactions; (b) benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures; and (c) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. The allocation of HLBV earnings to noncontrolling interests is not adjusted out of Adjusted Operating Margin. See *Review of Consolidated Results of Operations* for the definition of Operating Margin.

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 gains or losses related to derivative transactions and strategic decisions to dispose of or acquire business interests. Adjusted Operating Margin should not be construed as an alternative to *Operating Margin*, which is determined in accordance with GAAP.

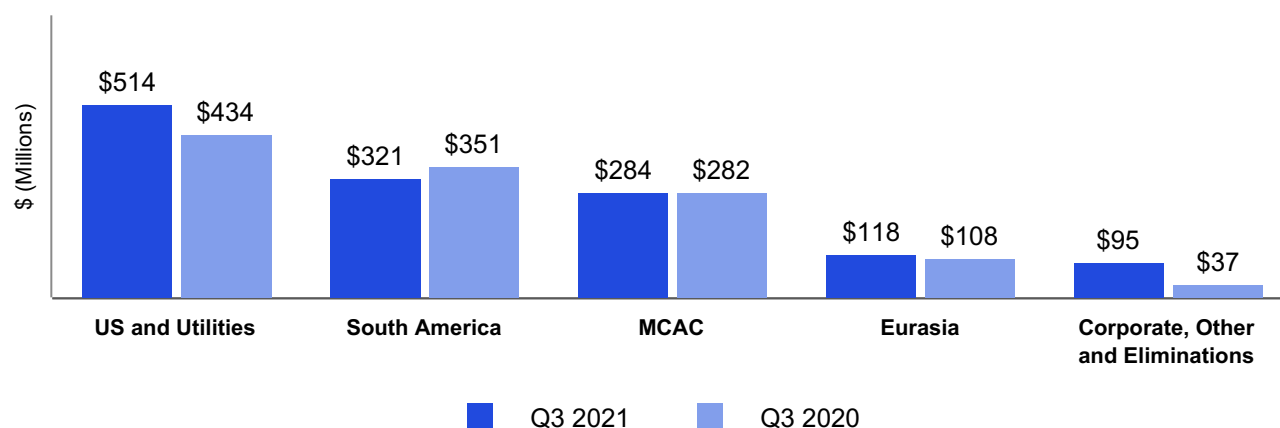
Reconciliation of Adjusted Operating Margin (in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating Margin	\$ 760	\$ 756	\$ 2,152	\$ 1,787
Noncontrolling interests adjustment ⁽¹⁾	(170)	(207)	(577)	(530)
Unrealized derivative (gains) losses	(26)	26	5	9
Disposition/acquisition losses	2	14	8	18
Net gains from early contract terminations at Angamos	(36)	(72)	(256)	(72)
Total Adjusted Operating Margin	<u>\$ 530</u>	<u>\$ 517</u>	<u>\$ 1,332</u>	<u>\$ 1,212</u>

⁽¹⁾ The allocation of HLBV earnings to noncontrolling interests is not adjusted out of Adjusted Operating Margin.

Adjusted Operating Margin (QTD)



Adjusted Operating Margin (YTD)



Adjusted PTC

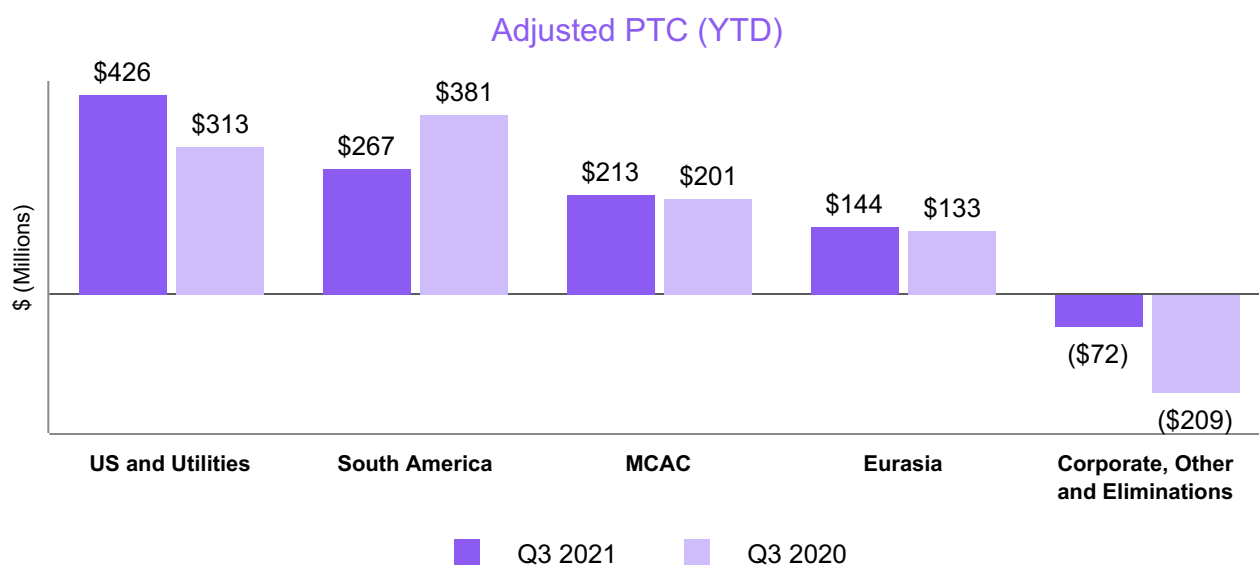
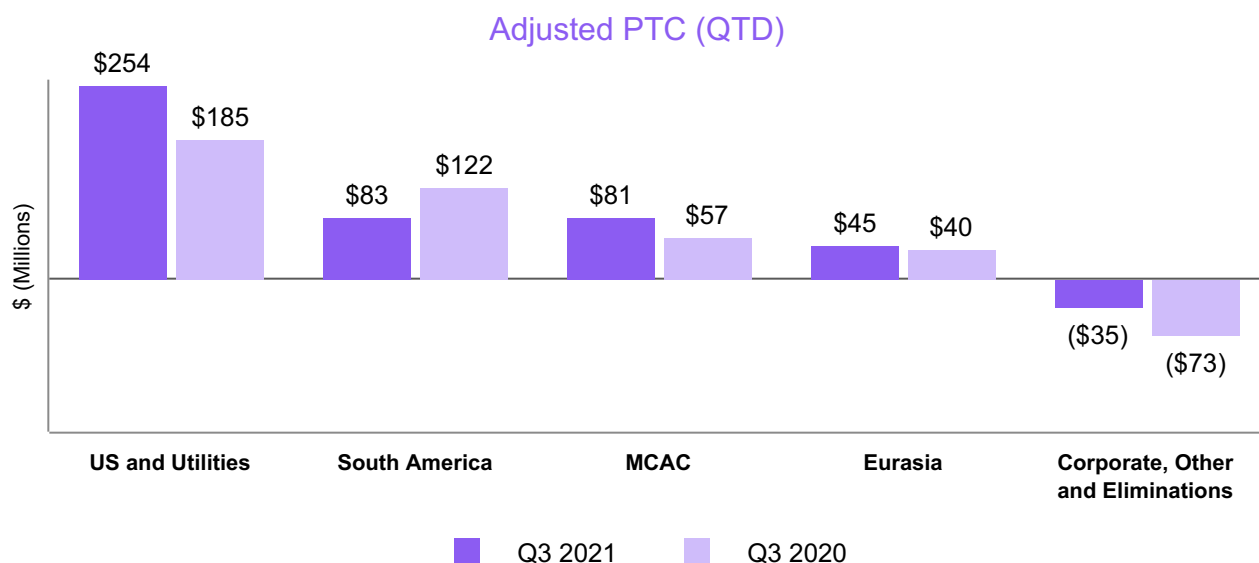
We define Adjusted PTC as pre-tax income from continuing operations attributable to The AES Corporation excluding gains or losses of the consolidated entity due to (a) unrealized gains or losses related to derivative transactions and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; and (f) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence. 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 expenses* in Corporate and Other, 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 the most relevant measure considered in the Company's internal evaluation of the financial performance of its segments. Factors in this determination include the variability due to unrealized gains or losses related to derivative transactions or equity securities remeasurement, unrealized foreign currency gains or losses, losses due to impairments, strategic decisions to dispose of or acquire business interests or retire debt, and the non-recurring nature of the impact of the early contract terminations at Angamos, 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. 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.

Adjusted PTC should not be construed as an alternative to *income from continuing operations attributable to The AES Corporation*, which is determined in accordance with GAAP.

Reconciliation of Adjusted PTC (in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Income (loss) from continuing operations, net of tax, attributable to The AES Corporation	\$ 343	\$ (333)	\$ 219	\$ (275)
Income tax expense (benefit) from continuing operations attributable to The AES Corporation	151	(98)	91	38
Pre-tax contribution	494	(431)	310	(237)
Unrealized derivative and equity securities losses (gains)	(53)	26	24	24
Unrealized foreign currency losses (gains)	11	(4)	5	(7)
Disposition/acquisition losses (gains)	(33)	100	(277)	130
Impairment losses	18	657	1,121	878
Loss on extinguishment of debt	27	55	51	103
Net gains from early contract terminations at Angamos	(36)	(72)	(256)	(72)
Total Adjusted PTC	\$ 428	\$ 331	\$ 978	\$ 819



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 and equity securities; (b) unrealized foreign currency gains or losses; (c) gains, losses, benefits and costs associated with dispositions and acquisitions of business interests, including early plant closures, and the tax impact from the repatriation of sales proceeds, and gains and losses recognized at commencement of sales-type leases; (d) losses due to impairments; (e) gains, losses and costs due to the early retirement of debt; (f) net gains at Angamos, one of our businesses in the South America SBU, associated with the early contract terminations with Minera Escondida and Minera Spence; and (g) tax benefit or expense related to the enactment effects of 2017 U.S. tax law reform and related regulations and any subsequent period adjustments related to enactment effects.

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 or equity securities remeasurement, unrealized foreign currency gains or losses, losses due to impairments, strategic decisions to dispose of or acquire business interests or retire debt, the one-time impact of the 2017 U.S. tax law reform and subsequent period adjustments related to enactment effects, and the non-recurring nature of the impact of the early contract terminations at Angamos, which affect results in a given period or periods.

Adjusted EPS should not be construed as an alternative to *diluted earnings per share from continuing operations*, which is determined in accordance with GAAP.

Reconciliation of Adjusted EPS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Diluted earnings (loss) per share from continuing operations	\$ 0.48	\$ (0.50)	\$ 0.31	\$ (0.41)
Unrealized derivative and equity securities losses (gains)	(0.07) ⁽¹⁾	0.04 ⁽²⁾	0.03 ⁽³⁾	0.04 ⁽²⁾
Unrealized foreign currency losses (gains)	0.01	—	0.01	(0.01)
Disposition/acquisition losses (gains)	(0.05) ⁽⁴⁾	0.15 ⁽⁵⁾	(0.40) ⁽⁶⁾	0.20 ⁽⁷⁾
Impairment losses	0.03 ⁽⁸⁾	0.98 ⁽⁹⁾	1.61 ⁽¹⁰⁾	1.31 ⁽¹¹⁾
Loss on extinguishment of debt	0.04 ⁽¹²⁾	0.08 ⁽¹³⁾	0.07 ⁽¹⁴⁾	0.15 ⁽¹⁵⁾
Net gains from early contract terminations at Angamos	(0.05) ⁽¹⁶⁾	(0.11) ⁽¹⁷⁾	(0.37) ⁽¹⁶⁾	(0.11) ⁽¹⁷⁾
U.S. Tax Law Reform Impact	—	—	—	0.02 ⁽¹⁸⁾
Less: Net income tax expense (benefit)	0.11 ⁽¹⁹⁾	(0.22) ⁽²⁰⁾	(0.19) ⁽²¹⁾	(0.23) ⁽²⁰⁾
Adjusted EPS	\$ 0.50	\$ 0.42	\$ 1.07	\$ 0.96

⁽¹⁾ Amount primarily relates to unrealized gains on power and commodities swaps at Southland of \$22 million, or \$0.03 per share, and unrealized gains on foreign currency derivatives in Argentina associated with government receivables of \$15 million, or \$0.02 per share, and in Brazil of \$11 million, or \$0.02 per share.

⁽²⁾ Amounts primarily relate to unrealized derivative losses at Southland of \$20 million, or \$0.03 per share, for the three months ended September 30, 2020, and unrealized derivative losses in Argentina mainly associated with foreign currency derivatives on government receivables of \$18 million, or \$0.03 per share, for the nine months ended September 30, 2020.

⁽³⁾ Amount primarily relates to net unrealized derivative losses in Argentina mainly associated with foreign currency derivatives on government receivables of \$26 million, or \$0.04 per share.

⁽⁴⁾ Amount primarily relates to a gain on remeasurement of contingent consideration at Clean Energy of \$24 million, or \$0.03 per share, and gain on sale of Guacolda of \$22 million, or \$0.03 per share, partially offset by loss on Uplight transaction with shareholders of \$11 million, or \$0.02 per share.

⁽⁵⁾ Amount primarily relates to loss on sale of Uruguiana of \$85 million, or \$0.13 per share, and advisor fees associated with the successful acquisition of additional ownership interest in AES Brasil of \$9 million, or \$0.01 per share.

⁽⁶⁾ Amount primarily relates to the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$214 million, or \$0.31 per share, and gain on Fluence issuance of shares of \$60 million, or \$0.09 per share, a gain on remeasurement of contingent consideration at Clean Energy of \$24 million, or \$0.03 per share, and gain on sale of Guacolda of \$22 million, or \$0.03 per share, partially offset by day-one loss recognized at commencement of a sales-type lease at AES Renewable Holdings of \$13 million, or \$0.02 per share, and loss on Uplight transaction with shareholders of \$11 million, or \$0.02 per share.

⁽⁷⁾ Amount primarily relates to loss on sale of Uruguiana of \$85 million, or \$0.13 per share, loss on sale of the Kazakhstan HPPs of \$30 million, or \$0.05 per share, as result of the final arbitration decision, and advisor fees associated with the successful acquisition of additional ownership interest in AES Brasil of \$9 million, or \$0.01 per share.

⁽⁸⁾ Amount primarily relates to asset impairments at Clean Energy of \$14 million, or \$0.02 per share, and at Panama of \$5 million, or \$0.01 per share.

⁽⁹⁾ Amount primarily relates to asset impairments at AES Andes of \$523 million, or \$0.78 per share, at our Guacolda equity affiliate impacting equity earnings by \$81 million, or \$0.12 per share, at Hawaii of \$38 million, or \$0.06 per share, and at Panama of \$15 million, or \$0.02 per share.

⁽¹⁰⁾ Amount primarily relates to asset impairments at AES Andes of \$540 million, or \$0.77 per share, at Puerto Rico of \$475 million, or \$0.68 per share, at Mountain View of \$67 million, or \$0.10 per share, at our sPower equity affiliate, impacting equity earnings by \$21 million, or \$0.03 per share, and at Clean Energy of \$14 million, or \$0.02 per share.

⁽¹¹⁾ Amount relates to asset impairments at AES Andes of \$527 million, or \$0.79 per share, other-than-temporary impairment of OPGC of \$201 million, or \$0.30 per share, impairment at our Guacolda equity affiliate impacting equity earnings by \$81 million, or \$0.12 per share, impairment at Hawaii of \$38 million, or \$0.06 per share, impairment at Panama of \$15 million, or \$0.02 per share, and impairments at our sPower equity affiliate, impacting equity earnings by \$16 million, or

\$0.02 per share.

- (12) Amount relates to losses on early retirement of debt at AES Andes of \$15 million, or \$0.02 per share, and Argentina of \$8 million, or \$0.01 per share.
- (13) Amount primarily relates to losses on early retirement of debt at DPL of \$32 million, or \$0.05 per share, Panama of \$11 million, or \$0.02 per share, and Angamos of \$10 million, or \$0.01 per share.
- (14) Amount primarily relates to losses on early retirement of debt at Andres and Los Mina of \$15 million, or \$0.02 per share, at AES Andes of \$15 million, or \$0.02 per share, and at Argentina of \$8 million, or \$0.01 per share.
- (15) Amount primarily relates to losses on early retirement of debt at the Parent Company of \$37 million, or \$0.06 per share, DPL of \$32 million, or \$0.05 per share, Panama of \$11 million, or \$0.02 per share, and Angamos of \$10 million, or \$0.02 per share.
- (16) Amounts relate to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$37 million, or \$0.05 per share, and \$256 million, or \$0.37 per share, for the three and nine months ended September 30, 2021, respectively.
- (17) Amounts relate to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$72 million, or \$0.11 per share.
- (18) Amount represents adjustment to tax law reform remeasurement due to incremental deferred taxes related to DPL of \$16 million, or \$0.02 per share.
- (19) Amount primarily relates to a reduction in the income tax benefit associated with the impairment at Puerto Rico of \$44 million, or \$0.06 per share, income tax expense related to the gain on sale of Guacolda of \$6 million, or \$0.01 per share, and income tax expense related to the gain on remeasurement of contingent consideration at Clean Energy of \$6 million, or \$0.01 per share.
- (20) Amounts primarily relate to income tax benefits associated with the impairments at AES Andes and Guacolda of \$147 million, or \$0.22 per share.
- (21) Amount primarily relates to income tax benefits associated with the impairments at AES Andes of \$174 million, or \$0.25 per share, at Puerto Rico of \$70 million, or \$0.10 per share, and at Mountain View of \$18 million, or \$0.03 per share, partially offset by income tax expense related to net gains at Angamos associated with the early contract terminations with Minera Escondida and Minera Spence of \$83 million, or \$0.12 per share, income tax expense related to the gain on remeasurement of our equity interest in sPower to acquisition-date fair value of \$47 million, or \$0.07 per share, and income tax expense related to the gain on Fluence issuance of shares of \$13 million, or \$0.02 per share.

US and Utilities SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Operating Margin	\$ 349	\$ 235	\$ 114	49%	\$ 621	\$ 491	\$ 130	26%
Adjusted Operating Margin ⁽¹⁾	266	237	29	12%	514	434	80	18%
Adjusted PTC ⁽¹⁾	254	185	69	37%	426	313	113	36%

⁽¹⁾ A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2020 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended September 30, 2021 increased \$114 million, or 49%, which was driven primarily by the following (in millions):

Increase at Southland mainly driven by favorable price variances under the commercial hedging strategy	\$ 67
Increase at Southland Energy due to the commencement of the PPA annual put option period in the current year and higher realized and unrealized losses on derivatives in the prior year	38
Increase in Puerto Rico driven by higher availability due to the timing of planned maintenance and lower depreciation expense	14
Decrease at Clean Energy driven by increased costs associated with growing and accelerating the development pipeline, partially offset by higher revenue due to the Company's agreement to supply Google's data centers with 24/7 carbon-free energy	(8)
Other	3
Total US and Utilities SBU Operating Margin Increase	\$ 114

Adjusted Operating Margin increased \$29 million primarily due to the drivers above, adjusted for NCI and excluding unrealized gains and losses on derivatives.

Adjusted PTC increased \$69 million primarily driven by the increase in Adjusted Operating Margin described above, an increase at our U.S. renewables businesses due to contributions from newly operational projects, a higher contribution from Southland Energy as a result of the sale of noncontrolling interests in 2020, and an increase at AES Indiana due to lower pension costs.

Operating Margin for the nine months ended September 30, 2021 increased \$130 million, or 26%, which was driven primarily by the following (in millions):

Increase at Southland Energy primarily due to the CCGT units operating for the full 2021 period and the commencement of the PPA annual put option period in the current year	\$ 95
Increase at Southland mainly due to an increase in capacity sales and favorable price variances under the commercial hedging strategy, partially offset by lower energy sales driven lower volume and by energy price adjustments due to market re-settlements	39
Increase in El Salvador due to higher demand mainly driven by the impact of COVID-19 in 2020	18
Increase in Puerto Rico driven by higher availability due to the timing of planned maintenance, lower depreciation expense due to an impairment recognized in Q1 2021, and lower waste residual disposal	9
Decrease at Clean Energy driven by increased costs associated with growing and accelerating the development pipeline, partially offset by an increase at AES Renewable Holdings due to more projects online in 2021 and higher revenue due to the Company's agreement to supply Google's data centers with 24/7 carbon-free energy	(16)
Decrease at AES Indiana primarily due to higher maintenance expense, partially offset by higher volumes from favorable weather	(13)
Other	(2)
Total US and Utilities SBU Operating Margin Increase	\$ 130

Adjusted Operating Margin increased \$80 million primarily due to the drivers above, adjusted for NCI, and excluding unrealized gains and losses on derivatives.

Adjusted PTC increased \$113 million, primarily driven by the increase in Adjusted Operating Margin described above, an increase at our U.S. renewables businesses due to contributions from newly operational projects, a higher contribution from Southland Energy as a result of the sale of noncontrolling interests in 2020, lower interest expense at DPL, and lower pension costs at AES Indiana, partially offset by a gain in 2020 on sale of land held by AES Redondo Beach at Southland.

South America SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Operating Margin	\$ 199	\$ 337	\$ (138)	-41%	\$ 896	\$ 707	\$ 189	27%
Adjusted Operating Margin ⁽¹⁾	96	147	(51)	-35%	321	351	(30)	-9%
Adjusted PTC ⁽¹⁾	83	122	(39)	-32%	267	381	(114)	-30%

⁽¹⁾ A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2020 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended September 30, 2021 decreased \$138 million, or 41%, which was driven by the following (in millions):

Lower revenue recognized on early contract terminations at Angamos and higher prices on coal and energy purchases, partially offset by lower depreciation of coal assets	\$ (93)
Lower margin in Brazil primarily due to higher energy purchases led by drier hydrology and higher fixed costs, partially offset by higher margin from new wind facilities	(42)
Other	(3)
Total South America SBU Operating Margin Decrease	\$ (138)

Adjusted Operating Margin decreased \$51 million due to the drivers above, adjusted for NCI, and net of gains on early contract terminations at Angamos.

Adjusted PTC decreased \$39 million, primarily associated with the decrease in Adjusted Operating Margin mentioned above and lower equity earnings at Guacolda due to the suspension of equity method accounting in September 2020, partially offset by higher interest income at Argentina and a decrease in interest expense at Angamos primarily due to debt prepayments executed in the fourth quarter of 2020.

Operating Margin for the nine months ended September 30, 2021 increased \$189 million, or 27%, which was driven primarily by the following (in millions):

Increase in Chile primarily related to revenue recognized on early contract terminations at Angamos partially offset by lower availability and higher prices on coal and energy purchases	\$ 231
Higher margin in Colombia related to higher reservoir levels and better hydrology	76
Lower margin in Brazil primarily due to higher energy purchases led by drier hydrology, local currency depreciation, and higher fixed costs, partially offset by higher margin from new wind facilities	(65)
Recovery of previously expensed payments from customers in Chile in 2020	(43)
Decrease in energy and capacity tariffs in Argentina and higher fixed costs, partially offset by higher dispatch of San Nicolas and the commencement of operations of wind facilities	(9)
Other	(1)
Total South America SBU Operating Margin Increase	\$ 189

Adjusted Operating Margin decreased \$30 million due to the drivers above, adjusted for NCI, and net of gains on early contract terminations at Angamos.

Adjusted PTC decreased \$114 million, primarily associated with the decrease in Adjusted Operating Margin described above, incremental capitalized interest at Alto Maipo in the prior period, lower equity earnings at Guacolda due to the suspension of equity method accounting in September 2020, and higher interest expenses at Brazil.

MCAC SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Operating Margin	\$ 138	\$ 137	\$ 1	1%	\$ 381	\$ 411	\$ (30)	-7%
Adjusted Operating Margin ⁽¹⁾	106	93	13	14%	284	282	2	1%
Adjusted PTC ⁽¹⁾	81	57	24	42%	213	201	12	6%

⁽¹⁾ A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2020 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended September 30, 2021 increased \$1 million, or 1%, which was driven primarily by the following (in millions):

Increase in the Dominican Republic mainly driven by higher LNG sales, partially offset by lower availability and higher fixed costs	\$ 18
Increase in Panama mainly driven by Panama's demand recovery, partially offset by lower availability at Colon	7
Decrease in the Dominican Republic driven by the sale of Itabo on April 8, 2021	(23)
Other	(1)
Total MCAC SBU Operating Margin Increase	\$ 1

Adjusted Operating Margin increased \$13 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased \$24 million, mainly driven by the increase in Adjusted Operating Margin described above and a legal settlement in Panama in 2020.

Operating Margin for the nine months ended September 30, 2021 decreased \$30 million, or 7%, which was driven primarily by the following (in millions):

Decrease in the Dominican Republic mainly driven by sale of Itabo on April 8, 2021 and lower performance in Q1 2021 caused by lower availability	\$ (47)
Decrease in Panama mainly driven by Estrella de Mar I power barge disconnection in July 2020, partially offset by the impact of the wind project acquired in Q2 2020	(17)
Decrease in Mexico driven by lower availability in 2021 and higher fixed costs	(16)
Increase in Panama mainly driven by Panama's demand recovery and better hydrology	24
Increase in the Dominican Republic driven by higher LNG sales mainly due to Eastern Pipeline COD in 2020, partially offset by lower capacity due to the incorporation of new plants in the system	22
Other	4
Total MCAC SBU Operating Margin Decrease	\$ (30)

Adjusted Operating Margin increased \$2 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased \$12 million, mainly driven by the increase in Adjusted Operating Margin described

above and a legal settlement in Panama in 2020.

Eurasia SBU

The following table summarizes Operating Margin, Adjusted Operating Margin and Adjusted PTC (in millions) for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change	2021	2020	\$ Change	% Change
Operating Margin	\$ 46	\$ 42	\$ 4	10%	\$ 158	\$ 142	\$ 16	11%
Adjusted Operating Margin ⁽¹⁾	35	34	1	3%	118	108	10	9%
Adjusted PTC ⁽¹⁾	45	40	5	13%	144	133	11	8%

⁽¹⁾ A non-GAAP financial measure, adjusted for the impact of NCI. See *SBU Performance Analysis—Non-GAAP Measures* for definition and Item 1.—*Business* included in our 2020 Form 10-K for the respective ownership interest for key businesses.

Operating Margin for the three months ended September 30, 2021 increased \$4 million, or 10%, which was driven primarily by the following (in millions):

Increase at Kavarna wind farm due to higher prices in the Bulgarian electricity market	\$ 3
Other	1
Total Eurasia SBU Operating Margin Increase	\$ 4

Adjusted Operating Margin increased \$1 million mainly due to the drivers above, adjusted for NCI.

Adjusted PTC increased \$5 million, mainly driven by the increase in Adjusted Operating Margin described above.

Operating Margin for the nine months ended September 30, 2021 increased \$16 million, or 11%, which was driven primarily by the following (in millions):

Euro appreciation impacting Maritza and Kavarna in Bulgaria	\$ 7
Increase at Kavarna wind farm due to higher prices in the Bulgarian electricity market	3
Other	6
Total Eurasia SBU Operating Margin Increase	\$ 16

Adjusted Operating Margin increased \$10 million due to the drivers above, adjusted for NCI.

Adjusted PTC increased \$11 million, mainly driven by the increase in Adjusted Operating Margin described above.

Key Trends and Uncertainties

During the remainder of 2021 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 (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. For the risk factors related to our business, see Item 1.—*Business* and Item 1A.—*Risk Factors* of our 2020 Form 10-K.

Operational

COVID-19 Pandemic — The COVID-19 pandemic has impacted global economic activity, including electricity and energy consumption, and caused significant volatility in financial markets. The following discussion highlights our assessment of the impacts of the pandemic on our current financial and operating status, and our financial and operational outlook based on information known as of this filing. Also see Item 1A.—*Risk Factors* of our 2020 Form 10-K.

Throughout the COVID-19 pandemic we have conducted our essential operations without significant disruption. We prioritize the safety of our people and continue to develop targeted strategies, in line with local requirements, to promote vaccination in our various jurisdictions.

We derive approximately 85% of our total revenues from our regulated utilities and long-term sales and supply contracts or PPAs at our generation businesses, which contributes to a relatively stable revenue and cost structure at most of our businesses. In 2021, our operational locations continued to experience the impact of, and recovery from, the COVID-19 pandemic. Across our global portfolio, our utilities businesses have generally performed in line with our expectations consistent with a recovery from the COVID-19 pandemic. While we cannot predict the length and magnitude of the pandemic or how it could impact global economic conditions, a delayed or disrupted recovery with respect to demand may adversely impact our financial results for 2021.

Our credit exposures have continued in-line with historical levels and within the customary 45-60 day grace period. We have not experienced any material credit-related impacts from our PPA offtakers due to the COVID-19 pandemic.

Our supply chain management has remained robust during this challenging time and we continue to closely manage and monitor developments. We continue to experience certain minor delays in some of our development projects, primarily in permitting processes and the implementation of interconnections, due to governments and other authorities having limited capacity to perform their functions.

The Company continues to monitor the potential impact of the COVID-19 pandemic on our financial results and operations.

Operational Sensitivity to Dry Hydrological Conditions — Our hydroelectric generation facilities are sensitive to changes in the weather, particularly the level of water inflows into generation facilities. While our operations in Panama, Colombia, Brazil, and Chile have experienced challenges arising from dry hydrology from time to time, the current dry hydrological conditions in Brazil have exceeded historical levels. If these hydrological conditions continue to persist, we may need to purchase energy at higher prices to fulfill our contractual arrangements.

Trade Restrictions and Supply Chain — In recent years, increased tensions between the U.S. and China have resulted in policies that restrict or increase costs on trade, such as tariffs and import restrictions, that have impacted the renewable energy industry. While we have been able to largely mitigate any material impacts so far, China is the largest supplier of raw materials and components used in solar panels. Imports of solar panels into the U.S. from China and Southeast Asia have been delayed or challenged in certain instances. In addition, substantial shortages in shipping services and disruptions in global supply chain, recent disruptions specific to solar panel imports including the uncertainty around the application of additional tariffs on solar panel imports from Southeast Asia, and the potential detainment of panels by U.S. Customs and Border Protection has further challenged the supply chain related to renewable energy. While we have contracted and substantially secured our expected requirements for U.S. solar panels for 2021 and 2022, these disruptions may persist and impact our suppliers' ability or willingness to meet their contractual agreements. AES will continue to monitor developments and take prudent steps towards maintaining a robust supply chain for our renewables projects.

Macroeconomic and Political

During the past few years, some countries where our subsidiaries conduct business have experienced macroeconomic and political changes. In the event these trends continue, there could be an adverse impact on our businesses.

Chile — In recent years, Chile has experienced significant social unrest, resulting in an October 2020 referendum that determined a new constitution will be drafted by a constitutional convention following further votes expected in 2022. In addition, other initiatives to address the social unrest are under consideration and could result in regulatory or policy changes that may affect our results of operations in Chile.

In November 2019, the Chilean government enacted Law 21,185 that establishes a Stabilization Fund for regulated energy prices. As discussed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2020 Form 10-K, AES Andes executed an agreement in December 2020 for the sale of the receivables generated pursuant the Tariff Stabilization Law, of which \$65 million was collected in 2021.

Puerto Rico — As discussed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2020 Form 10-K, our subsidiaries in Puerto Rico have a long-term PPA with state-owned PREPA, which has been facing economic challenges that could result in a material adverse effect on our business in Puerto Rico. Despite the Title III protection, PREPA has been making substantially all of its payments to the generators in line with historical payment patterns.

AES Puerto Rico and AES Ilumina's non-recourse debt of \$218 million and \$29 million, respectively, continue to be in technical default and are classified as current as of September 30, 2021 as a result of PREPA's bankruptcy filing in July 2017. The Company is in compliance with its debt payment obligations as of September 30, 2021.

New factors arose in the first quarter of 2021 associated with the economic costs and operational and reputational risks of disposal of coal combustion residuals off island. In addition, new legislative initiatives surrounding the prohibition of coal generation assets in Puerto Rico were introduced. Collectively, these factors along with management's decision on how to best achieve our decarbonization goals resulted in an indicator of impairment at its asset group in Puerto Rico. The Company performed an impairment analysis and determined that the carrying amount of its coal-fired long-lived assets was not recoverable. As a result, the Company recognized asset impairment expense of \$475 million.

Reference Rate Reform — As discussed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Trends and Uncertainties* of the 2020 Form 10-K, in July 2017, the UK Financial Conduct Authority announced that it intends to phase out LIBOR by the end of 2021. In the U.S., the Alternative Reference Rate Committee at the Federal Reserve identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for LIBOR; alternative reference rates in other key markets are under development. The ICE Benchmark Association ("IBA") has determined that it will cease publication of one-week and two-month LIBOR rates by December 31, 2021, and will cease publication of the one-month, three-month, six-month, and 12-month USD LIBOR rates by June 30, 2023. AES holds a substantial amount of debt and derivative contracts referencing LIBOR as an interest rate benchmark and will continue to engage with counterparties to make this transition.

Global Tax — The macroeconomic and political environments in the U.S. and some countries where our subsidiaries conduct business have changed during 2020 and 2021. This could result in significant impacts to tax law. For example, the "American Rescue Plan Act of 2021" was signed into law on March 11, 2021. The \$1.9 trillion Act includes COVID-19 relief as well as broader stimulus, but also includes several revenue-raising and business tax provisions. Two corporate income tax increases partially offset the cost of the bill: the elimination of a beneficial foreign tax credit rule, set to take effect in 2021, and the expansion of executive compensation deduction limits effective in 2027.

Further, in the first quarter of 2021, President Biden announced the "American Jobs Plan", a \$2 trillion spending package that would include funding for clean energy focused infrastructure investments, and the "Made in America Tax Plan," which seeks to increase the U.S. corporate tax rate and effect international tax reforms. Additionally, Congressional democrats introduced the "No Tax Breaks for Offshoring" and "Stop Tax Haven Abuse Acts," both of which seek to increase U.S. taxes related to the non-U.S. activities of U.S. headquartered companies.

In the second quarter of 2021, the Treasury Department released the "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals," commonly referred to as the "Greenbook." The Greenbook provided additional details on President Biden's proposals.

Additionally, during the second quarter of 2021, the G7 countries announced alignment for a 15% global minimum tax rate. This was subsequently affirmed in July when 132 member countries of the OECD "Inclusive Framework" group released a statement announcing a coordinated framework for international tax reform. The framework would re-allocate taxing rights over the profits of multinational corporations and establish a global minimum tax at a 15% rate. Additional details on the proposals are anticipated later this year. The potential impact to the Company is not known, but may be material. Implementation of the framework would require multilateral agreement and/or country specific legislative action, including in the U.S.

In the third quarter of 2021, both the United States Senate and the United States House of Representatives passed \$3.5 trillion budget resolutions as a first step to the budget reconciliation process that could include U.S. corporate and international tax reforms. As part of the reconciliation process, the House Ways and Means Committee marked up a version of the "Build Back Better Act". The Build Back Better Act included U.S. corporate and international tax reform proposals that would increase the U.S. corporate income tax rate, modify the Global Intangible Low Taxed Income rules, create additional interest deduction limitations and provide clean energy incentives, among others. The Company believes it would benefit from the clean energy initiatives, though the tax implications may be unfavorable in the short term.

The Company and certain of its subsidiaries are currently under examination by the relevant tax authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. Accordingly, given recent developments in the examination of our 2017 U.S. income tax return which primarily

relates to the TCJA one-time transition tax assessed on cumulative foreign earnings and profits, the Company is updating its estimate of reasonably possible changes in unrecognized tax benefits that may occur within the next twelve months. The new range is estimated to be between \$0 million and \$200 million, primarily relating to non-cash effective settlement and associated reversal of liabilities and increases in net operating loss carryforward balances included in the Company's net noncurrent deferred tax liabilities.

Inflation — In the markets in which we operate, there have been higher rates of inflation in recent months. While most of our contracts in our international businesses are indexed to inflation, in general, our U.S.-based generation contracts are not indexed to inflation. If inflation continues to increase in our markets, it may increase our expenses that we may not be able to pass through to customers. It may also increase the costs of some of our development projects that could negatively impact their competitiveness. Our utility businesses do allow for recovering of operations and maintenance costs through the regulatory process, which may have timing impacts on recovery.

Alto Maipo

The Company's subsidiary, Alto Maipo, is currently constructing a hydroelectric facility near Santiago, Chile which is approximately 99% complete and is expected to begin generating energy in the fourth quarter of 2021. The Alto Maipo project (the "Project") has experienced significant construction difficulties, which resulted in a substantial increase in project costs over the original budget and led to a series of negotiations that resulted in securing additional funding from creditors and additional equity injections from AES Andes.

On March 17, 2017, Alto Maipo completed the first financial and legal restructuring of the Project. Following this restructuring, Alto Maipo terminated a construction contract with Constructora Nuevo Maipo S.A. ("CNM") as a result of CNM's failure to perform. On July 3, 2017, CNM filed a claim against Alto Maipo before the International Chamber of Commerce ("ICC") for cost overruns and contract termination. Prior to this claim, Alto Maipo had issued an arbitration request before the ICC for multiple contract breaches. See Item 1.—*Legal Proceedings* in this Form 10-Q for further information.

In February 2018, Alto Maipo signed an amended EPC contract with Strabag, which increased the scope of the original contract to incorporate CNM's work and was approved by the creditors in May 2018 as part of the second restructuring of the Project.

On August 27, 2021, Alto Maipo updated its creditors with respect to the construction budget and long-term business plan for the Project, which considers different scenarios for spot prices, decarbonization initiatives, and hydrological conditions, among other significant variables. Under some of these scenarios, Alto Maipo may experience reduced future cash flows, which would limit its ability to repay debt. Alto Maipo's management has initiated negotiations with its creditors to restructure its obligations and achieve a sustainable long-term capital structure for Alto Maipo. There can be no assurance that Alto Maipo will succeed in its efforts to reach an agreement with its creditors. Currently, through its 67% ownership interest in AES Andes, AES now has an effective 62% indirect economic interest in Alto Maipo, which is part of the strategic asset group and AES Andes reporting unit. These finance agreements are non-recourse with respect to The AES Corporation and AES Andes.

If Alto Maipo is unable to renegotiate the terms of its financial arrangements with its creditors and is unable to meet its obligations under those arrangements as they come due, the creditors may enforce their rights under these agreements, which could result in a material loss of up to \$566 million, representative of the Company's after-tax investment (net of NCI) in Alto Maipo as of September 30, 2021. The project debt at Alto Maipo is currently not in default. We do not believe that a debt covenant violation is certain to occur in the near future. Therefore, Alto Maipo's debt continues to be classified as long-term, and management believes that the carrying value of our net investment in Alto Maipo is recoverable. These factors were not considered to be a triggering event for the asset groups or goodwill of the parent, AES Andes, under ASC 360 or ASC 350. Approximately \$60 million of deferred tax assets are included in the carrying value, and management believes it is more-likely-than-not that they will be realized. However, they could be reduced if estimates of future taxable income are decreased.

Decarbonization Initiatives

Several initiatives have been announced by regulators and offtakers in recent years, with the intention of reducing GHG emissions generated by the energy industry. Our strategy of shifting towards clean energy platforms, including renewable energy, energy storage, LNG, and modernized grids is designed to position us for continued growth while reducing our carbon intensity. The shift to renewables has caused certain customers to migrate to other low-carbon energy solutions and this trend may continue. Certain of our contracts contain clauses designed to compensate for early contract terminations, but we cannot guarantee full recovery. Although the Company cannot

currently estimate the financial impact of these decarbonization initiatives, new legislative or regulatory programs further restricting carbon emissions could require material capital expenditures, result in a reduction of the estimated useful life of certain coal facilities, or have other material adverse effects on our financial results. For further discussion of our strategy of shifting towards clean energy platforms see *Overview of Strategic Performance*.

Chilean Decarbonization Plan — The Chilean government has announced an initiative to phase out coal power plants by 2040 and achieve carbon neutrality by 2050. On June 4, 2019, AES Andes signed an agreement with the Chilean government to cease the operation of two coal units for a total of 322 MW as part of the phase-out. Under the agreement, Ventanas 1 (114 MW) will cease operation in November 2022 and Ventanas 2 (208 MW) in May 2024; however, AES Andes has announced its intention to accelerate the disconnection of these units. On December 26, 2020, the Chilean government issued Supreme Decree Number 42, which allows coal plants to remain connected to the grid in “strategic reserve status” for five years after ceasing operations, receive a reduced capacity payment, and dispatch, if necessary, to ensure the electric system’s reliability. On December 29, 2020, Ventanas 1 ceased operation and entered “strategic reserve status.” Ventanas 2 is also expected to enter “strategic reserve status” on May 1, 2022. On July 6, 2021, AES Andes and the Chilean government signed an amendment to the decarbonization agreement to include the Ventanas 3 (267 MW), Ventanas 4 (272 MW), Angamos 1 (277 MW), and Angamos 2 (281 MW) plants. The plants will be available for disconnection after January 2025, subject to system reliability and sufficiency. The Company performed an impairment analysis at June 30, 2021 and determined the carrying amounts of these asset groups were not recoverable. As a result, AES Andes recognized asset impairment expense of \$804 million (\$540 million net of NCI).

Considering the information available as of the filing date, management believes the carrying amount of our coal-fired long-lived assets in Chile of \$1.1 billion is recoverable as of September 30, 2021.

Puerto Rico Energy Public Policy Act — On April 11, 2019, the Governor of Puerto Rico signed the Puerto Rico Energy Public Policy Act (“the Act”) establishing guidelines for grid efficiency and eliminating coal as a source for electricity generation by January 1, 2028. The Act supports the accelerated deployment of renewables through the Renewable Portfolio Standard and the conversion of coal generating facilities to other fuel sources, with compliance targets of 40% by 2025, 60% by 2040, and 100% by 2050. AES Puerto Rico’s long-term PPA with PREPA expires November 30, 2027. PREPA and AES Puerto Rico have discussed various strategic alternatives, but have not reached any agreement. As described under *Macroeconomic and Political* above, additional factors arose in the first quarter of 2021 with respect to the disposal of coal combustion residuals, which contributed to the Company recognizing an asset impairment expense of \$475 million. Considering the information available as of the filing date, management believes the carrying amount of our long-lived assets in Puerto Rico of \$69 million is recoverable as of September 30, 2021.

Hawaii — In July 2020, the Hawaii State Legislature passed Senate Bill 2629 that prohibits AES Hawaii from generating electricity from coal after December 31, 2022. This bill will restrict the Company from contracting the asset beyond the expiration of its existing PPA. Considering the information available as of the filing date, management believes the carrying amount of our coal-fired long-lived assets in Hawaii of \$20 million is recoverable as of September 30, 2021.

For further information about the risks associated with decarbonization initiatives, see Item 1A.—Risk Factors —*Concerns about GHG emissions and the potential risks associated with climate change have led to increased regulation and other actions that could impact our businesses* included in the 2020 Form 10-K.

Regulatory

AES Maritza PPA Review — DG Comp is conducting a preliminary review of whether AES Maritza’s PPA with NEK is compliant with the European Union’s State Aid rules. No formal investigation has been launched by DG Comp to date. However, AES has been engaging in discussions with the DG Comp case team and the Government of Bulgaria (“GoB”) to attempt to reach a negotiated resolution of DG Comp’s review (“PPA Discussions”). Separately, earlier this year, GoB submitted its proposed plan for the reform and liberalization of its electricity market to the European Commission (the “Market Reform Plan”). The proposed Market Reform Plan concerns the introduction of a market-wide capacity remuneration mechanism in Bulgaria, which would require approval by DG Comp. The Market Reform Plan proposed a deadline of June 30, 2021 for the termination of AES Maritza’s PPA, and anticipates discussions with AES Maritza about that issue. The PPA Discussions are ongoing and the PPA

continues to remain in place. However, there can be no assurance that, in the context of the PPA Discussions, the other parties will not seek a prompt termination of the PPA.

We do not believe termination of the PPA is justified. Nevertheless, the PPA Discussions will involve a range of potential outcomes, including but not limited to the termination of the PPA and payment of some level of compensation to AES Maritza. Any negotiated resolution would be subject to mutually acceptable terms, lender consent, and DG Comp approval. At this time, we cannot predict the outcome of the PPA Discussions or when those discussions will conclude. Nor can we predict how DG Comp might resolve its review if the PPA Discussions fail to result in an agreement concerning the agency's review. AES Maritza believes that its PPA is legal and in compliance with all applicable laws, and it will take all actions necessary to protect its interests, whether through negotiated agreement or otherwise. However, there can be no assurance that this matter will be resolved favorably; if it is not, there could be a material adverse effect on the Company's financial condition, results of operations, and cash flows.

Considering the information available as of the filing date, management believes the carrying value of our long-lived assets at Maritza of approximately \$988 million is recoverable as of September 30, 2021.

AES Ohio Smart Grid and Comprehensive Settlement — On June 16, 2021, the PUCO issued an order approving without modification the Stipulation and Recommendation that AES Ohio had entered into with the staff of the PUCO and various customers, and organizations representing customers, of AES Ohio and certain other parties with respect to AES Ohio's applications filed with the PUCO for (i) approval of AES Ohio's plan to modernize its distribution grid (the "Smart Grid Plan"), (ii) findings that AES Ohio passed the significantly excessive earnings regulatory test ("SEET") for 2018 and 2019, and (iii) findings that AES Ohio's current electric security plan ("ESP 1") satisfies the SEET and the more favorable in the aggregate ("MFA") regulatory test. Applications for rehearing of the PUCO's orders relating to the comprehensive settlement were filed on July 16, 2021 and remain pending.

AES Indiana Replacement Generation — AES Indiana retired 230 MW of coal-fired generation at Petersburg Unit 1 in May 2021 and has plans to retire 415 MW of coal-fired generation at Petersburg Unit 2 in 2023. As result of these retirements, AES Indiana filed a petition with the IURC in February 2021 for approvals and cost recovery associated with these retirements. In August 2021, AES Indiana filed an uncontested Stipulation and Settlement Agreement with the other parties in the case which includes: (1) AES Indiana's creation of regulatory assets for the net book value of Petersburg units 1 and 2 upon retirement; (2) a method for amortization of the regulatory assets; and (3) recovery of the regulatory assets through ongoing amortization in AES Indiana's future rate cases. The Settlement Agreement also reserves all rights of all parties with respect to the ratemaking treatment related to the regulatory asset's including proper rate of return and mechanisms for recovery. Additionally, in June 2021, AES Indiana received an order from the IURC approving the acquisition of a 195 MW solar project expected to commence operations in 2023 and, in July 2021, AES Indiana filed a request for regulatory approval to acquire a 250 MW solar and 180 MWh energy storage facility expected to commence operations in 2024.

AES Indiana Excess Distributed Generation Rates — On March 1, 2021, AES Indiana filed a petition with the IURC for approval of its proposed rate for the procurement of excess distributed generation ("EDG") and related customer EDG credit issues. The EDG rate will replace the current net metering program and will be offered beginning July 2022, when net metering is no longer available to new customers.

AES Ohio Transmission Service — In March 2020, AES Ohio filed an application for a formula-based rate for its transmission service, which was approved and made effective May 3, 2020, subject to further proceeding and potential refunds. In December 2020, a unanimous settlement was reached regarding these rates and filed with the FERC, which was approved on April 15, 2021.

Foreign Exchange Rates

We operate in multiple countries and as such are subject to volatility in exchange rates at varying degrees at the subsidiary level and between our functional currency, the USD, and currencies of the countries in which we operate. For additional information, refer to Item 3.—*Quantitative and Qualitative Disclosures About Market Risk*.

Impairments

Long-lived Assets — During the nine months ended September 30, 2021, the Company recognized asset impairment expense of \$1.4 billion. See Note 16—*Asset Impairment Expense* included in Item 1.—*Financial Statements* of this Form 10-Q for further information. After recognizing this impairment expense, the carrying value of long-lived assets that were assessed for impairment totaled \$147 million at September 30, 2021.

Events or changes in circumstances that may necessitate recoverability tests and potential impairments of

long-lived assets or goodwill 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, evolving industry expectations to transition away from fossil fuel sources for generation, or an expectation it is more likely than not the asset will be disposed of before the end of its estimated useful life.

Environmental

The Company is subject to numerous environmental laws and regulations in the jurisdictions in which it operates. 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 residuals) and certain air emissions, such as SO₂, NO_x, particulate matter, mercury, and other hazardous air pollutants. 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 operations are subject to significant government regulation and our business and results of operations could be adversely affected by changes in the law or regulatory schemes; Several of our businesses are subject to potentially significant remediation expenses, enforcement initiatives, private party lawsuits and reputational risk associated with CCR; Our businesses are subject to stringent environmental laws, rules and regulations; and Concerns about GHG emissions and the potential risks associated with climate change have led to increased regulation and other actions that could impact our businesses* included in the 2020 Form 10-K.

CSAPR — 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 CSAPR required significant reductions in SO₂ and NO_x emissions from power plants in many states in which subsidiaries of the Company operate. The Company is required to comply with the CSAPR in certain states, including Indiana and Maryland. The CSAPR is implemented, in part, through a market-based program under which compliance may be achievable through the acquisition and use of emissions allowances created by the EPA. The Company complies with CSAPR through operation of existing controls and purchases of allowances on the open market, as needed.

In October 2016, the EPA published a final rule to update the CSAPR to address the 2008 ozone NAAQS (“CSAPR Update Rule”). The CSAPR Update Rule found that NO_x ozone season emissions in 22 states (including Indiana, Maryland, Ohio, and Pennsylvania) affected the ability of downwind states to attain and maintain the 2008 ozone NAAQS, and, accordingly, the EPA issued federal implementation plans that both updated existing CSAPR NO_x ozone season emission budgets for electric generating units within these states and implemented these budgets through modifications to the CSAPR NO_x ozone season allowance trading program. Implementation started in the 2017 ozone season (May-September 2017). Affected facilities receive fewer ozone season NO_x allowances in 2017 and later, possibly resulting in the need to purchase additional allowances. Additionally, on September 13, 2019, the D.C. Circuit remanded a portion of October 2016 CSAPR Update Rule to the EPA. On April 30, 2021, the EPA published a final rule to address the 2020 D.C. Circuit decision. The EPA is issuing new or amended federal implementation plans for 12 states, including Indiana, Maryland, Ohio, and Pennsylvania, with revised CSAPR NO_x ozone season emission budgets for electric generating units within these states via a new CSAPR NO_x Ozone Season Group 3 Trading Program. Implementation began during the 2021 ozone season (May-September 2021) with an effective date of June 29, 2021. AES Indiana facilities and AES Warrior Run in Maryland will receive fewer ozone season NO_x allowances for future NO_x Ozone Seasons beginning in 2021 and later, possibly resulting in the need to purchase additional allowances. In addition, subject sources in these states are required to surrender an equivalent number of previously allocated 2021-2024 Group 2 allowances by deadlines expected to occur in 2021. This requirement applies inclusive of assets and allowances that have since been sold and/or retired, including former AES assets in Ohio and Pennsylvania. While AES no longer operates electric generating units subject to the revised CSAPR Update Rule in Ohio or Pennsylvania, certain prior AES sources in these states were required to surrender an equivalent number of previously allocated 2021-2024 Group 2 allowances and on July 14, 2021 the required allowances were recalled by the EPA, fulfilling this obligation.

While the Company’s additional CSAPR compliance costs to date have been immaterial, the future availability of and cost to purchase allowances to meet the emission reduction requirements is uncertain at this time, but it could be material.

Climate Change Regulation — On July 8, 2019, the EPA published the final Affordable Clean Energy (“ACE”) Rule, along with associated revisions to implementing regulations, in addition to final revocation of the CPP.

The ACE Rule determines that heat rate improvement measures are the Best System of Emissions Reductions for existing coal-fired electric generating units. The final rule requires states with existing coal-fired electric generating units to develop state plans to establish CO₂ emission limits for designated facilities. AES Indiana Petersburg and AES Warrior Run have coal-fired electric generating units that could have been impacted by this regulation. On January 19, 2021, the D.C. Circuit vacated and remanded to the EPA the ACE Rule, although the parties have an opportunity to request a rehearing at the D.C. Circuit or seek a review of the decision by the U.S. Supreme Court. On March 5, 2021, the D.C. Circuit issued the partial mandate effectuating the vacatur of the ACE Rule. In effect, the CPP will not take effect while the EPA is addressing the remand of the ACE rule by promulgating a new Section 111(d) rule to regulate greenhouse gases from existing electric generating units. The impact of future greenhouse gas emissions regulations remains uncertain.

Cooling Water Intake — The Company's facilities are subject to a variety of rules governing water use and discharge. In particular, the Company's U.S. facilities are subject to the CWA Section 316(b) rule issued by the EPA that seeks to protect fish and other aquatic organisms by requiring existing steam electric generating facilities to utilize the best technology available ("BTA") for cooling water intake structures. On August 15, 2014, the EPA published its final standards to protect fish and other aquatic organisms drawn into cooling water systems at large power plants. These standards require certain subject facilities to choose among seven BTA options to reduce fish impingement. In addition, facilities that withdraw at least 125 million gallons per day for cooling purposes must conduct studies to assist permitting authorities to determine which site-specific controls, if any, are required to reduce entrainment. It is possible that this decision-making process, which includes permitting and public input, could result in the need to install closed cycle cooling systems (closed-cycle cooling towers), or other technology. Finally, the standards require that new units added to an existing facility to increase generation capacity are required to reduce both impingement and entrainment. 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.

Power plants are required to comply with the more stringent of state or federal requirements. At present, the California state requirements are more stringent and have earlier compliance dates than the federal EPA requirements, and are therefore applicable to the Company's California assets. On September 1, 2020, in response to a request by the state's energy, utility, and grid operators and regulators, the SWRCB approved amendments to its OTC Policy. The SWRCB OTC Policy previously required the shutdown and permanent retirement of all remaining OTC generating units at AES Alamitos, AES Huntington Beach, and AES Redondo Beach by December 31, 2020. The initial amendment extends the deadline for shutdown and retirement of AES Alamitos and AES Huntington Beach's remaining OTC generating units to December 31, 2023 and extends the deadline for shutdown and retirement of AES Redondo Beach's remaining OTC generating units to December 31, 2021 (the "AES Redondo Beach Extension"). The respective facilities' National Pollutant Discharge Elimination System permits have been revised to allow the remaining OTC generating units at AESAL, AESHB, and AESRB to continue operation beyond December 31, 2020 and in accordance with the current OTC Policy. In October 2020, the cities of Redondo Beach and Hermosa Beach filed a state court lawsuit challenging the AES Redondo Beach Extension. The outcome of the lawsuit is unclear. On March 16, 2021 the State Advisory Committee on Cooling Water Intake Structures (SACCWIS) released their draft 2021 report to SWRCB. The report summarizes the State of California's current electrical grid reliability needs and recommended a two-year extension to the compliance schedule for AES Redondo Beach to address system-wide grid reliability needs. The SWRCB public hearing regarding the final decision on the amendment of the OTC policy was held on October 19, 2021 and the Board voted in favor of extending the compliance date for AES Redondo Beach to December 31, 2023. The AES Redondo Beach NPDES permit has been administratively extended. The new air-cooled combined cycle gas turbine generators at the AES Alamitos and AES Huntington Beach generating stations began commercial operation in early 2020 and there is currently no plan to replace the OTC generating units at the AES Redondo Beach generating station following the retirement.

Waters of the U.S. and Navigable Waters Protection Rules — In June 2015, the USEPA and the U.S. Army Corps of Engineers ("the agencies") published a rule defining federal jurisdiction over waters of the U.S., known as the "Waters of the U.S." (WOTUS) rule. This rule, which initially became effective in August 2015, could expand or otherwise change the number and types of waters or features subject to CWA permitting. However, after repealing the 2015 WOTUS rule on October 22, 2019, the agencies, on April 21, 2020, issued the final "Navigable Waters Protection" (NWP) rule which again revised the definition of waters of the U.S. On August 30, 2021, the U.S. District Court for the District of Arizona issued an order vacating and remanding the NWP Rule. This vacatur of the NWP Rule applies nationwide. As such, the agencies are interpreting waters of the U.S. consistent with the pre-2015 regulatory regime until further notice. It is too early to determine whether any outcome of litigation or

current or future revisions to rules interpreting federal jurisdiction over waters of the U.S. might have a material impact on our business, financial condition, and results of operations.

Capital Resources and Liquidity

Overview

As of September 30, 2021, the Company had unrestricted cash and cash equivalents of \$1.4 billion, of which \$338 million was held at the Parent Company and qualified holding companies. The Company had \$170 million in short-term investments, held primarily at subsidiaries, and restricted cash and debt service reserves of \$563 million. The Company also had non-recourse and recourse aggregate principal amounts of debt outstanding of \$16.5 billion and \$3.4 billion, respectively. Of the \$1.5 billion of our current non-recourse debt, \$1.2 billion was presented as such because it is due in the next twelve months and \$254 million relates to debt considered in default due to covenant violations. None of the defaults are payment defaults but are instead technical defaults triggered by failure to comply with covenants or other requirements contained in the non-recourse debt documents, of which \$247 million is due to the bankruptcy of the offtaker.

We expect current maturities of non-recourse debt to 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. We have \$2 million of recourse debt which 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. 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 drawings under its revolving credit facility. However, as of September 30, 2021, the Parent Company did not have any outstanding drawings under its revolving credit facility. On a consolidated basis, of the Company's \$20.2 billion of total gross debt outstanding as of September 30, 2021, approximately \$3.2 billion bore interest at variable rates that were not subject to a derivative instrument which fixed the interest rate. Brazil holds \$1.2 billion of our floating rate non-recourse exposure as variable rate instruments act as a natural hedge against inflation in Brazil.

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, 2021, the Parent Company had provided outstanding financial and performance-related guarantees or other credit support commitments to or for the benefit of our businesses, which were limited by the

terms of the agreements, of approximately \$2.1 billion in aggregate (excluding those collateralized by letters of credit and other obligations discussed below).

As a result of the Parent Company's split rating, some 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. As of September 30, 2021, we had \$106 million in letters of credit outstanding provided under our unsecured credit facility and \$75 million in letters of credit outstanding provided under our revolving credit facility. These letters of credit operate to guarantee performance relating to certain project development and construction activities and business operations. During the quarter ended September 30, 2021, the Company paid letter of credit fees ranging from 1% to 3% 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, 2021, the Company had approximately \$84 million of gross accounts receivable classified as *Other noncurrent assets*. These noncurrent receivables mostly consist of accounts receivable in Argentina and Chile that, pursuant to amended agreements or government resolutions, have collection periods that extend beyond September 30, 2022, or one year from the latest balance sheet date. The majority of Argentine receivables have been converted into long-term financing for the construction of power plants. Noncurrent receivables in Chile pertain primarily to revenues recognized on regulated energy contracts that were impacted by the Stabilization Fund created by the Chilean government. A portion relates to the extension of existing PPAs with the addition of renewable energy. See Note 6—*Financing Receivables* in Item 1.—*Financial Statements and Key Trends and Uncertainties—Macroeconomic and Political—Chile* in Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-Q and Item 1.—*Business—South America SBU—Argentina—Regulatory Framework and Market Structure* included in our 2020 Form 10-K for further information.

As of September 30, 2021, the Company had approximately \$1.3 billion of loans receivable primarily related to a facility constructed under a build, operate, and transfer contract in Vietnam. This loan receivable represents contract consideration related to the construction of the facility, which was substantially completed in 2015, and will be collected over the 25-year term of the plant's PPA. In December 2020, Mong Duong met the held-for-sale criteria and the loan receivable balance, net of CECL reserve, was reclassified to held-for-sale assets. As of September 30, 2021, \$88 million of the loan receivable balance was classified as *Current held-for-sale assets* and \$1.2 billion was classified as *Noncurrent held-for-sale assets* on the Condensed Consolidated Balance Sheets. See Note 14—*Revenue* in Item 1.—*Financial Statements* of this Form 10-Q for further information.

Cash Sources and Uses

The primary sources of cash for the Company in the nine months ended September 30, 2021 were debt financings, cash flows from operating activities, proceeds from the issuance of Equity Units, and sales of short-term investments. The primary uses of cash in the nine months ended September 30, 2021 were repayments of debt, capital expenditures, and purchases of short-term investments.

The primary sources of cash for the Company in the nine months ended September 30, 2020 were debt financings, cash flows from operating activities, and sales of short-term investments. The primary uses of cash in the nine months ended September 30, 2020 were repayments of debt, capital expenditures, and purchases of short-term investments.

A summary of cash-based activities are as follows (in millions):

	Nine Months Ended September 30,	
	2021	2020
Cash Sources:		
Net cash provided by operating activities	\$ 1,379	\$ 2,087
Borrowings under the revolving credit facilities	1,251	2,099
Issuance of preferred stock	1,014	—
Issuance of non-recourse debt	978	4,229
Sale of short-term investments	525	439
Affiliate repayments and returns of capital	195	110
Issuance of preferred shares in subsidiaries	151	113
Contributions from noncontrolling interests	95	—
Proceeds from the sale of business interests, net of cash and restricted cash sold	91	41
Issuance of recourse debt	7	1,619
Other	81	41
Total Cash Sources	\$ 5,767	\$ 10,778
Cash Uses:		
Capital expenditures	\$ (1,534)	\$ (1,375)
Repayments of non-recourse debt	(1,342)	(3,451)
Repayments under the revolving credit facilities	(1,031)	(1,515)
Purchase of short-term investments	(372)	(546)
Contributions and loans to equity affiliates	(321)	(286)
Dividends paid on AES common stock	(301)	(286)
Distributions to noncontrolling interests	(173)	(194)
Acquisitions of business interests, net of cash and restricted cash sold	(93)	(94)
Repayments of recourse debt	(7)	(1,596)
Acquisitions of noncontrolling interests	(17)	(240)
Other	(429)	(386)
Total Cash Uses	\$ (5,620)	\$ (9,969)
Net increase in Cash, Cash Equivalents, and Restricted Cash	\$ 147	\$ 809

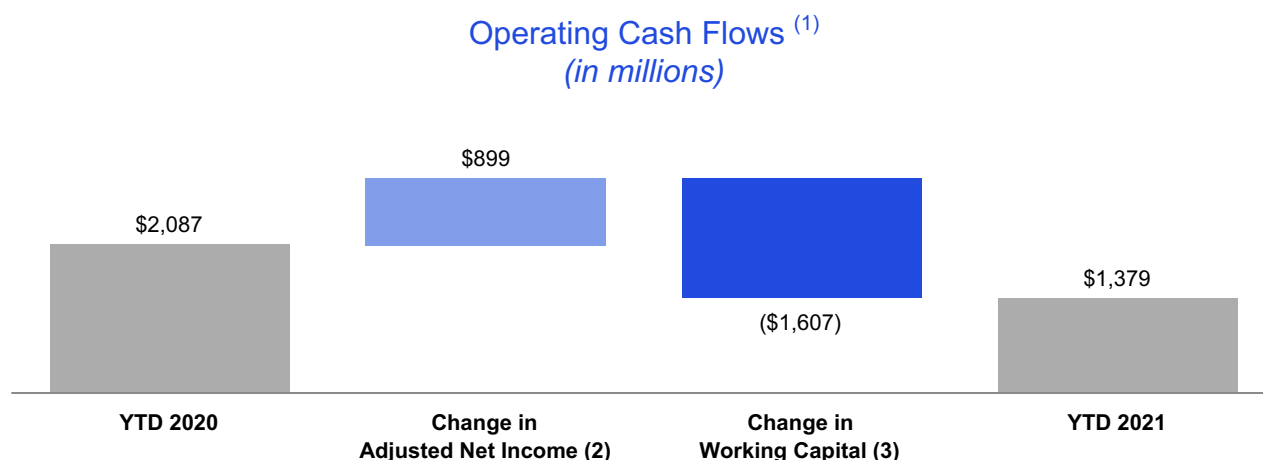
Consolidated Cash Flows

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

Cash flows provided by (used in):	Nine Months Ended September 30,		
	2021	2020	\$ Change
Operating activities	\$ 1,379	\$ 2,087	\$ (708)
Investing activities	(1,728)	(1,856)	128
Financing activities	521	657	(136)

Operating Activities

Net cash provided by operating activities decreased \$708 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.



(1) Amounts included in the chart above include the results of discontinued operations, where applicable.

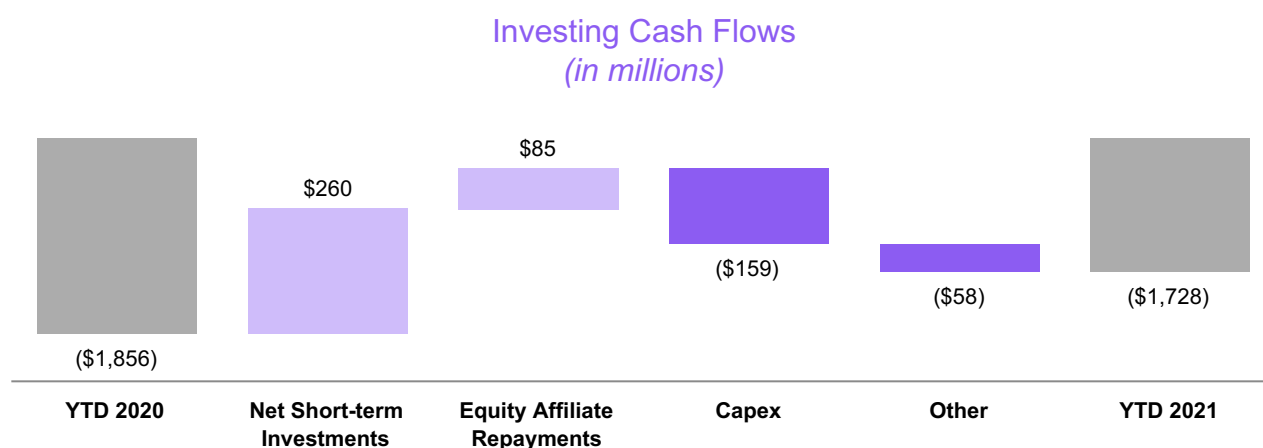
(2) The change in adjusted net income is defined as the variance in *net income*, net of the total *adjustments to net income* as shown on the Condensed Consolidated Statements of Cash Flows in Item 1—*Financial Statements* of this Form 10-Q.

(3) The change in working capital is defined as the variance in total *changes in operating assets and liabilities* as shown on the Condensed Consolidated Statements of Cash Flows in Item 1—*Financial Statements* of this Form 10-Q.

- Adjusted net income increased \$899 million primarily due to higher margins at our South America and US and Utilities SBUs, a decrease in current income tax expense at Angamos due to a timing difference in recognition of the early contract terminations with Minera Escondida and Minera Spence, and a decrease in interest expense.
- Working capital requirements increased \$1.6 billion, primarily due to a decrease in deferred income at Angamos due to revenue recognized from early contract terminations with Minera Escondida and Minera Spence in 2020, a decrease in income tax liabilities, and the timing of the GSF liability payment at Tietê.

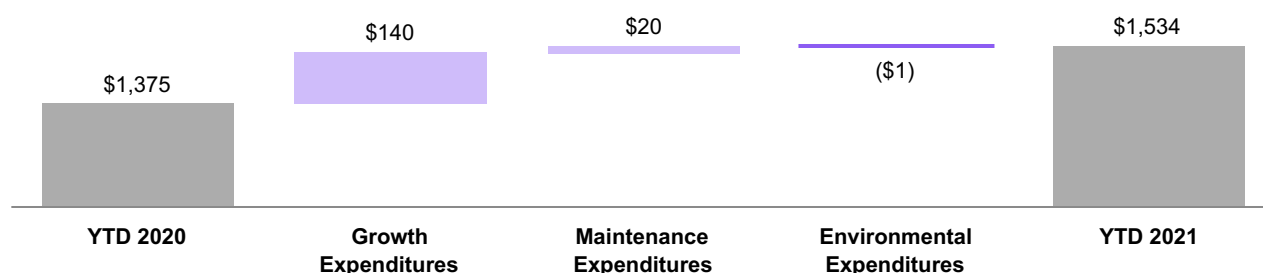
Investing Activities

Net cash used in investing activities decreased \$128 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.



- Proceeds from short-term investing activities increased \$260 million, primarily at AES Brasil as a result of lower net short-term investment purchases in 2021.
- Repayments from equity affiliates increased \$85 million, primarily due to an increase in loan repayments from sPower and Fluence, our equity method investments.
- Capital expenditures increased \$159 million, discussed further below.

Capital Expenditures (in millions)

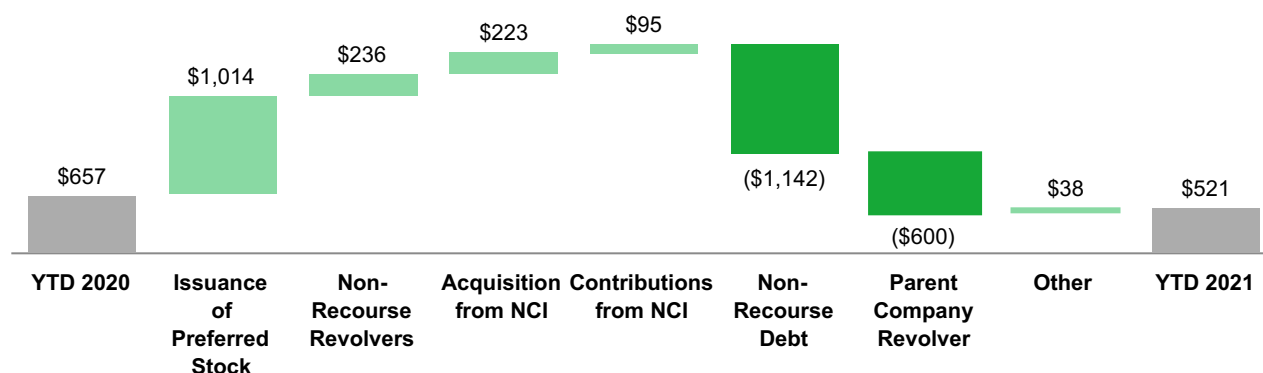


- Growth expenditures increased \$140 million, primarily driven by higher TDSIC investments at AES Ohio and AES Indiana, and renewable projects at Clean Energy, AES Brasil, and AES Andes. This impact was partially offset by the completion of renewable energy projects in Argentina and the completion of the Southland repowering project.
- Maintenance expenditures increased \$20 million, primarily due to increased expenditures at AES Andes, DPL, and El Salvador, partially offset by prior year expenditures at Andes as a result of the steam turbine lightning damage and in Panama as a result of the Changuinola tunnel lining upgrade, and a decrease in expenditures at Itabo due to its sale in the current year.
- Environmental expenditures decreased \$1 million, primarily due to the timing of payments in the prior year related to projects at AES Indiana.

Financing Activities

Net cash provided by financing activities decreased \$136 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.

Financing Cash Flows (in millions)



See Notes 8—Debt and 12—Equity in Item 1—Financial Statements of this Form 10-Q for more information regarding significant debt and equity transactions.

- The \$1 billion impact from issuance of preferred stock is due to the issuance of Equity Units at the Parent Company.
- The \$236 million impact from non-recourse revolver transactions is primarily due to lower net repayments at DPL and in Chile, partially offset by higher net repayments in the Dominican Republic.
- The \$223 million impact from acquisitions of noncontrolling interests is due to the prior year acquisition of an additional 18.5% ownership interest in AES Brasil.
- The \$95 million impact from contributions from noncontrolling interests is primarily due to contributions from minority interests at AES Andes due to the preemptive rights offering to fund its renewable growth program.

- The \$1.1 billion impact from non-recourse debt transactions is primarily due to lower net borrowings at Panama, Southland Energy, Vietnam, and Argentina, and higher net repayments at AES Brasil, partially offset by higher net borrowings at Clean Energy.
- The \$600 million impact from Parent Company revolver transactions is primarily due to lower net borrowings in the current year.

Parent Company Liquidity

The following discussion is included as a useful measure of the liquidity available to The AES Corporation, or the Parent Company, given the non-recourse nature of most of our indebtedness. Parent Company Liquidity, as outlined below, is a non-GAAP measure and should not be construed as an alternative to *Cash and cash equivalents*, which is determined in accordance with GAAP. Parent Company Liquidity may differ from similarly titled measures used by other companies. The principal sources of liquidity at the Parent Company level are dividends and other distributions from our subsidiaries, including refinancing proceeds, proceeds from debt and equity financings at the Parent Company level, including availability under our revolving credit facility, and proceeds from asset sales. Cash requirements at the Parent Company level are primarily to fund interest and principal repayments of debt, construction commitments, other equity commitments, common stock repurchases, acquisitions, taxes, Parent Company overhead and development costs, and dividends on common stock.

The Company defines Parent Company Liquidity as cash available to the Parent Company, including cash at qualified holding companies, plus available borrowings under our existing credit facility. The cash held at qualified holding companies represents cash sent to subsidiaries of the Company domiciled outside of the U.S. Such subsidiaries have no contractual restrictions on their ability to send cash to the Parent Company. Parent Company Liquidity is reconciled to its most directly comparable GAAP financial measure, *Cash and cash equivalents*, at the periods indicated as follows (in millions):

	September 30, 2021	December 31, 2020
Consolidated cash and cash equivalents	\$ 1,411	\$ 1,089
Less: Cash and cash equivalents at subsidiaries	(1,073)	(1,018)
Parent Company and qualified holding companies' cash and cash equivalents	338	71
Commitments under the Parent Company credit facility	1,250	1,000
Less: Letters of credit under the credit facility	(75)	(77)
Less: Borrowings under the credit facility	—	(70)
Borrowings available under the Parent Company credit facility	1,175	853
Total Parent Company Liquidity	\$ 1,513	\$ 924

The Company utilizes its Parent Company credit facility for short term cash needs to bridge the timing of distributions from its subsidiaries throughout the year.

The Parent Company paid dividends of \$0.1505 per outstanding share to its common stockholders during the first, second, and third quarters of 2021 for dividends declared in December 2020, February 2021, and July 2021, respectively. While we intend to continue payment of dividends, and believe we will have sufficient liquidity to do so, we can provide no assurance that we will continue to pay dividends, or if continued, the amount of such dividends.

Recourse Debt

Our total recourse debt was \$3.4 billion as of September 30, 2021 and December 31, 2020. See Note 8—*Debt* in Item 1.—*Financial Statements* of this Form 10-Q and Note 11—*Debt* in Item 8.—*Financial Statements and Supplementary Data* of our 2020 Form 10-K for additional detail.

We believe that our sources of liquidity will be adequate to meet our needs for the foreseeable future. This belief is based on a number of material assumptions, including, without limitation, assumptions about our ability to access the capital markets, the operating and financial performance of our subsidiaries, currency exchange rates, power market pool prices, and the ability of our subsidiaries to pay dividends. In addition, our subsidiaries' ability to declare and pay cash dividends to us (at the Parent Company level) is subject to certain limitations contained in loans, governmental provisions and other agreements. We can provide no assurance that these sources will be available when needed or that the actual cash requirements will not be greater than anticipated. We have met our interim needs for shorter-term and working capital financing at the Parent Company level with our revolving credit facility. See Item 1A.—*Risk Factors*—*The AES Corporation's ability to make payments on its outstanding indebtedness is dependent upon the receipt of funds from our subsidiaries* of the Company's 2020 Form 10-K for additional information.

Various debt instruments at the Parent Company level, including our revolving credit facility, contain certain restrictive covenants. The covenants provide for, among other items, limitations on other indebtedness, liens,

investments and guarantees; limitations on dividends, stock repurchases and other equity transactions; restrictions and limitations on mergers and acquisitions, sales of assets, leases, transactions with affiliates and off-balance sheet and derivative arrangements; maintenance of certain financial ratios; and financial and other reporting requirements. As of September 30, 2021, we were in compliance with these covenants at the Parent Company level.

Non-Recourse Debt

While the lenders under our non-recourse debt financings generally do not have direct recourse to the Parent Company, defaults thereunder can still have important consequences for our results of operations and liquidity, including, without limitation:

- reducing our cash flows as the subsidiary will typically be prohibited from distributing cash to the Parent Company during the time period of any default;
- triggering our obligation to make payments under any financial guarantee, letter of credit, or other credit support we have provided to or on behalf of such subsidiary;
- causing us to record a loss in the event the lender forecloses on the assets; and
- triggering defaults in our outstanding debt at the Parent Company.

For example, our revolving credit facility and outstanding debt securities at the Parent Company include events of default for certain bankruptcy-related events involving material subsidiaries. In addition, our revolving credit agreement at the Parent Company includes events of default related to payment defaults and accelerations of outstanding debt of material subsidiaries.

Some of our subsidiaries are currently in default with respect to all or a portion of their outstanding indebtedness. The total non-recourse debt classified as current in the accompanying Condensed Consolidated Balance Sheets amounts to \$1.5 billion. The portion of current debt related to such defaults was \$254 million at September 30, 2021, all of which was non-recourse debt related to three subsidiaries — AES Puerto Rico, AES Illumina, and AES Jordan Solar. None of the defaults are payment defaults, but are instead technical defaults triggered by failure to comply with other covenants or other conditions contained in the non-recourse debt documents, of which \$247 million is due to the bankruptcy of the offtaker. See Note 8—*Debt* in Item 1.—*Financial Statements* of this Form 10-Q for additional detail.

None of the subsidiaries that are currently in default are subsidiaries that met the applicable definition of materiality under the Parent Company's debt agreements as of September 30, 2021, in order for such defaults to trigger an event of default or permit acceleration under the Parent Company's indebtedness. However, as a result of additional dispositions of assets, other significant reductions in asset carrying values or other matters in the future that may impact our financial position and results of operations or the financial position of the individual subsidiary, it is possible that one or more of these subsidiaries could fall within the definition of a "material subsidiary" and thereby trigger an event of default and possible acceleration of the indebtedness under the Parent Company's outstanding debt securities. A material subsidiary is defined in the Parent Company's revolving 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 ended fiscal quarters. As of September 30, 2021, none of the defaults listed above, individually or in the aggregate, results in or is at risk of triggering a cross-default under the recourse debt of the Parent Company.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements of AES are prepared in conformity with U.S. GAAP, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented.

The Company's significant accounting policies are described in Note 1 — *General and Summary of Significant Accounting Policies* of our 2020 Form 10-K. The Company's critical accounting estimates are described in Item 7.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2020 Form 10-K. An accounting estimate is considered critical if the estimate requires management to make an assumption about matters that were highly uncertain at the time the estimate was made, different estimates reasonably could have been used, or if changes in the estimate that would have a material impact on the Company's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The Company has reviewed

and determined that these remain as critical accounting policies as of and for the nine months ended September 30, 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview Regarding Market Risks

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 addition, our businesses are exposed to lower electricity prices due to increased competition, including from renewable sources such as wind and solar, as a result of lower costs of entry and lower variable costs. We operate in multiple countries and as such, are subject to volatility in exchange rates at varying degrees at the subsidiary level and between our functional currency, the USD, and currencies of the countries in which we operate. We are also exposed to interest rate fluctuations due to our issuance of debt and related financial instruments.

The disclosures presented in this Item 3 are based upon a number of assumptions; actual effects may differ. The safe harbor provided in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act shall apply to the disclosures contained in this Item 3. For further information regarding market risk, see Item 1A.—*Risk Factors, Fluctuations in currency exchange rates may impact our financial results and position; Wholesale power prices are declining in many markets which could impact our operations and opportunities for future growth; We may not be adequately hedged against our exposure to changes in commodity prices or interest rates; and Certain of our businesses are sensitive to variations in weather and hydrology of the 2020 Form 10-K.*

Commodity Price Risk

Although we prefer to hedge our exposure to the impact of market fluctuations in the price of electricity, fuels, and environmental credits, some of our generation businesses operate under short-term sales or under contract sales that leave an unhedged exposure on some of our capacity or through imperfect fuel pass-throughs. These businesses subject our operational results to the volatility of prices for electricity, fuels, and environmental credits in competitive markets. We employ risk management strategies to hedge our financial performance against the effects of fluctuations in energy commodity prices. The implementation of these strategies can involve the use of physical and financial commodity contracts, futures, swaps, and options.

The portion of our sales and purchases that are not subject to such agreements or contracted businesses where indexation is not perfectly matched to business drivers will be exposed to commodity price risk. When hedging the output of our generation assets, we utilize contract sales that lock in the spread per MWh between variable costs and the price at which the electricity can be sold.

AES businesses will see changes in variable margin performance as global commodity prices shift. For 2021, we project pre-tax earnings exposure on a 10% move in commodity prices would be less than \$(5) million for natural gas, less than \$(5) million for oil, less than \$(5) million for coal, and less than \$(5) million for power. Our estimates exclude correlation of oil with coal or natural gas. For example, a decline in oil or natural gas prices can be accompanied by a decline in coal price if commodity prices are correlated. In aggregate, the Company's downside exposure occurs with higher power, higher oil, higher natural gas, and higher coal prices. Exposures at individual businesses will change as new contracts or financial hedges are executed, and our sensitivity to changes in commodity prices generally increases in later years with reduced hedge levels at some of our businesses.

Commodity prices affect our businesses differently depending on the local market characteristics and risk management strategies. Spot power prices, contract indexation provisions, and generation costs can be directly or indirectly affected by movements in the price of natural gas, oil, and coal. We have some natural offsets across our businesses such that low commodity prices may benefit certain businesses and be a cost to others. Exposures are not perfectly linear or symmetric. The sensitivities are affected by a number of local or indirect market factors. Examples of these factors include hydrology, local energy market supply/demand balances, regional fuel supply issues, regional competition, bidding strategies, and regulatory interventions such as price caps. Operational flexibility changes the shape of our sensitivities. For instance, certain power plants may limit downside exposure by reducing dispatch in low market environments. Volume variation also affects our commodity exposure. The volume sold under contracts or retail concessions can vary based on weather and economic conditions, resulting in a higher or lower volume of sales in spot markets. Thermal unit availability and hydrology can affect the generation output available for sale and can affect the marginal unit setting power prices.

In the US and Utilities SBU, the generation businesses are largely contracted, but may have residual risk to the extent contracts are not perfectly indexed to the business drivers. At Southland, our existing once-through cooling

generation units (“Legacy Assets”) have been requested to continue operating beyond their current retirement date and the OTC policy establishing retirement deadlines has been extended for between one and three years. These assets have contracts in capacity and have seen incremental value in energy revenues.

In the South America SBU, our business in Chile owns assets in the central and northern regions of the country and has a portfolio of contract sales in both. The majority of our PPAs include mechanisms of indexation that adjust the price of energy based on fluctuations in the price of coal, with the specific indices and timing varying by contract, in order to mitigate changes in the price of fuel. For the portion of our contracts not indexed to the price of coal, we have implemented a hedging strategy based on international coal financial instruments for up to three years. In Colombia, we operate under a shorter-term sales strategy with spot market exposure for uncontracted volumes. Because we own hydroelectric assets there, contracts are not indexed to fuel. Additionally, in Brazil, the hydroelectric generating facility is covered by contract sales. Under normal hydrological volatility, spot price risk is mitigated through a regulated sharing mechanism across all hydroelectric generators in the country. Under drier conditions, the sharing mechanism may not be sufficient to cover the business' contract position, and therefore it may have to purchase power at spot prices driven by the cost of thermal generation.

In the MCAC SBU, our businesses have commodity exposure on unhedged volumes. Panama is highly contracted under financial and load-following PPA type structures, exposing the business to hydrology-based variance. To the extent hydrological inflows are greater than or less than the contract volumes, the business will be sensitive to changes in spot power prices which may be driven by oil and natural gas prices in some time periods. In the Dominican Republic, we own natural gas-fired assets contracted under a portfolio of contract sales, and both contract and spot prices may move with commodity prices. Additionally, the contract levels do not always match our generation availability; as such, our assets may be selling the excess above contract levels at spot prices or buy the deficit in the spot market to satisfy contractual obligations.

In the Eurasia SBU, our assets operating in Vietnam and Bulgaria have minimal exposure to commodity price risk as it has no or minor merchant exposure and fuel is subject to a pass-through mechanism.

Foreign Exchange Rate Risk

In the normal course of business, we are exposed to foreign currency risk and other foreign operations risks that arise from investments in foreign subsidiaries and affiliates. A key component of these risks stems from the fact that some of our foreign subsidiaries and affiliates utilize currencies other than our consolidated reporting currency, the USD. Additionally, certain of our foreign subsidiaries and affiliates have entered into monetary obligations in USD or currencies other than their own functional currencies. Certain of our foreign subsidiaries calculate and pay taxes in currencies other than their own functional currency. We have varying degrees of exposure to changes in the exchange rate between the USD and the following currencies: Argentine peso, Brazilian real, Chilean peso, Colombian peso, Dominican peso, Euro, and Mexican peso. These subsidiaries and affiliates have attempted to limit potential foreign exchange exposure by entering into revenue contracts that adjust to changes in foreign exchange rates. We also use foreign currency forwards, swaps, and options, where possible, to manage our risk related to certain foreign currency fluctuations.

AES enters into foreign currency hedges to protect economic value of the business and minimize the impact of foreign exchange rate fluctuations to AES' portfolio. While protecting cash flows, the hedging strategy is also designed to reduce forward-looking earnings foreign exchange volatility. Due to variation of timing and amount between cash distributions and earnings exposure, the hedge impact may not fully cover the earnings exposure on a realized basis, which could result in greater volatility in earnings. The largest foreign exchange risks over the remaining period of 2021 stem from the following currencies: Brazilian real, Colombian peso, and Euro. As of September 30, 2021, assuming a 10% USD appreciation, cash distributions attributable to foreign subsidiaries exposed to movement in the exchange rate of the Euro, Brazilian real, and Colombia peso each are projected to be impacted by less than \$5 million. These numbers have been produced by applying a one-time 10% USD appreciation to forecasted exposed cash distributions for 2021 coming from the respective subsidiaries exposed to the currencies listed above, net of the impact of outstanding hedges and holding all other variables constant. The numbers presented above are net of any transactional gains/losses. These sensitivities may change in the future as new hedges are executed or existing hedges are unwound. Additionally, updates to the forecasted cash distributions exposed to foreign exchange risk may result in further modification. The sensitivities presented do not capture the impacts of any administrative market restrictions or currency inconvertibility.

Interest Rate Risks

We are exposed to risk resulting from changes in interest rates as a result of our issuance of variable and fixed-rate debt, as well as interest rate swap, cap, floor, and option agreements.

Decisions on the fixed-floating debt mix are made to be consistent with the risk factors faced by individual businesses or plants. Depending on whether a plant's capacity payments or revenue stream is fixed or varies with inflation, we partially hedge against interest rate fluctuations by arranging fixed-rate or variable-rate financing. In certain cases, particularly for non-recourse financing, we execute interest rate swap, cap, and floor agreements to effectively fix or limit the interest rate exposure on the underlying financing. Most of our interest rate risk is related to non-recourse financings at our businesses.

As of September 30, 2021, the portfolio's pre-tax earnings exposure for 2021 to a one-time 100-basis-point increase in interest rates for our Argentine peso, Brazilian real, Chilean peso, Colombian peso, Euro, and USD denominated debt would be less than \$5 million on interest expense for the debt denominated in these currencies. These amounts do not take into account the historical correlation between these interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of its "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of September 30, 2021, to ensure that information required to be disclosed by the Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain claims, suits and legal proceedings in the normal course of business. The Company has accrued for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company believes, based upon information it currently possesses and taking into account established reserves for estimated liabilities and its insurance coverage, that the ultimate outcome of these proceedings and actions is unlikely to have a material adverse effect on the Company's condensed consolidated financial statements. It is reasonably possible, however, that some matters could be decided unfavorably to the Company and could require the Company to pay damages or make expenditures in amounts that could be material, but cannot be estimated as of September 30, 2021.

In December 2001, Grid Corporation of Odisha ("GRIDCO") served a notice to arbitrate pursuant to the Indian Arbitration and Conciliation Act of 1996 on the Company, AES Orissa Distribution Private Limited ("AES ODPL"), and Jyoti Structures ("Jyoti") pursuant to the terms of the shareholders agreement between GRIDCO, the Company, AES ODPL, Jyoti and the Central Electricity Supply Company of Orissa Ltd. ("CESCO"), an affiliate of the Company. In the arbitration, GRIDCO asserted that a comfort letter issued by the Company in connection with the Company's indirect investment in CESCO obligates the Company to provide additional financial support to cover all of CESCO's financial obligations to GRIDCO. GRIDCO appeared to be seeking approximately \$189 million in damages, plus undisclosed penalties and interest, but a detailed alleged damage analysis was not filed by GRIDCO. The Company counterclaimed against GRIDCO for damages. In June 2007, a 2-to-1 majority of the arbitral tribunal rendered its award rejecting GRIDCO's claims and holding that none of the respondents, the Company, AES ODPL, or Jyoti, had any liability to GRIDCO. The respondents' counterclaims were also rejected. A majority of the tribunal later awarded the respondents, including the Company, some of their costs relating to the arbitration. GRIDCO filed challenges of the tribunal's awards with the local Indian court. GRIDCO's challenge of the costs award has been dismissed by the court, but its challenge of the liability award remains pending. A hearing on the liability award has not taken place to date. The Company believes that it has meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

Pursuant to their environmental audit, AES Sul and AES Florestal discovered 200 barrels of solid creosote waste and other contaminants at a pole factory that AES Florestal had been operating. The conclusion of the audit was that a prior operator of the pole factory, Companhia Estadual de Energia ("CEEE"), had been using those contaminants to treat the poles that were manufactured at the factory. On their initiative, AES Sul and AES Florestal communicated with Brazilian authorities and CEEE about the adoption of containment and remediation measures. In March 2008, the State Attorney of the state of Rio Grande do Sul, Brazil filed a public civil action against AES Sul, AES Florestal and CEEE seeking an order requiring the companies to mitigate the contaminated area located on the grounds of the pole factory and an indemnity payment of approximately R\$6 million (\$1 million). In October 2011, the State Attorney filed a request for an injunction ordering the defendant companies to contain and remove the contamination immediately. The court granted injunctive relief on October 18, 2011, but determined that only CEEE was required to perform the removal work. In May 2012, CEEE began the removal work in compliance with the injunction. The case is now awaiting judgment. The removal and remediation costs are estimated to be approximately R\$10 million to R\$41 million (\$2 million to \$8 million), and there could be additional costs which cannot be estimated at this time. In June 2016, the Company sold AES Sul to CPFL Energia S.A. and as part of the sale, AES Guaíba, a holding company of AES Sul, retained the potential liability relating to this matter. The Company believes that there are meritorious defenses to the claims asserted against it and will defend itself vigorously in these proceedings; however, there can be no assurances that it will be successful in its efforts.

In February 2017, the EPA issued a NOV for DPL Stuart Station, alleging violations of opacity in 2016. On May 31, 2018, Stuart Station was retired, and on December 20, 2019, it was transferred to an unaffiliated third-party purchaser, along with the associated environmental liabilities.

In October 2015, AES Indiana received a similar NOV alleging violations at Petersburg Station. In addition, in February 2016, AES Indiana received an NOV from the EPA alleging violations of New Source Review and other CAA regulations, the Indiana State Implementation Plan ("SIP"), and the Title V operating permit at Petersburg Station. On August 31, 2020, AES Indiana reached a settlement with the EPA, the DOJ and IDEM, resolving these purported violations of the CAA at Petersburg Station. The settlement agreement, in the form of a proposed judicial consent decree, was approved and entered by the U.S. District Court for the Southern District of Indiana on March 23, 2021, and includes, among other items, the following requirements: annual caps on NO_x and SO₂ emissions and more stringent emissions limits than AES Indiana's current Title V air permit; payment of civil penalties totaling \$1.5 million; a \$5 million environmental mitigation project consisting of the construction and operation of a new, non-emitting source of generation at the site; expenditure of \$0.3 million on a state-only environmentally beneficial

project to preserve local, ecologically-significant lands; and retirement of Units 1 and 2 prior to July 1, 2023. If AES Indiana does not meet the retirement obligation, it must install a Selective Non-Catalytic Reduction System (SNCR) on Unit 4.

In September 2015, AES Southland Development, LLC and AES Redondo Beach, LLC filed a lawsuit against the California Coastal Commission (the "CCC") over the CCC's determination that the site of AES Redondo Beach included approximately 5.93 acres of CCC-jurisdictional wetlands. The CCC has asserted that AES Redondo Beach has improperly installed and operated water pumps affecting the alleged wetlands in violation of the California Coastal Act and Redondo Beach Local Coastal Program. Potential outcomes of the CCC determination could include an order requiring AES Redondo Beach to perform a restoration and/or pay fines or penalties. AES Redondo Beach believes that it has meritorious arguments concerning the underlying CCC determination, but there can be no assurances that it will be successful. On March 27, 2020, AES Redondo Beach, LLC sold the site to an unaffiliated third-party purchaser that assumed the obligations contained within these proceedings. On May 26, 2020, CCC staff sent AES a NOV directing AES to submit a Coastal Development Permit ("CDP") application for the removal of the water pumps within the alleged wetlands. AES has submitted the CDP to the permitting authority, the City of Redondo Beach ("the City"), with respect to AES's plans to disable or remove the pumps. The NOV also directed AES to submit technical analysis regarding additional water pumps located within onsite electrical vaults and a CDP application for their continued operation. AES has responded to the CCC, providing the requested analysis and seeking further discussion with the agency regarding the CDP. On October 14, 2020, the City deemed the CDP application to be complete and indicated a public hearing will be required, at which time AES must present additional information and analysis on the pumps within the alleged wetlands and the onsite electrical vaults.

In January 2017, the Superintendencia del Medio Ambiente ("SMA") issued a Formulation of Charges asserting that Alto Maipo is in violation of certain conditions of the Environmental Approval Resolution ("RCA") governing the construction of Alto Maipo's hydropower project, for, among other things, operating vehicles at unauthorized times and failing to mitigate the impact of water infiltration during tunnel construction ("Infiltration Water"). In February 2017, Alto Maipo submitted a compliance plan ("Compliance Plan") to the SMA which, if approved by the agency, would resolve the matter without materially impacting construction of the project. In April 2018, the SMA approved the Compliance Plan ("April 2018 Approval"). Among other things, the Compliance Plan as approved by the SMA requires Alto Maipo to obtain from the Environmental Evaluation Service ("SEA") a definitive interpretation of the RCA's provisions concerning the authorized times to operate certain vehicles. Alto Maipo continues to seek the relevant final approvals from the SEA. A number of lawsuits have been filed in relation to the April 2018 Approval, some of which are still pending. These lawsuits were consolidated into one process by The Second Environmental Tribunal of Santiago. To date, none of the lawsuits have negatively impacted the April 2018 Approval or the construction of the project. If Alto Maipo complies with the requirements of the Compliance Plan, and if the above-referenced lawsuits are dismissed, the Formulation of Charges will be discharged without penalty. Otherwise, Alto Maipo could be subject to penalties, and the construction of the project could be negatively impacted. Alto Maipo will pursue its interests vigorously in these matters; however, there can be no assurances that it will be successful in its efforts.

In June 2017, Alto Maipo terminated one of its contractors, Constructora Nuevo Maipo S.A. ("CNM"), given CNM's stoppage of tunneling works, its failure to produce a completion plan, and its other breaches of contract. Also, Alto Maipo drew \$73 million under letters of credit ("LC Funds") in connection with its termination of CNM. Alto Maipo is pursuing arbitration against CNM to recover excess completion costs and other damages totaling at least \$236 million (net of the LC Funds) relating to CNM's breaches ("First Arbitration"). CNM denies liability and seeks a declaration that its termination was wrongful, damages that it alleges result from that termination, and other relief. CNM alleges that it is entitled to damages ranging from \$70 million to \$170 million (which include the LC Funds) plus interest and costs, based on various scenarios. Alto Maipo has contested these submissions. The evidentiary hearing in the First Arbitration took place May 20-31, 2019, and closing arguments were heard June 9-10, 2020. The parties are now awaiting the Tribunal's decision in the First Arbitration. Also, in August 2018, CNM purported to initiate a separate arbitration against AES Andes and the Company ("Second Arbitration"). In the Second Arbitration, CNM seeks to pierce Alto Maipo's corporate veil and appears to seek an award holding AES Andes and the Company jointly and severally liable to pay any alleged net amounts that are found to be due to CNM in the First Arbitration or otherwise. The Second Arbitration has been consolidated into the First Arbitration. The arbitral tribunal has bifurcated the Second Arbitration to determine in the first instance the jurisdictional objections raised by AES Andes and the Company to CNM's piercing claims. The hearing on the jurisdictional objections, which was previously scheduled, has been postponed to a date to be determined. Each of Alto Maipo, AES Andes, and the Company believes it has meritorious claims and/or defenses and will pursue its interests vigorously; however, there can be no assurances that each will be successful in its efforts.

In October 2017, the Maritime Prosecution Office from Valparaíso issued a ruling alleging responsibility by AES Andes for the presence of coal waste on Ventanas beach, and proposed a fine before the Maritime Governor, of approximately \$395,000. AES Andes submitted its statement of defense, denying the allegations. An evidentiary stage was concluded and then re-opened by order of the Maritime Governor on February 5, 2019 to allow AES Andes an opportunity to present reports and other evidence to challenge the grounds of the ruling. AES Andes has completed its presentation of evidence and awaits the Maritime Prosecution Office's decision of the case. In May 2021, AES Andes was notified of an amended Opinion of the Maritime Prosecution Office which extends the alleged liability to a third party and reduces the proposed fine to AES Andes to approximately \$263,000. AES Andes responded to the new Opinion on May 31. On August 18, the Maritime Governor issued a resolution affirming the proposed fine, and on September 8, AES Andes filed an administrative action with the Maritime Governor requesting reconsideration of the fine. AES Andes believes that it has meritorious defenses to the allegations; however, there are no assurances that it will be successful in defending this action.

In December 2018, a lawsuit was filed in Dominican Republic civil court against the Company, AES Puerto Rico, and three other AES affiliates. The lawsuit purports to be brought on behalf of over 100 Dominican claimants, living and deceased, and appears to seek relief relating to CCRs that were delivered to the Dominican Republic in 2004. The lawsuit generally alleges that the CCRs caused personal injuries and deaths and demands \$476 million in alleged damages. The lawsuit does not identify, or provide any supporting information concerning, the alleged injuries of the claimants individually. Nor does the lawsuit provide any information supporting the demand for damages or explaining how the quantum was derived. The relevant AES companies believe that they have meritorious defenses to the claims asserted against them and will defend themselves vigorously in this proceeding; however, there can be no assurances that they will be successful in their efforts.

In February 2019, a separate lawsuit was filed in Dominican Republic civil court against the Company, AES Puerto Rico, two other AES affiliates, and an unaffiliated company and its principal. The lawsuit purports to be brought on behalf of over 200 Dominican claimants, living and deceased, and appears to seek relief relating to CCRs that were delivered to the Dominican Republic in 2003 and 2004. The lawsuit generally alleges that the CCRs caused personal injuries and deaths and demands over \$900 million in alleged damages. The lawsuit does not identify, or provide any supporting information concerning, the alleged injuries of the claimants individually. Nor does the lawsuit provide any information supporting the demand for damages or explaining how the quantum was derived. In August 2020, at the request of the relevant AES companies, the case was transferred to a different civil court. The relevant AES companies believe that they have meritorious defenses to the claims asserted against them and will defend themselves vigorously in this proceeding; however, there can be no assurances that they will be successful in their efforts.

In October 2019, the Superintendency of the Environment (the "SMA") notified AES Andes of certain alleged breaches associated with the environmental permit of the Ventanas Complex, initiating a sanctioning process through Exempt Resolution N° 1 / ROL D-129-2019. The alleged charges include exceeding generation limits, failing to reduce emissions during episodes of poor air quality, exceeding limits on discharges to the sea, and exceeding noise limits. AES Andes has submitted a proposed "Compliance Program" to the SMA for the Ventanas Complex. The latest version of this Compliance Program was submitted on May 26, 2021 and is currently under review by the SMA. Fines are possible if the SMA determines that non-compliance resulted in an economic benefit. As the charges are currently classified, the maximum fine is approximately \$6.5 million USD. However, if the Compliance Program is approved and successfully implemented, the process is expected to conclude without fines and to not generate further action. The cost of proposed Compliance Program is approximately \$10.5 million USD.

In March 2020, Mexico's Comisión Federal de Electricidad ("CFE") served an arbitration demand upon AES Mérida III. CFE makes allegations that AES Mérida III is in breach of its obligations under a power and capacity purchase agreement ("Contract") between the two parties, which allegations related to CFE's own failure to provide fuel within the specifications of the Contract. CFE seeks to recover approximately \$190 million in payments made to AES Merida under the Contract as well as approximately \$431 million in alleged damages for having to acquire power from alternative sources in the Yucatan Peninsula. AES Mérida has filed an answer denying liability to CFE and asserting a counterclaim for damages due to CFE's breach of its obligations. The parties submitted their respective initial briefs and supporting evidence in December 2020. After additional briefing, the evidentiary hearing will take place in November 2021. AES Mérida believes that it has meritorious defenses and claims and will assert them vigorously in the arbitration; however, there can be no assurances that it will be successful in its efforts.

In June 2021, in two constitutional actions concerning the environment, the Valparaíso Court of Appeal ordered the suspension of the operation of the wastewater discharge system of the AES Andes's Ventanas generation complex, as well as the prohibition of the arrival of vessels with coal in the Quintero Bay, and unloading of coal in the Ventanas port (owned by a third party). The orders were not effective and enforceable while AES Andes and

others pursued appellate challenges. On July 28, 2021, AES Andes and the other appellants withdrew the appellate challenges on the basis that AES Andes and the other parties are in compliance with remediation measures imposed by the Maritime Authority. On August 6, the Supreme Court issued a resolution ordering compliance with the court of appeals judgment; however, the prohibition of vessels and suspension of wastewater discharge and coal unloading operations were not made effective since AES Andes and the other parties are in compliance with the remediation measures imposed by the Maritime Authority.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A.—*Risk Factors* of our 2020 Form 10-K. Additional risks and uncertainties also may adversely affect our business and operations, including those discussed in Item 2.—*Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Board has authorized the Company to repurchase stock through a variety of methods, including open market repurchases, purchases by contract (including, without limitation, accelerated stock repurchase programs or 10b5-1 plans) and/or privately negotiated transactions. There can be no assurances as to the amount, timing or prices of repurchases, which may vary based on market conditions and other factors. The Program does not have an expiration date and can be modified or terminated by the Board of Directors at any time. As of September 30, 2021, \$264 million remained available for repurchase under the Program. No repurchases were made by The AES Corporation of its common stock during the third quarter of 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 [Certificate of Designations of the Company with respect to the Convertible Preferred Stock, filed with the Secretary of State of the State of Delaware and effective March 10, 2021, incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 3.2 [Certificate of Designations of the Company with respect to the Series B Preferred Stock, filed with the Secretary of State of the State of Delaware and effective March 10, 2021, incorporated herein by reference to Exhibit 3.2 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.1 [Purchase Contract and Pledge Agreement, dated March 11, 2021, between the Company and Deutsche Bank Trust Company Americas, as purchase contract agent, collateral agent, custodial agent and securities intermediary, incorporated herein by reference to Exhibit 4.1 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.2 [Form of Corporate Unit, incorporated herein by reference as part of Exhibit 4.1 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.3 [Form of Treasury Unit, incorporated herein by reference as part of Exhibit 4.1 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.4 [Form of Cash Settled Unit, incorporated herein by reference as part of Exhibit 4.1 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.5 [Form of Series A Cumulative Perpetual Convertible Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.5 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 4.6 [Form of Series B Cumulative Perpetual Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.6 of the Company's Form 8-K filed on March 11, 2021 \(SEC File No. 001-12291\).](#)
- 10.1 [Eight Amended and Restated Credit Agreement dated as of September 24, 2021 among The AES Corporation, a Delaware corporation, the lenders listed on the signature pages thereof, Citibank, N.A., as Administrative Agent and Citibank, N.A., Mizuho Bank Ltd. and Sumitomo Mitsui Banking Corporation, as Joint Lead Arrangers, incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on September 28, 2021 \(SEC File No. 001-12291\).](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Andrés Gluski \(filed herewith\).](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Stephen Coughlin \(filed herewith\).](#)
- 32.1 [Section 1350 Certification of Andrés Gluski \(filed herewith\).](#)
- 32.2 [Section 1350 Certification of Stephen Coughlin \(filed herewith\).](#)
- 101 The AES Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Cover Page, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Operations, (iv) Condensed Consolidated Statements of Comprehensive Income (Loss), (v) Condensed Consolidated Statements of Changes in Equity, (vi) Condensed Consolidated Statements of Cash Flows, and (vii) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE AES CORPORATION
(Registrant)

Date: November 3, 2021 By: /s/ STEPHEN COUGHLIN

Name: Stephen Coughlin

Title: *Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

By: /s/ SHERRY L. KOHAN

Name: Sherry L. Kohan

Title: *Vice President and Controller (Principal Accounting Officer)*