AES CORP
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2011

or

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

Commission file number 1-12291

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices) **(Zip Code)**

(703) 522-1315

Registrant s telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, on October 28, 2011 was 767,548,237.

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THE AES CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions, except per share amounts)			
Revenue:				
Regulated	$ 2,405	$ 2,244	$ 7,228	$ 6,642
Non-Regulated	1,976	1,746	5,889	5,135
Total revenue	4,381	3,990	13,117	11,777
Cost of Sales:				
Regulated	(1,743)	(1,638)	(5,435)	(4,918)
Non-Regulated	(1,618)	(1,385)	(4,663)	(3,958)
Total cost of sales	(3,361)	(3,023)	(10,098)	(8,876)
Gross margin	1,020	967	3,019	2,901
General and administrative expenses	(91)	(98)	(283)	(279)
Interest expense	(432)	(381)	(1,178)	(1,151)
Interest income	103	96	293	304
Other expense	(76)	(23)	(131)	(83)
Other income	58	17	108	94
Gain on sale of investments	-	-	7	-
Goodwill impairment	(17)	(18)	(17)	(18)
Asset impairment expense	(163)	(296)	(196)	(297)
Foreign currency transaction (losses) gains on net monetary position	(92)	103	(21)	(19)
Other non-operating expense	(82)	(2)	(82)	(7)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	228	365	1,519	1,445
Income tax expense	(84)	(102)	(469)	(540)
Net equity in earnings of affiliates	6	26	12	174
INCOME FROM CONTINUING OPERATIONS	150	289	1,062	1,079
Income from operations of discontinued businesses, net of income tax (benefit) expense of $(31), $8, $(33) and $23, respectively	25	29	23	92
Gain from disposal of discontinued businesses, net of income tax expense of $0, $38, $0 and $38, respectively	-	79	-	57
NET INCOME	175	397	1,085	1,228
Noncontrolling interests:				
Less: Income from continuing operations attributable to noncontrolling interests	(269)	(248)	(766)	(725)
Less: Income from discontinued operations attributable to noncontrolling interests	(37)	(35)	(52)	(58)
Total net income attributable to noncontrolling interests	(306)	(283)	(818)	(783)

NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION	$ (131)	$ 114	$ 267	$ 445
BASIC EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ (0.15)	$ 0.05	$ 0.38	$ 0.46
Discontinued operations attributable to The AES Corporation common stockholders, net of tax	(0.02)	0.09	(0.04)	0.12
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ (0.17)	$ 0.14	$ 0.34	$ 0.58
DILUTED EARNINGS PER SHARE:				
Income (loss) from continuing operations attributable to The AES Corporation common stockholders, net of tax	$ (0.15)	$ 0.05	$ 0.38	$ 0.46
Discontinued operations attributable to The AES Corporation common stockholders, net of tax	(0.02)	0.09	(0.04)	0.12
NET INCOME (LOSS) ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$ (0.17)	$ 0.14	$ 0.34	$ 0.58
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income (loss) from continuing operations, net of tax	$ (119)	$ 41	$ 296	$ 354
Discontinued operations, net of tax	(12)	73	(29)	91
Net income (loss)	$ (131)	$ 114	$ 267	$ 445

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	(in millions, except share and per share data)	
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,392	$ 2,550
Restricted cash	795	502
Short-term investments	1,053	1,718
Accounts receivable, net of allowance for doubtful accounts of $293 and $304, respectively	2,364	2,301
Inventory	668	561
Receivable from affiliates	28	27
Deferred income taxes current	278	305
Prepaid expenses	190	223
Other current assets	1,128	1,036
Current assets of discontinued and held for sale businesses	171	223
Total current assets	10,067	9,446
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	1,029	1,126
Electric generation, distribution assets and other	29,945	27,929
Accumulated depreciation	(9,257)	(9,048)
Construction in progress	2,096	4,454
Property, plant and equipment, net	23,813	24,461
Other Assets:		
Investments in and advances to affiliates	1,401	1,320
Debt service reserves and other deposits	909	653
Goodwill	1,246	1,271
Other intangible assets, net of accumulated amortization of $153 and $157, respectively	493	511
Deferred income taxes noncurrent	585	646
Other	2,133	1,958
Noncurrent assets of discontinued and held for sale businesses	236	245
Total other assets	7,003	6,604
TOTAL ASSETS	$ 40,883	$ 40,511
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,792	$ 2,048
Accrued interest	395	257
Accrued and other liabilities	2,619	2,633
Non-recourse debt current, including $269 and $1,150, respectively, related to variable interest entities	2,163	2,567
Recourse debt current	11	463
Current liabilities of discontinued and held for sale businesses	261	97
Total current liabilities	7,241	8,065
LONG-TERM LIABILITIES		

Non-recourse debt noncurrent, including $2,168 and $2,199, respectively, related to variable interest entities	12,523	12,371
Recourse debt noncurrent	6,181	4,149
Deferred income taxes noncurrent	621	895
Pension and other post-retirement liabilities	1,310	1,511
Other long-term liabilities	2,978	2,812
Long-term liabilities of discontinued and held for sale businesses	112	235
Total long-term liabilities	23,725	21,973
Contingencies and Commitments (see Note 9)		
Cumulative preferred stock of subsidiary	60	60
EQUITY		
THE AES CORPORATION STOCKHOLDERS EQUITY		
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 807,093,084 issued and 770,260,308 outstanding at September 30, 2011 and 804,894,313 issued and 787,607,240 outstanding at December 31, 2010	8	8
Additional paid-in capital	8,499	8,444
Retained earnings	887	620
Accumulated other comprehensive loss	(2,727)	(2,383)
Treasury stock, at cost (36,832,776 shares at September 30, 2011 and 17,287,073 shares at December 31, 2010, respectively)	(434)	(216)
Total The AES Corporation stockholders equity	6,233	6,473
NONCONTROLLING INTERESTS	3,624	3,940
Total equity	9,857	10,413
TOTAL LIABILITIES AND EQUITY	$ 40,883	$ 40,511

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$ 1,085	$ 1,228
Adjustments to net income:		
Depreciation and amortization	947	876
Loss from sale of investments and impairment expense	321	350
(Gain) loss on disposal and impairment write-down discontinued operations	1	(102)
Provision for deferred taxes	(67)	31
Contingencies	36	75
Loss on the extinguishment of debt	52	9
Undistributed gain from sale of equity method investment	-	(118)
Other	65	(81)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(185)	(136)
(Increase) decrease in inventory	(118)	9
Decrease in prepaid expenses and other current assets	62	194
Increase in other assets	(167)	(51)
Increase in accounts payable and accrued liabilities	200	4
Increase (decrease) in income taxes and other income tax payables, net	(151)	20
Increase in other liabilities	227	108
Net cash provided by operating activities	2,308	2,416
INVESTING ACTIVITIES:		
Capital expenditures	(1,832)	(1,528)
Acquisitions net of cash acquired	(158)	(237)
Proceeds from the sale of businesses	47	369
Proceeds from the sale of assets	89	11
Sale of short-term investments	4,191	4,583
Purchase of short-term investments	(3,632)	(4,540)
Increase in restricted cash	(164)	(82)
Increase in debt service reserves and other assets	(379)	(9)
Affiliate advances and equity investments	(91)	(77)
Proceeds from loan repayments	-	132
Proceeds from performance bond	199	-
Other investing	(4)	31
Net cash used in investing activities	(1,734)	(1,347)
FINANCING ACTIVITIES:		
Issuance of common stock	-	1,566
Borrowings under the revolving credit facilities, net	126	74
Issuance of recourse debt	2,050	-
Issuance of non-recourse debt	1,516	1,497
Repayments of recourse debt	(474)	(619)
Repayments of non-recourse debt	(1,489)	(1,441)
Payments for financing fees	(153)	(50)
Distributions to noncontrolling interests	(990)	(951)
Contributions from noncontrolling interests	6	-
Financed capital expenditures	(13)	(21)
Purchase of treasury stock	(225)	(15)

Other financing	(7)	(18)
Net cash provided by financing activities	347	22
Effect of exchange rate changes on cash	(79)	(21)
Total increase in cash and cash equivalents	842	1,070
Cash and cash equivalents, beginning	2,550	1,775
Cash and cash equivalents, ending	$ 3,392	$ 2,845
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 982	$ 1,003
Cash payments for income taxes, net of refunds	$ 647	$ 589

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

	THE AES CORPORATION STOCKHOLDERS						
	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Consolidated Comprehensive Income
				(in millions)			
Balance at January 1, 2011	$ 8	$ (216)	$ 8,444	$ 620	$ (2,383)	$ 3,940	
Net income	-	-	-	267	-	818	$ 1,085
Change in fair value of available-for-sale securities, net of income tax	-	-	-	-	(3)	-	(3)
Foreign currency translation adjustment, net of income tax	-	-	-	-	(178)	(149)	(327)
Change in unfunded pensions obligation, net of income tax	-	-	-	-	4	8	12
Change in derivative fair value, including a reclassification to earnings, net of income tax	-	-	-	-	(167)	(26)	(193)
Other comprehensive income							(511)
Total comprehensive income							$ 574
Capital contributions from noncontrolling interests	-	-	-	-	-	9	
Distributions to noncontrolling interests	-	-	-	-	-	(990)	
Disposition of businesses	-	-	-	-	-	(2)	
Acquisition of treasury stock	-	(225)	-	-	-	-	
Issuance of common stock under benefit plans and exercise of stock options and warrants, net of income tax	-	7	20	-	-	-	
Stock compensation	-	-	16	-	-	-	
Net gain on sale of subsidiary shares to noncontrolling interests	-	-	19	-	-	-	
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	16	
Balance at September 30, 2011	$ 8	$ (434)	$ 8,499	$ 887	$ (2,727)	$ 3,624	

	THE AES CORPORATION STOCKHOLDERS						
	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Consolidated Comprehensive Income
				(in millions)			
Balance at January 1, 2010	$ 7	$ (126)	$ 6,868	$ 650	$ (2,724)	$ 4,205	
Net income	-	-	-	445	-	783	$ 1,228
Change in fair value of available-for-sale securities, net of income tax	-	-	-	-	(6)	-	(6)
Foreign currency translation adjustment, net of income tax	-	-	-	-	465	54	519
Change in unfunded pensions obligation, net of income tax	-	-	-	-	3	3	6
Change in derivative fair value, including a reclassification to earnings, net of income tax	-	-	-	-	(204)	(51)	(255)

Other comprehensive income								264
Total comprehensive income								$ 1,492
Cumulative effect of consolidation of entities under variable interest entity accounting guidance	-	-	-	(47)	(38)	15		
Cumulative effect of deconsolidation of entities under variable interest entity accounting guidance	-	-	-	1	-	-		
Capital contributions from noncontrolling interests	-	-	-	-	-	30		
Distributions to noncontrolling interests	-	-	-	-	-	(1,068)		
Disposition of businesses	-	-	-	-	-	(78)		
Acquisition of treasury stock	-	(15)	-	-	-	-		
Issuance of common stock	1	-	1,566	-	-	-		
Issuance of common stock under benefit plans and exercise of stock options and warrants, net of income tax	-	9	10	-	-	-		
Stock compensation	-	-	18	-	-	-		
Changes in the carrying amount of redeemable stock of subsidiaries	-	-	-	7	-	-		
Balance at September 30, 2010	$ 8	$ (132)	$ 8,462	$ 1,056	$ (2,504)	$ 3,893		

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2011 and 2010

1. FINANCIAL STATEMENT PRESENTATION

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

On June 1, 2011, The AES Corporation filed a Current Report on Form 8-K (June 2011 Form 8-K) to recast previously filed financial statements and other information included in the Company s Form 10-K for the year ended December 31, 2010 (2010 Form 10-K) to reclassify certain businesses held for sale as discussed in Note 16 *Discontinued Operations and Held for Sale Businesses*. The updates to the 2010 Form 10-K were limited to the Company s Business Overview, Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes contained in Items 1, 6, 7 and 8, respectively. All other information in the 2010 Form 10-K remains unchanged.

Consolidation

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

AES Thames, LLC (Thames), a 208 MW coal fired plant in Connecticut, filed petitions for bankruptcy protection under Chapter 11 in the U.S. Bankruptcy Court on February 1, 2011. Effective that date, the Company lost control of the business and is no longer able to exercise significant influence over its operating and financial policies. In accordance with the accounting guidance on consolidations, Thames was deconsolidated in February 2011 and is now accounted for as a cost method investment. At the time of deconsolidation, Thames had total assets and total liabilities of $158 million and $170 million, respectively. Subsequently, the Company paid $5 million in satisfaction of a pre-existing guarantee. A net gain of $7 million has been deferred pending the completion of the bankruptcy proceedings.

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), as contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification, for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in equity and cash flows. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2010 audited consolidated financial statements and notes thereto, which are included in the June 2011 Form 8-K.

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Change in Estimate

On January 1, 2011, the Company changed its estimates related to depreciation of property, plant and equipment at its Brazilian concessionary utility and generation businesses. Based on recent information received from regulators, the depreciation rates and salvage values for its concession assets were adjusted on a prospective basis to reflect a remuneration basis, which equates to the reimbursement expected by the Company at the end of the respective concession periods. For the three months ended September 30, 2011, the impact to the condensed consolidated statement of operations was an increase in depreciation expense of $17 million and a decrease in net income attributable to The AES Corporation of $5 million, or $0.01 per share. For the nine months ended September 30, 2011, the impact to the condensed consolidated statement of operations was an increase in depreciation expense of $52 million and a decrease in net income attributable to The AES Corporation of $14 million, or $0.02 per share.

New Accounting Policies Adopted

Accounting Standards Update (ASU) No. 2009-13, Revenue Recognition (Topic 605),   Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued ASU No. 2009-13, which amended the accounting guidance related to revenue recognition. The amended guidance provides primarily two changes to the prior guidance for multiple-element revenue arrangements. The first eliminated the requirement that there be   objective and reliable evidence   of fair value for any undelivered items in order for a delivered item to be treated as a separate unit of accounting. The second required that the consideration from multiple-element revenue arrangements be allocated to all the deliverables based on their relative selling price at the inception of the arrangement. AES adopted the standard on January 1, 2011. AES elected prospective adoption and applied the revised guidance to all revenue arrangements entered into or materially modified after the date of adoption. The adoption of ASU No. 2009-13 did not have a material impact on the financial position and results of operations of AES and is not expected to have a material impact in future periods.

ASU No. 2010-28, Intangibles   Goodwill and Other (Topic 350),   When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

In December 2010, the FASB issued ASU No. 2010-28, which amended the accounting guidance related to goodwill. The amendment modified Step One of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step Two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists, eliminating an entity s ability to assert that a reporting unit is not required to perform Step Two because the carrying amount of the reporting unit is zero or negative, despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The Company adopted ASU No. 2010-28 on January 1, 2011. The adoption did not have any impact on the Company as none of its reporting units with goodwill has a zero or negative carrying amount.

ASU No. 2011-2, Receivables (Topic 310),   A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring

In April 2011, the FASB issued ASU No. 2011-2, which provides additional guidance and clarification to help creditors determine whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The Company adopted ASU No. 2011-2 on July 1, 2011. The adoption did not have any impact on the Company s financial position, results of operations or cash flows.

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ASU No. 2011-8, Intangibles Goodwill and Other (Topic 350), Testing Goodwill for Impairment

In September 2011, the FASB issued ASU No. 2011-8, which amends the existing guidance for goodwill impairment testing. Under the amendments in ASU No. 2011-8, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after this qualitative assessment, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Also, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The amendments do not change the existing accounting guidance on how Step 1 and Step 2 of the goodwill impairment test are performed. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit s fair value from a prior year as previously permitted under the existing guidance. ASU No. 2011-8 is effective for annual and interim goodwill impairment tests performed for fiscal periods beginning on or after December 15, 2011 and early adoption is permitted. AES elected to early adopt ASU No. 2011-8 for its annual goodwill impairment evaluations, which are performed at October 1 each year. The adoption is not expected to have a material impact on the Company s financial position, results of operations or cash flows in current or future periods.

Accounting Pronouncements Issued But Not Yet Effective

As of September 30, 2011, the following accounting standards have been issued, but are not yet effective for, and have not been adopted by AES.

ASU No. 2011-4, Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued ASU No. 2011-4, which among other requirements, prohibits the use of the block discount factor for all fair value level hierarchies; permits an entity to measure the fair value of its financial instruments on a net basis when the related market risks are managed on a net basis; states the highest and best use concept is no longer relevant in the measurement of financial assets and liabilities; clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in Level 3 measurements and that the application of premiums and discounts is related to the unit of account for the asset or liability being measured at fair value; and requires expanded disclosures to describe the valuation process used for Level 3 measurements and the sensitivity of Level 3 measurements to changes in unobservable inputs. In addition, entities are required to disclose the hierarchy level for items which are not measured at fair value in the statement of financial position, but for which fair value is required to be disclosed. ASU No. 2011-4 is effective for the first interim or annual period beginning on or after December 15, 2011, or January 1, 2012 for AES. The adoption is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

2. INVENTORY

The following table summarizes the Company s inventory balances as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(in millions)	
Coal, fuel oil and other raw materials	$ 377	$ 276
Spare parts and supplies	291	285
Total	$ 668	$ 561

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3. FAIR VALUE

The fair value of current financial assets and liabilities, debt service reserves and other deposits approximates their reported carrying amounts. The fair value of non-recourse debt is estimated based upon the type of loan. The fair value of variable rate loans generally approximates their carrying amounts. For fixed rate loans, fair value is estimated using quoted market prices or discounted cash flow analyses. See Note 8 *Debt* for additional information on the fair value and carrying value of debt. The fair value of interest rate swap, cap and floor agreements, foreign currency forwards, swaps and options and energy derivatives is the estimated net amount that the Company would receive or pay to sell or transfer the agreements as of the balance sheet date.

The estimated fair values of the Company s assets and liabilities have been determined using available market information. By virtue of these amounts being estimates and based on hypothetical transactions to sell assets or transfer liabilities, the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table summarizes the carrying amount and fair value of certain of the Company s financial assets and liabilities as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Assets				
Marketable securities	$ 1,093	$ 1,093	$ 1,767	$ 1,767
Derivatives	117	117	124	124
Total assets	$ 1,210	$ 1,210	$ 1,891	$ 1,891
Liabilities				
Debt	$ 20,878	$ 21,101	$ 19,550	$ 20,137
Derivatives	688	688	423	423
Total liabilities	$ 21,566	$ 21,789	$ 19,973	$ 20,560

Valuation Techniques:

The fair value measurement accounting guidance describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on current market expectations of the return on those future amounts. The cost approach is based on the amount that would currently be required to replace an asset. The Company measures its investments and derivatives at fair value on a recurring basis. Additionally, in connection with annual or event-driven impairment evaluations, certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis. These include long-lived tangible assets (i.e., property, plant and equipment), goodwill and intangible assets (e.g., sales concessions, land use rights and emissions allowances, etc.). In general, the Company determines the fair value of investments and derivatives using the market approach and the income approach, respectively. In the nonrecurring measurements of nonfinancial assets and liabilities, all three approaches are considered; however, fair value estimated under the income approach is often selected.

Investments

The Company s investments measured at fair value generally consist of marketable debt and equity securities. Equity securities are measured at fair value using quoted market prices. Debt securities primarily

consist of unsecured debentures, certificates of deposit and government debt securities held by our Brazilian subsidiaries. Returns and pricing on these instruments are generally indexed to the CDI (Brazilian equivalent to London Inter-Bank Offered Rate, or LIBOR, a benchmark interest rate widely used by banks in the interbank lending market) or Selic (overnight borrowing rate) rates in Brazil. Fair value is determined from comparisons to market data obtained for similar assets and are considered Level 2 in the fair value hierarchy. For more detail regarding the fair value of investments see Note 4 *Investments in Marketable Securities*.

Derivatives

When deemed appropriate, the Company manages its risk from interest and foreign currency exchange rate and commodity price fluctuations through the use of over-the-counter financial and physical derivative instruments. The derivatives are primarily interest rate swaps to hedge non-recourse debt to establish a fixed rate on variable rate debt, foreign exchange instruments to hedge against currency fluctuations, commodity derivatives to hedge against commodity price fluctuations and embedded derivatives associated with commodity contracts. The Company s subsidiaries are counterparties to various over-the-counter derivatives, which include interest rate swaps and options, foreign currency options and forwards and commodity swaps. In addition, the Company s subsidiaries are counterparties to certain power purchase agreements (PPAs) and fuel supply agreements that are derivatives or include embedded derivatives.

For the derivatives where there is a standard industry valuation model, the Company uses that model to estimate the fair value. For the derivatives (such PPAs and fuel supply agreements that are derivatives or include embedded derivatives) where there is not a standard industry valuation model, the Company has created internal valuation models to estimate the fair value, using observable data to the extent available. For all derivatives, the income approach is used, which consists of forecasting future cash flows based on contractual notional amounts and applicable and available market data as of the valuation date. The following are among the most common market data inputs used in the income approach: volatilities, spot and forward benchmark interest rates (such as LIBOR and Euro Inter Bank Offered Rate (EURIBOR)), foreign exchange rates and commodity prices. Forward rates and prices are generally obtained from published information provided by pricing services for an instrument with the same duration as the derivative instrument being valued. In situations where significant inputs are not observable, the Company uses relevant techniques to best estimate the inputs, such as regression analysis, Monte Carlo simulation or prices for similarly traded instruments available in the market.

For each derivative, the income approach is used to estimate the cash flows over the remaining term of the contract. Those cash flows are then discounted using the relevant spot benchmark interest rate (such as LIBOR or EURIBOR) plus a spread that reflects the credit or nonperformance risk. This risk is estimated by the Company using credit spreads and risk premiums that are observable in the market, whenever possible, or estimated borrowing costs based on bank quotes, industry publications and/or information on financing closed on similar projects. To the extent that management can estimate the fair value of these assets or liabilities without the use of significant unobservable inputs, these derivatives are classified as Level 2.

In certain instances, the published forward rates or prices may not extend through the remaining term of the contract and management must make assumptions to extrapolate the curve, which necessitates the use of unobservable inputs, such as proxy commodity prices or historical settlements to forecast forward prices. In addition, in certain instances, there may not be third party data readily available, which requires the use of unobservable inputs. Similarly, in certain instances, the spread that reflects the credit or nonperformance risk is unobservable. The fair value hierarchy of an asset or a liability is based on the level of significance of the input assumptions. An input assumption is considered significant if it affects the fair value by at least 10%. Assets and liabilities are transferred to Level 3 when the use of unobservable inputs becomes significant. Similarly, when the use of unobservable input becomes insignificant for Level 3 assets and liabilities, they are transferred to Level 2.

Transfers in and out of Level 3 are from and to Level 2 and are determined as of the end of the reporting period. The Company has not had any Level 1 derivatives so there have not been any transfers between Levels 1 and 2.

Nonfinancial Assets and Liabilities

For nonrecurring measurements derived using the income approach, fair value is determined using valuation models based on the principles of discounted cash flows (DCF). The income approach is most often used in the impairment evaluation of long-lived tangible assets, goodwill and intangible assets. The Company has developed internal valuation models for such valuations; however, an independent valuation firm may be engaged in certain situations. In such situations, the independent valuation firm largely uses DCF valuation models as the primary measure of fair value though other valuation approaches are also considered. A few examples of input assumptions to such valuations include macroeconomic factors such as growth rates, industry demand, inflation, exchange rates and power and commodity prices. Whenever possible, the Company attempts to obtain market observable data to develop input assumptions. Where the use of market observable data is limited or not possible for certain input assumptions, the Company develops its own estimates using a variety of techniques such as regression analysis and extrapolations.

For nonrecurring measurements derived using the market approach, recent market transactions involving the sale of identical or similar assets are considered. The use of this approach is limited because it is often difficult to find sale transactions of identical or similar assets. This approach is used in the impairment evaluations of certain intangible assets. Otherwise, it is used to corroborate the fair value determined under the income approach.

For nonrecurring measurements derived using the cost approach, fair value is typically determined using the replacement cost approach. Under this approach, the depreciated replacement cost of assets is determined by first determining the current replacement cost of assets and then applying the remaining useful life percentages to such cost. Further adjustments for economic and functional obsolescence are made to the depreciated replacement cost. This approach involves a considerable amount of judgment, which is why its use is limited to the measurement of a few long-lived tangible assets. Like the market approach, this approach is also used to corroborate the fair value determined under the income approach. For the nine months ended September 30, 2011, the Company did not measure any nonfinancial assets under the cost approach.

Fair Value Considerations:

In determining fair value, the Company considers the source of observable market data inputs, liquidity of the instrument, the credit risk of the counterparty and the risk of the Company s or its counterparty s nonperformance. The conditions and criteria used to assess these factors are:

Sources of market assumptions

The Company derives most of its market assumptions from market efficient data sources (e.g., Bloomberg and Platt s). To determine fair value, where market data is not readily available, management uses comparable market sources and empirical evidence to develop its own estimates of market assumptions.

Market liquidity

The Company evaluates market liquidity based on whether the financial or physical instrument, or the underlying asset, is traded in an active or inactive market. An active market exists if the prices are fully transparent to market participants, can be measured by market bid and ask quotes, the market has a relatively large proportion of trading volume as compared to the Company s current trading volume and the market has a significant number of market participants that will allow the market to rapidly absorb the quantity of the assets traded without significantly affecting the market price. Another factor the Company considers when determining whether a market is active or inactive is the presence of government or regulatory controls over pricing that could make it difficult to establish a market based price when entering into a transaction.

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Nonperformance risk

Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which a liability is transferred or an asset is sold. Nonperformance risk includes, but may not be limited to, the Company or counterparty s credit and settlement risk. Nonperformance risk adjustments are dependent on credit spreads, letters of credit, collateral, other arrangements available and the nature of master netting arrangements. The Company and its subsidiaries are parties to various interest rate swaps and options; foreign currency options and forwards; and derivatives and embedded derivatives which subject the Company to nonperformance risk. The financial and physical instruments held at the subsidiary level are generally non-recourse to the Parent Company.

Nonperformance risk on the investments held by the Company is incorporated in the fair value derived from quoted market data to mark the investments to fair value.

The Company adjusts for nonperformance or credit risk on its derivative instruments by deducting a credit valuation adjustment (CVA). The CVA is based on the margin or debt spread of the Company s subsidiary or counterparty and the tenor of the respective derivative instrument. The counterparty for a derivative asset position is considered to be the bank or government sponsored banking entity or counterparty to the PPA or commodity contract. The CVA for asset positions is based on the counterparty s credit ratings and debt spreads or, in the absence of readily obtainable credit information, the respective country debt spreads are used as a proxy. The CVA for liability positions is based on the Parent Company s or the subsidiary s current debt spread, the margin on indicative financing arrangements, or in the absence of readily obtainable credit information, the respective country debt spreads are used as a proxy. All derivative instruments are analyzed individually and are subject to unique risk exposures.

Recurring Measurements

The following table sets forth, by level within the fair value hierarchy, the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010. Financial assets and liabilities have been classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the determination of the fair value of the assets and liabilities and their placement within the fair value hierarchy levels.

	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total September 30, 2011
		(in millions)		
Assets				
Available-for-sale securities	$ 2	$ 1,041	$ 40	$ 1,083
Trading securities	10	-	-	10
Derivatives	-	57	60	117
Total assets	$ 12	$ 1,098	$ 100	$ 1,210
Liabilities				
Derivatives	$ -	$ 419	$ 269	$ 688
Total liabilities	$ -	$ 419	$ 269	$ 688

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	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total December 31, 2010
		(in millions)		
Assets				
Available-for-sale securities	$ 8	$ 1,707	$ 42	$ 1,757
Trading securities	10	-	-	10
Derivatives	-	63	61	124
Total assets	$ 18	$ 1,770	$ 103	$ 1,891
Liabilities				
Derivatives	$ -	$ 411	$ 12	$ 423
Total liabilities	$ -	$ 411	$ 12	$ 423

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, 2011 and 2010 (presented net by type of derivative):

	Three Months Ended September 30, 2011				
	Interest Rate	Cross Currency	Foreign Currency	Commodity and Other	Total
			(in millions)		
Balance at July 1	$ (60)	$ 15	$ 38	$ 17	$ 10
Total gains (losses) (realized and unrealized):					
Included in earnings[(1)]	-	(3)	4	(44)	(43)
Included in other comprehensive income	(36)	(37)	-	-	(73)
Included in regulatory (assets) liabilities	-	-	-	(3)	(3)
Settlements	4	4	(1)	(8)	(1)
Transfers of assets (liabilities) into Level 3[(2)]	(101)	-	-	-	(101)
Transfers of (assets) liabilities out of Level 3[(2)]	2	-	-	-	2
Balance at September 30	$ (191)	$ (21)	$ 41	$ (38)	$ (209)
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	$ -	$ (2)	$ 2	$ (52)	$ (52)

	Three Months Ended September 30, 2010				
	Interest Rate	Cross Currency	Foreign Currency	Commodity and Other	Total
			(in millions)		
Balance at July 1	$ (226)	$ (34)	$ 18	$ 19	$ (223)
Total gains (losses) (realized and unrealized):					
Included in earnings[(1)]	(2)	-	-	(3)	(5)
Included in other comprehensive income	(63)	24	(1)	-	(40)
Included in regulatory (assets) liabilities	(3)	-	-	(2)	(5)
Settlements	15	1	-	(3)	13
Transfers of assets (liabilities) into Level 3[(2)]	(3)	-	-	-	(3)
Transfers of (assets) liabilities out of Level 3[(2)]	26	-	-	-	26

Balance at September 30	$	(256)	$	(9)	$	17	$	11	$	(237)
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)	$	-	$	-	$	-	$	(1)

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	Nine Months Ended September 30, 2011				
	Interest Rate	Cross Currency	Foreign Currency (in millions)	Commodity and Other	Total
Balance at January 1	$ (1)	$ 10	$ 22	$ 18	$ 49
Total gains (losses) (realized and unrealized):					
Included in earnings[1]	-	(5)	21	(50)	(34)
Included in other comprehensive income	(3)	(34)	-	-	(37)
Included in regulatory (assets) liabilities	-	-	-	3	3
Settlements	-	8	(2)	(9)	(3)
Transfers of assets (liabilities) into Level 3[2]	(189)	-	-	-	(189)
Transfers of (assets) liabilities out of Level 3[2]	2	-	-	-	2
Balance at September 30	$ (191)	$ (21)	$ 41	$ (38)	$ (209)
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	$ -	$ (2)	$ 18	$ (56)	$ (40)

	Nine Months Ended September 30, 2010				
	Interest Rate	Cross Currency	Foreign Currency (in millions)	Commodity and Other	Total
Balance at January 1	$ (12)	$ (12)	$ -	$ 24	$ -
Total gains (losses) (realized and unrealized):					
Included in earnings[1]	1	4	19	1	25
Included in other comprehensive income	(20)	(5)	-	-	(25)
Included in regulatory (assets) liabilities	(6)	-	-	2	(4)
Settlements	6	4	(1)	(16)	(7)
Transfers of assets (liabilities) into Level 3[2]	(251)	-	(1)	-	(252)
Transfers of (assets) liabilities out of Level 3[2]	26	-	-	-	26
Balance at September 30	$ (256)	$ (9)	$ 17	$ 11	$ (237)
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	$ (2)	$ 5	$ 20	$ (10)	$ 13

(1) The gains (losses) included in earnings for these Level 3 derivatives are classified as follows: interest rate and cross currency derivatives as interest expense, foreign currency derivatives as foreign currency transaction gains (losses) and commodity and other derivatives as either non-regulated revenue, non-regulated cost of sales, or other expense. See Note 5 *Derivative Instruments and Hedging Activities* for further information regarding the classification of gains and losses included in earnings in the condensed consolidated statements of operations.

(2) Transfers in and out of Level 3 are determined as of the end of the reporting period and are from and to Level 2, as the Company has no Level 1 derivative assets or liabilities. The (assets) liabilities transferred out of Level 3 are primarily the result of a decrease in the significance of unobservable inputs used to calculate the credit valuation adjustments of these derivative instruments. Similarly, the assets (liabilities) transferred into Level 3 are primarily the result of an increase in the significance of unobservable inputs used to calculate the credit valuation adjustments of these derivative instruments.

The following table presents a reconciliation of available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Balance at beginning of period[1]	$ 40	$ 42	$ 42	$ 42
Settlements	-	-	(2)	-
Balance at September 30	$ 40	$ 42	$ 40	$ 42
Total gains/(losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets held at the end of the period	$ -	$ -	$ -	$ -

[1] Available-for-sale securities in Level 3 are variable rate demand notes which have failed remarketing and for which there are no longer adequate observable inputs available to measure the fair value.

Nonrecurring Measurements:

For purposes of impairment evaluation, the Company measured the fair value of long-lived assets and equity method investments under the fair value measurement accounting guidance. For purposes of the measurement of impairment expense, the Company compares the fair value of assets and liabilities at the evaluation date to the carrying amount at the end of the month prior to the evaluation date. The following table summarizes major categories of assets and liabilities measured at fair value on a nonrecurring basis during the period and their level within the fair value hierarchy:

	Nine Months Ended September 30, 2011				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Gross Loss
	(in millions)				
Long-lived assets held and used:					
Wind turbines and deposits	$ 161	$ -	$ 45	$ -	$ 116
Kelanitissa	66	-	-	29	37
Carbon Reduction Projects	49	-	-	11	33[1]
Bohemia	14	-	5	-	9
Equity method affiliates:					
YangCheng	100	-	-	26	74
Goodwill:					
Chigen	17	-	-	-	17

	Nine Months Ended September 30, 2010				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Gross Loss
	(in millions)				
Long-lived assets held and used:					
Southland (Huntington Beach)	$ 288	$ -	$ -	$ 88	$ 200
Tisza II	160	-	-	75	85
Goodwill:					
Deepwater	18	-	-	-	18

(1) The carrying amounts and fair value of the asset groups also include other assets and liabilities; however, impairment expense recognized was limited to the carrying amounts of long-lived assets.

Long-lived Assets Held and Used

Wind Turbines and Deposits. During the third quarter of 2011, the Company determined that certain wind turbines and deposits held by our Wind Generation business were impaired. The long-lived assets with a carrying amount of $161 million were written down to their estimated fair value of $45 million under the market approach. This resulted in the recognition of asset impairment expense of $116 million for the three and nine months ended September 30, 2011.

Kelanitissa. During the second quarter of 2011, the Company determined the long-lived assets at Kelanitissa, our diesel-fired plant in Sri Lanka, were impaired. The long-lived assets with a carrying amount of $66 million were written down to their estimated fair value of $33 million based on a discounted cash flow analysis. An additional impairment of $4 million was recognized in the three months ended September 30, 2011. This resulted in the recognition of asset impairment expense of $37 million for the nine months ended September 30, 2011.

Carbon Reduction Projects. During the third quarter of 2011, the Company determined there were impairment indicators for the long-lived asset groups at Carbon Reduction projects, our emission reduction credit projects in Asia and Latin America. The long-lived asset groups with an aggregate carrying amount of $49 million were written down as their estimated fair value was $11 million based on discounted cash flows analysis. This resulted in the recognition of asset impairment expense of $33 million for the three and nine months ended September 30, 2011.

Tisza II and Southland (Huntington Beach). During the third quarter of 2010, the Company determined there were impairment indicators for the long-lived assets at Tisza II, our gas-fired generation plant in Hungary, and Southland, our gas-fired generation plants in California. These long-lived assets had carrying amounts of $160 million and $288 million, respectively and were written down to their fair value of $75 million and $88 million, respectively. These resulted in the recognition of asset impairment expense of $85 million and $200 million, respectively during the three and nine months ended September 30, 2010.

For further discussion of these impairments, see Note 14 *Impairments*.

Equity Method Affiliate

YangCheng. During the third quarter of 2011, the Company determined that the carrying amount of YangCheng, a 2,100 MW venture in China in which AES owns a 25% interest, had incurred an other-than-temporary impairment. YangCheng s carrying amount of $100 million was written down to its estimated fair value of $26 million determined under the income approach. This resulted in the recognition of other non-operating expense of $74 million for the three and nine months ended September 30, 2011. See Note 15 *Other Non-Operating Expense* for further information.

Goodwill

During the third quarter of 2011, the Company determined there were impairment indicators for the goodwill at Chigen, our holding company in China that holds AES interests in Chinese ventures. Goodwill of $17 million was written down to its implied fair value of zero during an interim impairment evaluation, resulting in the recognition of goodwill impairment of $17 million for the three and nine months ended September 30, 2011.

During the third quarter of 2010, the Company determined there were impairment indicators for the long-lived assets and goodwill at Deepwater, our pet coke-fired generation plant in Texas. Goodwill with an aggregate carrying amount of $18 million was written down to its implied fair value of zero, resulting in the recognition of goodwill impairment of $18 million for the nine months ended September 30, 2010.

For further discussion, see Note 14 *Impairments.*

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Discontinued Operations and Held for Sale Businesses

The Company determined the fair value of nonfinancial assets and liabilities of our held for sale businesses during the nine months ended September 30, 2010. These included the Company s operations in Pakistan, Oman and Qatar. See Note 16 *Discontinued Operations and Held for Sale Businesses* for further information.

4. INVESTMENTS IN MARKETABLE SECURITIES

The following table sets forth the Company s investments in marketable debt and equity securities as of September 30, 2011 and December 31, 2010 by security class and by level within the fair value hierarchy. The security classes are determined based on the nature and risk of a security and are consistent with how the Company manages, monitors and measures its marketable securities.

	September 30, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(in millions)				
AVAILABLE-FOR-SALE:[1]								
Debt securities:								
Unsecured debentures[2]	$ -	$ 498	$ -	$ 498	$ -	$ 723	$ -	$ 723
Certificates of deposit[2]	-	447	-	447	-	876	-	876
Government debt securities	-	40	-	40	-	47	-	47
Other debt securities	-	-	40	40	-	-	42	42
Subtotal	-	985	40	1,025	-	1,646	42	1,688
Equity securities:								
Mutual funds	-	56	-	56	1	61	-	62
Common stock	2	-	-	2	7	-	-	7
Subtotal	2	56	-	58	8	61	-	69
Total available-for-sale	2	1,041	40	1,083	8	1,707	42	$ 1,757
TRADING:								
Equity securities:								
Mutual funds	10	-	-	10	10	-	-	10
Total trading	10	-	-	10	10	-	-	10
TOTAL	$ 12	$ 1,041	$ 40	$ 1,093	$ 18	$ 1,707	$ 42	$ 1,767

(1) Cost/amortized cost approximated fair value at September 30, 2011 and December 31, 2010, with the exception of certain common stock investments with a cost basis and fair value of $4 million and $2 million, respectively, at September 30, 2011, and a cost basis and fair value of $6 million and $7 million, respectively, at December 31, 2010.

(2) Unsecured debentures are instruments similar to certificates of deposit that are held primarily by our subsidiaries in Brazil. The unsecured debentures and certificates of deposit included here do not qualify as cash equivalents, but meet the definition of a security under the relevant guidance and are therefore classified as available-for-sale securities.

As of September 30, 2011, all available-for-sale debt securities had stated maturities within one year, with the exception of $40 million of variable rate demand notes held by IPL. These securities, classified as other debt securities in the table above, had stated maturities of greater than ten years.

The following table summarizes the pre-tax gains and losses related to available-for-sale and trading securities for the three and nine months ended September 30, 2011 and 2010. Gains and losses on the sale of investments are determined using the specific identification method. For the three and nine months ended

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September 30, 2011 and 2010, there were no realized losses on the sale of available-for-sale securities and no other-than-temporary impairment of marketable securities recognized in earnings or other comprehensive income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)		(in millions)	
Losses included in earnings that relate to trading securities held at the reporting date	$ (2)	$ (1)	$ (1)	$ -
Unrealized losses on available-for-sale securities included in other comprehensive income	$ (1)	$ -	$ (4)	$ (10)
Proceeds from sales of available-for-sale securities	$ 1,134	$ 1,420	$ 4,218	$ 4,644
Gross realized gains on sales	$ 1	$ -	$ 5	$ 2

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives

The Company is exposed to market risks associated with its enterprise-wide business activities, namely the purchase and sale of fuel and electricity as well as foreign currency risk and interest rate risk. In order to manage the market risks associated with these business activities, we enter into contracts that incorporate derivatives and financial instruments, including forwards, futures, options, swaps or combinations thereof, as appropriate. The Company generally applies hedge accounting to contracts as long as they are eligible under the accounting standards for derivatives and hedging. While derivative transactions are not entered into for trading purposes, some contracts are not eligible for hedge accounting.

Interest Rate Risk

AES and its subsidiaries utilize variable rate debt financing for construction projects and operations, resulting in an exposure to interest rate risk. Interest rate swap, cap and floor agreements are entered into to manage interest rate risk by effectively fixing or limiting the interest rate exposure on the underlying financing. These interest rate contracts range in maturity through 2030, and are typically designated as cash flow hedges. The following table sets forth, by underlying type of interest rate index, the Company s current and maximum outstanding notional under its interest rate derivative instruments, the weighted average remaining term and the percentage of variable-rate debt hedged that is based on the related index as of September 30, 2011 regardless of whether the derivative instruments are in qualifying cash flow hedging relationships:

	September 30, 2011					
	Current		Maximum[1]			
Interest Rate Derivatives	Derivative Notional	Derivative Notional Translated to USD	Derivative Notional	Derivative Notional Translated to USD	Weighted Average Remaining Term[1] (in years)	% of Debt Currently Hedged by Index[2]
		(in millions)				
Libor (U.S. Dollar)	3,511	$ 3,511	3,585	$ 3,585	9	75%
Euribor (Euro)	1,072	1,435	1,072	1,435	13	66%
Libor (British Pound Sterling)	63	98	72	112	12	87%
Securities Industry and Financial Markets Association Municipal Swap Index (U.S. Dollar)	40	40	40	40	11	N/A[3]

(1) The Company s interest rate derivative instruments primarily include accreting and amortizing notionals. The maximum derivative notional represents the largest notional at any point between September 30, 2011 and the maturity of the derivative instrument, which includes forward starting derivative instruments. The weighted average remaining term represents the remaining tenor of our interest rate derivatives weighted by the corresponding maximum notional.

(2) Excludes variable-rate debt tied to other indices where the Company has no interest rate derivatives.

(3) The debt that was being hedged is no longer exposed to variable interest payments because it is now held on IPL s behalf and no longer bears interest.

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Cross currency swaps are utilized in certain instances to manage the risk related to fluctuations in both interest rates and certain foreign currencies. These cross currency contracts range in maturity through 2028. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional amount under its cross currency derivative instruments as of September 30, 2011, which are all in qualifying cash flow hedge relationships. These swaps are amortizing and therefore the notional amount represents the maximum outstanding notional amount as of September 30, 2011:

	September 30, 2011			
Cross Currency Swaps	**Notional**	**Notional Translated to USD** (in millions)	**Weighted Average Remaining Term[1]** (in years)	**% of Debt Currently Hedged by Index[2]**
Chilean Unidad de Fomento (CLF)	6	$ 237	14	83%

(1) Represents the remaining tenor of our cross currency swaps weighted by the corresponding notional.

(2) Represents the proportion of foreign currency denominated debt hedged by the same foreign currency denominated notional of the cross currency swap.

Foreign Currency Risk

We are exposed to foreign currency risk as a result of our investments in foreign subsidiaries and affiliates. AES operates businesses in many foreign countries and such operations may be impacted by significant fluctuations in foreign currency exchange rates. Foreign currency options and forwards are utilized, where deemed appropriate, to manage the risk related to fluctuations in certain foreign currencies. These foreign currency contracts range in maturity through 2015. The following tables set forth, by type of foreign currency denomination, the Company s outstanding notional amounts over the remaining terms of its foreign currency derivative instruments as of September 30, 2011 regardless of whether the derivative instruments are in qualifying hedging relationships:

	September 30, 2011			
Foreign Currency Options	**Notional**	**Notional Translated to USD[1]** (in millions)	**Probability Adjusted Notional[2]**	**Weighted Average Remaining Term[3]** (in years)
Brazilian Real (BRL)	173	$ 105	$ 96	<1
Euro (EUR)	67	96	82	<1
British Pound (GBP)	29	47	40	<1
Argentine Peso (ARS)	88	20	8	<1

(1) Represents contractual notionals at inception of trade.

(2) Represents the gross notional amounts times the probability of exercising the option, which is based on the relationship of changes in the option value with respect to changes in the price of the underlying currency.

(3) Represents the remaining tenor of our foreign currency options weighted by the corresponding notional.

	September 30, 2011		
Foreign Currency Forwards	**Notional**	**Notional Translated to USD** (in millions)	**Weighted Average Remaining Term[1]** (in years)
Chilean Peso (CLP)	98,944	$ 201	<1
Euro (EUR)	123	169	2
Colombian Peso (COP)	80,376	44	<1
British Pound (GBP)	11	17	1
Argentine Peso (ARS)	61	13	1

[1] Represents the remaining tenor of our foreign currency forwards weighted by the corresponding notional.

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In addition, certain of our subsidiaries have entered into contracts which contain embedded derivatives that require separate valuation and accounting due to the fact that the item being purchased or sold is denominated in a currency other than the functional currency of that subsidiary or the currency of the item. These contracts range in maturity through 2025. The following table sets forth, by type of foreign currency denomination, the Company s outstanding notional over the remaining terms of its foreign currency embedded derivative instruments as of September 30, 2011:

	September 30, 2011		
Embedded Foreign Currency Derivatives	**Notional**	**Notional Translated to USD (in millions)**	**Weighted Average Remaining Term[1] (in years)**
Philippine Peso (PHP)	15,973	$ 363	2
Argentine Peso (ARS)	904	215	11
Kazakhstani Tenge (KZT)	30,606	207	9
Hungarian Forint (HUF)	10,114	46	<1
Euro (EUR)	20	27	2
Brazilian Real (BRL)	4	2	1

(1) Represents the remaining tenor of our foreign currency embedded derivatives weighted by the corresponding notional.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the price of electricity, fuel and environmental credits. Although we primarily consist of businesses with long-term contracts or retail sales concessions (which provide our distribution businesses with a franchise to serve a specific geographic region), a portion of our current and expected future revenues are derived from businesses without significant long-term purchase or sales contracts. These businesses subject our results of operations to the volatility of prices for electricity, fuel and environmental credits in competitive markets. We have used a hedging strategy, where appropriate, to hedge our financial performance against the effects of fluctuations in energy commodity prices. The implementation of this strategy can involve the use of PPAs, fuel supply agreements, commodity forward contracts, futures, swaps and options. Some of our businesses hedge certain aspects of their commodity risks using financial hedging instruments.

The PPAs and fuel supply agreements entered into by the Company are evaluated to determine if they meet the definition of a derivative or contain embedded derivatives, either of which requires separate valuation and accounting. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. Generally, these agreements do not meet the definition of a derivative, often due to the inability to be net settled. On a quarterly basis, we evaluate the markets for the commodities to be delivered under these agreements to determine if facts and circumstances have changed such that the agreements could then be net settled and meet the definition of a derivative.

Nonetheless, certain of the PPAs and fuel supply agreements entered into by certain of the Company s subsidiaries are derivatives or contain embedded derivatives requiring separate valuation and accounting. These contracts range in maturity through 2024. The following table sets forth, by type of commodity, the Company s outstanding notionals for the remaining term of its commodity derivatives and embedded derivative instruments as of September 30, 2011:

	September 30, 2011	
Commodity Derivatives	**Notional (in millions)**	**Weighted Average Remaining Term[1] (in years)**
Natural gas (MMBTU)	33	11
Aluminum (MWh)	16[2]	8
Petcoke (Metric tons)	13	13

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(1) Represents the remaining tenor of our commodity and embedded derivatives weighted by the corresponding volume.
(2) Sonel s PPA with its primary offtaker, an aluminum smelter, contains an embedded derivative which reflects the linkage of our energy contract pricing, in part, to the price of aluminum as quoted on the London Metals Exchange, a global metals market maker (as required by contract). While the linkage between the contract price of power based on forecasted forward aluminum price curves and the Cameroon market price for power provides for economic alignment between Sonel s financial results under the PPA and the offtaker s financial performance, to the extent there are fluctuations in the price of aluminum as compared to the market price for power under our PPA, we may be exposed to significant swings in earnings through mark-to-market adjustments of the embedded derivative as the market price for aluminum has proven to be volatile.

Accounting and Reporting

The following table sets forth the Company s derivative instruments as of September 30, 2011 and December 31, 2010 by type of derivative and by level within the fair value hierarchy. Derivative assets and liabilities are recognized at their fair value. Derivative assets and liabilities are combined with other balances and included in the following captions in our condensed consolidated balance sheets: current derivative assets in other current assets, noncurrent derivative assets in other noncurrent assets, current derivative liabilities in accrued and other liabilities and long-term derivative liabilities in other long-term liabilities.

	September 30, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)				(in millions)			
Assets								
Current assets:								
Foreign currency derivatives	$ -	$ 48	$ 4	$ 52	$ -	$ 4	$ 3	$ 7
Commodity and other derivatives	-	-	5	5	-	2	3	5
Total current assets	-	48	9	57	-	6	6	12
Noncurrent assets:								
Interest rate derivatives	-	-	-	-	-	49	-	49
Cross currency derivatives	-	-	1	1	-	-	12	12
Foreign currency derivatives	-	5	49	54	-	4	27	31
Commodity and other derivatives	-	4	1	5	-	4	16	20
Total noncurrent assets	-	9	51	60	-	57	55	112
Total assets	$ -	$ 57	$ 60	$ 117	$ -	$ 63	$ 61	$ 124
Liabilities								
Current liabilities:								
Interest rate derivatives	$ -	$ 102	$ 29	$ 131	$ -	$ 137	$ -	$ 137
Cross currency derivatives	-	-	5	5	-	-	2	2
Foreign currency derivatives	-	6	1	7	-	13	-	13
Commodity and other derivatives	-	5	3	8	-	-	-	-
Total current liabilities	-	113	38	151	-	150	2	152
Long-term liabilities:								
Interest rate derivatives	-	294	162	456	-	246	1	247
Cross currency derivatives	-	-	17	17	-	-	-	-
Foreign currency derivatives	-	11	11	22	-	15	8	23
Commodity and other derivatives	-	1	41	42	-	-	1	1

Total long-term liabilities	-	306	231	537	-	261	10	271
Total liabilities	$ -	$ 419	$ 269	$ 688	$ -	$ 411	$ 12	$ 423

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The following table sets forth the fair value and balance sheet classification of derivative instruments as of September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
	Designated as Hedging Instruments	Not Designated as Hedging Instruments (in millions)	Total	Designated as Hedging Instruments	Not Designated as Hedging Instruments (in millions)	Total
Assets						
Current assets:						
Foreign currency derivatives	$ 17	$ 35	$ 52	$ -	$ 7	$ 7
Commodity and other derivatives	-	5	5	-	5	5
Total current assets	17	40	57	-	12	12
Noncurrent assets:						
Interest rate derivatives	-	-	-	49	-	49
Cross currency derivatives	1	-	1	12	-	12
Foreign currency derivatives	2	52	54	-	31	31
Commodity and other derivatives	-	5	5	-	20	20
Total noncurrent assets	3	57	60	61	51	112
Total assets	$ 20	$ 97	$ 117	$ 61	$ 63	$ 124
Liabilities						
Current liabilities:						
Interest rate derivatives	$ 126	$ 5	$ 131	$ 126	$ 11	$ 137
Cross currency derivatives	5	-	5	2	-	2
Foreign currency derivatives	1	6	7	8	5	13
Commodity and other derivatives	-	8	8	-	-	-
Total current liabilities	132	19	151	136	16	152
Long-term liabilities:						
Interest rate derivatives	437	19	456	232	15	247
Cross currency derivatives	17	-	17	-	-	-
Foreign currency derivatives	-	22	22	-	23	23
Commodity and other derivatives	-	42	42	-	1	1
Total long-term liabilities	454	83	537	232	39	271
Total liabilities	$ 586	$ 102	$ 688	$ 368	$ 55	$ 423

The Company has elected not to offset net derivative positions in the financial statements. Accordingly, the Company does not offset such derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements. At September 30, 2011 and December 31, 2010, we held no cash collateral that we received from counterparties to our derivative positions. As we have not received collateral, our derivative assets are exposed to the credit risk of the respective counterparty and, due to this credit risk, the fair values of our derivative assets (as shown in the above two tables) have been reduced by a credit valuation adjustment. Also, at September 30, 2011 and December 31, 2010, we had no cash collateral posted with (held by) counterparties to our derivative positions.

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The table below sets forth the pre-tax accumulated other comprehensive income (loss) expected to be recognized as an increase (decrease) to income from continuing operations before income taxes over the next twelve months as of September 30, 2011 for the following types of derivatives:

	Accumulated Other Comprehensive Income (Loss) (in millions)
Interest rate derivatives	$ (116)
Cross currency derivatives	$ (1)
Foreign currency derivatives	$ 16

The balance in accumulated other comprehensive loss related to derivative transactions will be reclassified into earnings as interest expense is recognized for interest rate hedges and cross currency swaps, as depreciation is recognized for interest rate hedges during construction, and as foreign currency gains and losses are recognized for hedges of foreign currency exposure. These balances are included in the condensed consolidated statements of cash flows as operating and/or investing activities based on the nature of the underlying transaction.

The following tables set forth the gains (losses) recognized in accumulated other comprehensive loss (AOCL) and earnings related to the effective portion of derivative instruments in qualifying cash flow hedging relationships, as defined in the accounting standards for derivatives and hedging, for the three and nine months ended September 30, 2011 and 2010:

	Gains (Losses) Recognized in AOCL Three Months Ended September 30,		Classification in Condensed Consolidated	Gains (Losses) Reclassified from AOCL into Earnings[1] Three Months Ended September 30,	
	2011	2010	Statements of Operations	2011	2010
	(in millions)			(in millions)	
Interest rate derivatives	$ (297)	$ (138)	Interest expense	$ (35)[2]	$ (24)[2]
			Non-regulated cost of sales	(1)[2]	(3)[2]
			Net equity in earnings of affiliates	(1)	(1)
Cross currency derivatives	(37)	24	Interest expense	(3)	-
			Foreign currency transaction gains (losses)	(26)	30
Foreign currency derivatives	29	(12)	Foreign currency transaction gains (losses)	3	1
Commodity and other derivatives	-	(4)	Non-regulated cost of sales	(2)	-
Total	$ (305)	$ (130)		$ (65)	$ 3

	Gains (Losses) Recognized in AOCL Nine Months Ended September 30,		Classification in Condensed Consolidated	Gains (Losses) Reclassified from AOCL into Earnings[1] Nine Months Ended September 30,	
	2011	2010	Statements of Operations	2011	2010
	(in millions)			(in millions)	
Interest rate derivatives	$ (389)	$ (388)	Interest expense	$ (88)[2]	$ (81)[2]
			Non-regulated cost of sales	(3)[2]	(3)[2]

			Net equity in earnings of affiliates	(3)	(3)
Cross currency derivatives	(34)	(5)	Interest expense	(7)	(1)
			Foreign currency transaction gains (losses)	(20)	16
Foreign currency derivatives	27	(5)	Foreign currency transaction gains (losses)	(1)	1
Commodity and other derivatives	-	(4)	Non-regulated cost of sales	(2)	-
Total	$ (396)	$ (402)			