



St. John's, NL - August 2, 2019

## FORTIS INC. REPORTS SECOND QUARTER 2019 EARNINGS<sup>1</sup>

### Highlights

- Second quarter 2019 net earnings of \$1.66 per common share. The results were impacted by weather.
- After-tax gain on sale of Waneta Expansion Hydroelectric Project ("Waneta Expansion") of \$484 million
- Adjusted net earnings<sup>2</sup> of \$0.54 per common share
- 2019 capital expenditure plan increased by \$0.6 billion to \$4.3 billion
- Utilized \$142 million at-the-market common equity program to fund incremental 2019 capital plan

Fortis Inc. ("Fortis" or the "Corporation") (TSX/NYSE:FTS), a leader in the North American regulated electric and gas utility industry, released its second quarter results today.

"Fortis continues to deliver on its organic growth strategy with additional investment in renewable energy and electric transmission. The \$0.6 billion increase in our 2019 capital plan is driven by Tucson Electric Power's investment in the Oso Grande Wind Project, which is the Corporation's largest wind generation investment to date, and by ITC's purchased and expected purchase of additional transmission assets in Michigan and Iowa," said Barry Perry, President and Chief Executive Officer, Fortis. "We are also pleased that FortisBC recently entered into its first term supply agreement to produce liquefied natural gas ("LNG") for export to China. This agreement is an unprecedented development in Canada's LNG export industry and was made possible by the completion of the Tilbury LNG expansion project in British Columbia."

### Net Earnings

The Corporation reported second quarter net earnings attributable to common equity shareholders of \$720 million, or \$1.66 per common share, compared to \$240 million, or \$0.57 per common share, for the same period in 2018. On a year-to-date basis, net earnings attributable to common equity shareholders were \$1,031 million, or \$2.39 per common share, compared to \$563 million, or \$1.33 per common share, for the same period of 2018.

The increase in earnings reflects a one-time after-tax gain on sale of Waneta Expansion of \$484 million, or \$1.12 per common share.

Earnings in the second quarter and year-to-date 2019 reflect rate base growth at the regulated utilities, the favourable impact of mark-to-market accounting of natural gas derivatives at the Aitken Creek natural gas storage facility ("Aitken Creek"), and favourable foreign exchange. Growth was offset by the impact of weather with cooler temperatures in Arizona and lower hydrology in Belize, lower realized margins at Aitken Creek and, for earnings per common share, a higher weighted average number of common shares outstanding.

Earnings year-to-date 2019 were also lower than the same period in 2018 due to a one-time \$30 million favourable tax remeasurement in the first quarter of last year.

### Adjusted Net Earnings<sup>2</sup>

Adjusted for the \$484 million gain on sale of Waneta Expansion and the mark-to-market of natural gas derivatives at Aitken Creek, second quarter adjusted net earnings attributable to common equity shareholders were \$235 million, or \$0.54 per common share, compared to \$251 million, or \$0.59 per common share, for the same period in 2018.

<sup>1</sup> Financial information is presented in Canadian dollars unless otherwise specified.

<sup>2</sup> Non-US GAAP Measures - Fortis uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America ("US GAAP") and may not be comparable to similar measures presented by other entities. Fortis calculated the non-US GAAP measures by adjusting certain US GAAP measures for specific items that management excludes in its key decision-making processes and evaluation of operating results. Refer to the Non-US GAAP Reconciliation provided in this news release.

Year-to-date adjusted net earnings attributable to common equity shareholders were \$551 million, or \$1.28 per common share, compared to \$548 million, or \$1.30 per common share, for the same period in 2018, which also reflects an adjustment for the one-time \$30 million favourable tax remeasurement in the first quarter of 2018.

Weather in both Arizona and Belize was a key driver of results lowering earnings per share in the second quarter and year-to-date 2019 by \$0.06, compared to 2018. Retail electricity sales at Tucson Electric Power ("TEP") were down due to cooler weather with Tucson experiencing its coldest May in 20 years. In Belize drought conditions persisted with little precipitation available to operate the hydroelectric facility.

### **Executing on Capital Plan**

The Corporation's 2019 capital expenditure plan increased to \$4.3 billion, up \$0.6 billion from \$3.7 billion, as previously disclosed, with \$1.6 billion invested during the first half of 2019. The 2019 capital expenditure plan is based on a forecast exchange rate of US\$1.00=CAD\$1.32.

TEP updated its 2019 capital forecast for the Oso Grande Wind Project (also referred to as the New Mexico Wind Project) to reflect increased capacity with an estimated 2019 capital cost of \$346 million (US\$262 million), including allowance for funds used during construction, up from approximately \$55 million (US\$43 million) disclosed in the 2018 annual Management Discussion and Analysis.

At ITC, the 2019 capital forecast has increased approximately \$132 million (US\$100 million) associated with the purchased and expected purchase of additional transmission assets in its service territory.

Progress on the Wataynikaneyap Power project continued with the Ontario Energy Board approving the leave-to-construct application and receipt of the environmental assessment approvals for the final two phases of the project.

### **Regulatory Proceedings**

Fortis is focused on maintaining constructive regulatory relationships and outcomes across its North American utility group.

In May 2019 TEP filed a proposal with the Federal Energy Regulatory Commission ("FERC") requesting that a forward-looking formula rate replace TEP's stated transmission rates which would allow for more timely recovery of transmission related costs. On July 31, 2019, FERC issued an order accepting TEP's proposed rate revisions, effective August 1, 2019, subject to refund following hearing and settlement procedures.

### **Sustainability Update**

"The Corporation remains committed to sustainability throughout all its operations while continuing to provide safe, reliable energy to customers," said Mr. Perry. "We recently released our [2019 Sustainability Update](#). At the same time, TEP announced it is engaging key community stakeholders, collaborating with world-class climate change experts at the University of Arizona, and proposing development of new carbon emission reduction goals to prepare for its customers' future energy needs. TEP's 2019 Preliminary Integrated Resource Plan, filed with its regulator, outlines strategies the utility will use to build an energy portfolio that supports reliable, affordable and increasingly sustainable service over the next 15 years."

### **Outlook**

Over the long term, Fortis is well positioned to enhance shareholder value through the execution of its capital expenditure plan, the balance and strength of its diversified portfolio of utility businesses, and growth opportunities within and proximate to its service territories.

The Corporation's \$17.3 billion five-year capital plan is expected to increase rate base from \$26.1 billion in 2018 to \$35.5 billion in 2023, translating into a five-year compound average growth rate of 6.3%. The five-year capital plan addresses system capacity and improves safety and reliability for the benefit of customers through investments that enhance resiliency and improve the performance of the electricity grid. The plan also addresses natural gas system capacity and gas line network integrity, increases cybersecurity protection and will enable the grid to deliver cleaner energy.

Fortis expects long-term sustainable growth in rate base to support continuing growth in earnings and dividends. Fortis is targeting average annual dividend growth of approximately 6% through 2023. This dividend guidance takes into account many factors, including the expectation of reasonable outcomes for regulatory proceedings at the Corporation's utilities, the successful execution of the five-year capital plan, and management's continued confidence in the strength of the Corporation's diversified portfolio of utilities and record of operational excellence.

### Non-US GAAP Reconciliation

(\$ millions, except earnings per share)	Quarter Ended June 30			Year-to-Date June 30		
	2019	2018	Variance	2019	2018	Variance
Net Earnings Attributable to Common Equity Shareholders	720	240	480	1,031	563	468
Adjusting Items						
Gain on disposition <sup>(1)</sup>	(484)	—	(484)	(484)	—	(484)
Unrealized (gain) loss on mark-to-market of derivatives <sup>(2)</sup>	(1)	11	(12)	4	15	(11)
Consolidated state income tax election <sup>(3)</sup>	—	—	—	—	(30)	30
Adjusted Net Earnings Attributable to Common Equity Shareholders	235	251	(16)	551	548	3
Adjusted Basic Earnings per Share	0.54	0.59	(0.05)	1.28	1.30	(0.02)

<sup>(1)</sup> Gain on sale of the Waneta Expansion, net of expenses, included in the Corporate and Other segment

<sup>(2)</sup> Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, included in the Energy Infrastructure segment

<sup>(3)</sup> Remeasurement of deferred income tax liabilities, included in the Corporate and Other segment

### About Fortis

Fortis is a leader in the North American regulated electric and gas utility industry with 2018 revenue of \$8.4 billion and total assets of approximately \$52 billion as at June 30, 2019. The Corporation's 8,800 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

### Forward-looking information

Fortis includes forward-looking information in this media release within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information included in this media release reflect expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would and the negative of these terms and other similar terminology or expressions have been used to identify the forward-looking information, which includes, without limitation: forecast consolidated and segmented capital expenditures for 2019 and for the period 2019 through 2023; the nature, timing, benefits and expected costs of capital projects including the Oso Grande Wind Project; forecast rate base for 2023; and the expectation that long-term sustainable growth in rate base will support continued growth in earnings and dividends.

Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally, including those identified from time to time in the forward-looking information. Such risk factors or assumptions include, but are not limited to: reasonable regulatory decisions and the expectation of regulatory stability; the implementation of the five-year capital expenditure plan; no material capital project and financing cost overruns; sufficient human resources to deliver service and execute the capital expenditure plan; the realization of additional opportunities; the impact of fluctuations in foreign exchange; and the Board exercising its discretion to declare dividends, taking into account the business performance and financial condition of the Corporation. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. For additional information with respect to certain of these risks or factors, reference should be made to the continuous disclosure materials filed from time to time by the Corporation with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information herein is given as of the date of this media release. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **Teleconference to Discuss Second Quarter 2019 Results**

A teleconference and webcast will be held on August 2, 2019 at 8:30 a.m. (Eastern). Barry Perry, President and Chief Executive Officer, and Jocelyn Perry, Executive Vice President, Chief Financial Officer, will discuss the Corporation's second quarter 2019 results.

Analysts, members of the media and other interested parties in North America are invited to participate by calling 1.877.223.4471. International participants may participate by calling 647.788.4922. Please dial in 10 minutes prior to the start of the call. No pass code is required.

A live and archived audio webcast of the teleconference will be available on the Corporation's website, [www.fortisinc.com](http://www.fortisinc.com).

A replay of the conference will be available two hours after the conclusion of the call until September 2, 2019. Please call 1.800.585.8367 or 416.621.4642 and enter pass code 5589716.

### **Additional Information**

This news release should be read in conjunction with the Corporation's Management Discussion and Analysis and Consolidated Financial Statements. This and additional information can be accessed at [www.fortisinc.com](http://www.fortisinc.com), [www.sedar.com](http://www.sedar.com), or [www.sec.gov](http://www.sec.gov).

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## Interim Management Discussion and Analysis

For the three and six months ended June 30, 2019

Dated August 1, 2019

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This Fortis Inc. ("Fortis" or the "Corporation") Management Discussion and Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and notes thereto for the three and six months ended June 30, 2019 ("Interim Financial Statements") and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2018. Additional information can be accessed at [www.fortisinc.com](http://www.fortisinc.com), [www.sedar.com](http://www.sedar.com), or [www.sec.gov](http://www.sec.gov). The information contained on, or accessible through, any of these websites is not incorporated in this MD&A by reference.

Financial information herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and, unless otherwise specified, is presented in Canadian dollars based, as applicable, on the following Canadian-to-US dollar exchange rates: (i) average of 1.34 and 1.29 for the quarters ended June 30, 2019 and 2018, respectively; (ii) average of 1.33 and 1.28 year-to-date June 30, 2019 and 2018, respectively; (iii) 1.31 and 1.32 as at June 30, 2019 and 2018, respectively; and (iv) 1.36 as at December 31, 2018.

### CORPORATE OVERVIEW

Fortis is a leader in the North American regulated electric and gas utility industry, with 2018 revenue of \$8.4 billion and total assets of approximately \$52 billion as at June 30, 2019. The Corporation's 8,800 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries. Fortis shares are listed on the Toronto and New York Stock Exchanges under the symbol FTS.

For additional information on the Corporation's operations, reportable segments and strategy, refer to the "Corporate Overview" and "Corporate Strategy" sections of the Corporation's 2018 annual MD&A and Note 1 to the Interim Financial Statements.

## SIGNIFICANT ITEM

On April 16, 2019, Fortis sold its 51% ownership interest in the 335-megawatt ("MW") Waneta expansion hydroelectric generating facility ("Waneta Expansion") for proceeds of \$995 million. A gain on disposition of \$577 million (\$484 million after tax), net of expenses, was recognized in the Corporate and Other segment.

Fortis used the proceeds from the disposition of the Waneta Expansion to repay credit facility borrowings and repurchase, via a tender offer, US\$400 million of its outstanding 3.055% unsecured senior notes due in 2026. The reduced earnings from the Waneta Expansion were offset by lower finance charges and a gain on repayment of Corporate debt.

## PERFORMANCE OVERVIEW

Key Financial Metrics						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions, except as indicated)	2019	2018	Variance	2019	2018	Variance
Revenue	1,970	1,947	23	4,406	4,144	262
Net Earnings Attributable to Common Equity Shareholders						
Actual	720	240	480	1,031	563	468
Adjusted <sup>(1)</sup>	235	251	(16)	551	548	3
Earnings per Common Share (\$)						
Basic	1.66	0.57	1.09	2.39	1.33	1.06
Diluted	1.66	0.57	1.09	2.39	1.33	1.06
Adjusted <sup>(1)</sup>	0.54	0.59	(0.05)	1.28	1.30	(0.02)
Dividends Paid per Common Share (\$)	0.450	0.425	0.025	0.900	0.850	0.050
Weighted Average Number of Common Shares Outstanding (# millions)	433.1	423.8	9.3	431.3	422.9	8.4
Cash Flow from Operating Activities	631	682	(51)	1,172	1,271	(99)
Capital Expenditures	843	792	51	1,583	1,477	106

<sup>(1)</sup> See "Non-US GAAP Financial Measures" on page 8.

### Revenue

The \$23 million and \$262 million increases in revenue for the quarter and year to date, respectively, were due primarily to: (i) favourable foreign exchange of \$41 million and \$99 million, respectively; (ii) the flow through in customer rates of higher overall purchased commodity costs; (iii) rate base growth at the regulated utilities, led by ITC; and (iv) higher short-term wholesale sales at UNS Energy due to increased system capacity. These increases were partially offset by: (i) lower retail sales at UNS Energy driven by weather; and (ii) lower revenue contribution from the Energy Infrastructure segment due primarily to the disposition of the Waneta Expansion and lower hydroelectric production in Belize due to rainfall levels.

### Earnings

The \$480 million and \$468 million increases in net earnings attributable to common equity shareholders ("Common Equity Earnings") for the quarter and year to date, respectively, were due primarily to: (i) a \$484 million gain on the disposition of the Waneta Expansion; (ii) the favourable impact of the mark-to-market accounting of natural gas derivatives at the Aitken Creek natural gas storage facility ("Aitken Creek"); (iii) rate base growth at the regulated utilities, led by ITC; and (iv) favourable foreign exchange of \$7 million and \$16 million, respectively. These increases were tempered by: (i) lower retail sales, driven by weather, and higher depreciation and interest expense at UNS Energy; (ii) lower earnings contribution from the Energy Infrastructure segment due to lower hydroelectric production in Belize; and (iii) lower realized margins at Aitken Creek. The year-to-date increase was also tempered by the one-time \$30 million favourable remeasurement of the Corporation's deferred income tax liabilities in the first quarter of 2018 as a result of an election to file a consolidated state income tax return.

These results together with an increase in the weighted average number of common shares outstanding, associated with the Corporation's at-the-market common equity program ("ATM Program") and dividend reinvestment and share purchase plans, resulted in an increase in basic earnings per common share ("EPS") of \$1.09 for the quarter and \$1.06 year to date. See "Cash Flow Requirements" on page 10 for further information about the ATM Program.

Adjusted Common Equity Earnings and adjusted basic EPS, which exclude the noted gain on disposition of the Waneta Expansion, the one-time 2018 remeasurement of deferred income tax liabilities and the mark-to-market accounting of derivatives at Aitken Creek, decreased by \$16 million and \$0.05, respectively, for the quarter. Adjusted basic EPS decreased by \$0.02 year to date, due primarily to the impact of weather in Arizona and Belize.

### Dividends

Dividends paid per common share in the second quarter and year-to-date 2019 were \$0.45 and \$0.90, respectively, up 6% from the same periods last year. The Corporation has targeted an average annual dividend per common share growth of approximately 6% through 2023. Fortis has increased its common share dividend for 45 consecutive years.

### Cash Flow from Operating Activities

Cash flow from operating activities was down \$51 million and \$99 million for the quarter and year to date, respectively, compared to the same periods in 2018.

The decrease for the quarter was due primarily to an \$81 million decrease in cash earnings, partially offset by timing differences in working capital. The decrease in cash earnings largely reflects the disposition of the Waneta Expansion and lower retail sales due to weather at UNS Energy, partially offset by higher growth-driven cash earnings at ITC.

The year-to-date decrease primarily reflects timing differences in the recovery of regulatory assets, particularly at ITC. Cash earnings for the period were comparable to last year as the noted decrease in the second quarter of 2019 was offset by a similar increase in cash earnings in the first quarter of 2019. The latter mainly reflects strong performance at the regulated utilities, particularly those in the U.S., due primarily to rate base growth.

### Capital Expenditures

Capital expenditures were \$1,583 million for the first half of 2019, up \$106 million compared to the same period last year and in line with the Corporation's \$4.3 billion capital expenditure plan for 2019. See "Capital Expenditure Plan" on page 14 for further information.

## BUSINESS UNIT PERFORMANCE

Segmented Common Equity Earnings								
Periods Ended June 30 (\$ millions)	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX <sup>(1)</sup>	Other			FX <sup>(1)</sup>	Other
<b>Regulated Utilities</b>								
ITC	101	86	3	12	193	172	8	13
UNS Energy	60	81	2	(23)	115	131	5	(21)
Central Hudson	7	12	1	(6)	39	33	2	4
FortisBC Energy	10	7	—	3	110	105	—	5
FortisAlberta	34	32	—	2	61	59	—	2
FortisBC Electric	15	15	—	—	31	31	—	—
Other Electric	29	35	—	(6)	52	53	—	(1)
<b>Non-Regulated</b>								
Energy Infrastructure	8	20	—	(12)	16	38	—	(22)
Corporate and Other	456	(48)	1	503	414	(59)	1	472
<b>Common Equity Earnings</b>	<b>720</b>	<b>240</b>	<b>7</b>	<b>473</b>	<b>1,031</b>	<b>563</b>	<b>16</b>	<b>452</b>

<sup>(1)</sup> FX means foreign exchange associated with the translation of U.S. dollar-denominated earnings and material U.S. dollar-denominated transactions at Corporate.

## ITC

Financial Highlights <sup>(1)</sup> Periods Ended June 30 (\$ millions)	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX	Other			FX	Other
Revenue	428	374	13	41	836	728	31	77
Earnings	101	86	3	12	193	172	8	13

<sup>(1)</sup> Revenue represents 100% of ITC. Earnings represent the Corporation's 80.1% controlling ownership interest in ITC and reflects consolidated purchase price accounting adjustments. The reporting currency of ITC is the US dollar.

### Revenue and Earnings

The increases in revenue and earnings, net of foreign exchange, for the quarter and year to date were due primarily to growth in rate base, partially offset by a regulator-ordered reduction to the rate of return on common equity ("ROE") independence incentive adder and higher operating expenses. Revenue was also favourably impacted by higher expenses recovered in customer rates. Earnings were also favourably impacted by a remeasurement of deferred income tax liabilities recognized in 2018 due to a change in the enacted tax rate in Iowa, in response to U.S. tax reform.

## UNS ENERGY

Financial Highlights <sup>(1)</sup> Periods Ended June 30	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX	Other			FX	Other
Electricity sales (GWh) <sup>(2)</sup>	4,232	3,974	—	258	8,661	7,299	—	1,362
Gas volumes (PJ) <sup>(2)</sup>	2	2	—	—	9	7	—	2
Revenue (\$ millions)	500	530	18	(48)	1,043	974	40	29
Earnings (\$ millions)	60	81	2	(23)	115	131	5	(21)

<sup>(1)</sup> Includes Tucson Electric Power Company ("TEP"), UNS Electric, Inc. and UNS Gas, Inc. The reporting currency of UNS Energy is the US dollar.

<sup>(2)</sup> GWh means gigawatt hours and PJ means petajoules.

### Electricity Sales and Gas Volumes

Increased electricity sales for the quarter and year to date were due primarily to higher short-term wholesale sales reflecting an increase in system capacity related to Gila River generating station Unit 2. Higher short-term wholesale sales were partially offset by lower retail sales due to reduced air conditioning load as a result of colder-than-normal temperatures in 2019 compared to warmer-than-normal temperatures in 2018. Temperatures recorded in Tucson for the second quarter of 2019 were the lowest in the past 20 years.

Gas volumes for the quarter were comparable with the same period in 2018. Increased gas volumes year to date were due primarily to heating load as a result of cooler temperatures in the winter months.

Revenue from short-term wholesale sales is primarily returned to customers through regulatory deferral mechanisms and, therefore, does not materially impact earnings.

### Revenue

The decrease in revenue, net of foreign exchange, for the quarter was due primarily to lower retail sales and the flow through of lower energy supply costs, partially offset by higher short-term wholesale sales.

The increase in revenue, net of foreign exchange, year to date was due primarily to higher short-term wholesale sales, partially offset by lower retail sales and the flow through of lower energy supply costs.

### Earnings

The decreases in earnings, net of foreign exchange, for the quarter and year to date were due primarily to lower retail sales of approximately \$21 million and \$12 million, respectively. The remaining decreases were due mainly to higher depreciation and amortization resulting from an increase in assets not yet reflected in customer rates, along with interest expense associated with financing the asset increase, partially offset by allowance for funds used during construction ("AFUDC") associated with those assets.



## CENTRAL HUDSON

Financial Highlights <sup>(1)</sup> Periods Ended June 30	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX	Other			FX	Other
Electricity sales (GWh)	1,112	1,157	—	(45)	2,401	2,452	—	(51)
Gas volumes (PJ)	3	4	—	(1)	13	13	—	—
Revenue (\$ millions)	199	201	8	(10)	476	476	22	(22)
Earnings (\$ millions)	7	12	1	(6)	39	33	2	4

<sup>(1)</sup> The reporting currency of Central Hudson is the US dollar.

### Electricity Sales and Gas Volumes

The decreases in electricity sales for the quarter and year to date were due primarily to lower average consumption as a result of warmer temperatures decreasing heating load and cooler temperatures decreasing air conditioning load. Gas volumes were comparable to 2018.

Changes in electricity sales and gas volumes at Central Hudson are subject to regulatory revenue decoupling mechanisms and, therefore, do not materially impact earnings.

### Revenue

The decreases in revenue, net of foreign exchange, for the quarter and year to date were due primarily to a lower commodity cost recovered from customers as a result of lower electricity sales. The decreases were partially offset by an increase in electricity and gas delivery rates effective July 1, 2018, reflecting a return on increased rate base assets as well as the recovery of higher operating and finance expenses. The increase in delivery rates also reflects a rate design change that provides more revenue and earnings in higher gas consumption periods. See "Summary of Quarterly Results" on page 16 for further information on seasonality of the business.

### Earnings

The decrease in earnings, net of foreign exchange, for the quarter primarily reflects a change in the timing of earnings of approximately \$4 million mainly associated with the rate design change, but also due to the timing of certain operating expenses, partially offset by higher storm restoration costs in 2018.

The increase in earnings, net of foreign exchange, year to date was due primarily to higher storm restoration costs in 2018 and the increase in delivery rates in 2019. The increase was partially offset by the timing of the rate design change and higher operating expenses.

## FORTISBC ENERGY

Financial Highlights	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Gas volumes (PJ)	40	39	1	123	119	4
Revenue (\$ millions)	235	226	9	720	655	65
Earnings (\$ millions)	10	7	3	110	105	5

### Gas Volumes

Gas volumes for the quarter were comparable with 2018. The increase in gas volumes year to date was due primarily to higher average consumption as a result of colder temperatures increasing heating load.

### Revenue

The increases in revenue for the quarter and year to date were due primarily to a higher cost of natural gas recovered from customers along with the recovery of gas storage and transportation costs related to a third-party pipeline incident that occurred in the fourth quarter of 2018. Rate base growth also contributed to the increase in revenue for the quarter and year to date.

### Earnings

The increases in earnings for the quarter and year to date were due primarily to rate base growth and timing differences in operating expenses.

FortisBC Energy earns approximately the same margin regardless of whether a customer contracts for the purchase and delivery of natural gas or only for the delivery. Due to regulatory deferral mechanisms, changes in consumption levels and commodity costs do not materially impact earnings.

### FORTISALBERTA

Financial Highlights	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Periods Ended June 30						
Energy deliveries ( <i>GWh</i> )	<b>3,969</b>	3,968	1	<b>8,611</b>	8,571	40
Revenue ( <i>\$ millions</i> )	<b>150</b>	143	7	<b>295</b>	284	11
Earnings ( <i>\$ millions</i> )	<b>34</b>	32	2	<b>61</b>	59	2

### Energy Deliveries

Energy deliveries for the quarter were comparable with 2018. The increase in energy deliveries year to date was due primarily to higher average commercial consumption as a result of colder temperatures increasing heating load, and customer additions.

### Revenue

The increases in revenue for the quarter and year to date were due primarily to rate base growth and customer additions.

### Earnings

The increases in earnings for the quarter and year to date were due primarily to overall lower operating expenses and customer additions.

### FORTISBC ELECTRIC

Financial Highlights	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Periods Ended June 30						
Electricity sales ( <i>GWh</i> )	<b>725</b>	722	3	<b>1,674</b>	1,642	32
Revenue ( <i>\$ millions</i> )	<b>90</b>	89	1	<b>209</b>	201	8
Earnings ( <i>\$ millions</i> )	<b>15</b>	15	—	<b>31</b>	31	—

### Electricity Sales

Electricity sales for the quarter were comparable with 2018. The increase in electricity sales year to date was due primarily to higher average consumption as a result of colder temperatures increasing heating load.

### Revenue

The increase in revenue for the quarter was due primarily to higher third-party contract work.

The increase in revenue year to date was due primarily to higher electricity sales, higher surplus power sales and higher third-party contract work.

### Earnings

Earnings for the quarter and year to date were comparable with 2018, with the revenue increase being offset by the timing of operating expenses.

## OTHER ELECTRIC

Financial Highlights <sup>(1)</sup> Periods Ended June 30	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX	Other			FX	Other
Electricity sales (GWh)	2,174	2,138	—	36	5,157	5,067	—	90
Revenue (\$ millions)	343	336	2	5	769	733	6	30
Earnings (\$ millions)	29	35	—	(6)	52	53	—	(1)

<sup>(1)</sup> Comprised of Newfoundland Power Inc.; Maritime Electric Company, Limited; FortisOntario Inc.; a 39% equity investment in Wataynikaneyap Power Limited Partnership; an approximate 60% controlling interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"); FortisTCl Limited and Turks and Caicos Utilities Limited (collectively "FortisTCl"); and a 33% equity investment in Belize Electricity Limited ("BEL"). The reporting currency of Caribbean Utilities and FortisTCl is the US dollar. The reporting currency of BEL is the Belizean dollar, which is pegged to the US dollar at BZ\$2.00=US\$1.00.

### Electricity Sales

The increases in electricity sales for the quarter and year to date were due primarily to overall higher average consumption and customer additions.

### Revenue

The increases in revenue for the quarter and year to date, net of foreign exchange, were due primarily to higher energy supply costs flowed through to customers and higher electricity sales, partially offset by FortisTCl's business interruption insurance proceeds recognized in 2018 related to Hurricane Irma.

### Earnings

The decreases in earnings for the quarter and year to date were due primarily to FortisTCl's insurance proceeds recognized in 2018. The decrease in earnings year to date was partially offset by higher electricity sales and rate base growth.

## ENERGY INFRASTRUCTURE

Financial Highlights <sup>(1)</sup> Periods Ended June 30	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Energy sales (GWh)	69	528	(459)	119	617	(498)
Revenue (\$ millions)	25	49	(24)	61	97	(36)
Earnings (\$ millions)	8	20	(12)	16	38	(22)

<sup>(1)</sup> Primarily comprised of long-term contracted generation assets in British Columbia ("BC") and Belize, and Aitken Creek in BC. On April 16, 2019, Fortis completed the sale of its long-term contracted generation assets in BC with the disposition of the Waneta Expansion. See "Significant Item" on page 2 for further information.

### Energy Sales

Energy sales for the quarter and year to date decreased 417 GWh due to the disposition of the Waneta Expansion, with the remaining decrease due to lower hydroelectric production in Belize reflecting lower rainfall levels.

### Revenue and Earnings

The decreases in revenue and earnings for the quarter and year to date were due to: (i) the disposition of the Waneta Expansion; (ii) lower hydroelectric production in Belize; and (iii) lower realized margins at Aitken Creek. The decreases were partially offset by the favourable impact of the mark-to-market accounting of natural gas derivatives at Aitken Creek, with unrealized gains of \$1 million during the second quarter of 2019 compared to unrealized losses of \$11 million during the second quarter of 2018 and unrealized losses of \$4 million year to date compared to \$15 million for the same period in 2018.

Aitken Creek is subject to commodity price risk, as it purchases and holds natural gas in storage to earn a profit margin from its ultimate sale. Aitken Creek mitigates this risk by using derivatives to materially lock in the profit margin that will be realized upon the sale of natural gas. The fair value accounting of these derivatives creates timing differences and the resultant earnings volatility can be significant.

## CORPORATE AND OTHER

Financial Highlights <sup>(1)</sup>								
Periods Ended June 30 (\$ millions)	Quarter				Year-to-Date			
	2019	2018	Variance		2019	2018	Variance	
			FX	Other			FX	Other
Net income (expenses)	456	(48)	1	503	414	(59)	1	472

<sup>(1)</sup> Includes Fortis net corporate income and non-regulated holding company expenses.

The increases in net income for the quarter and year to date were driven primarily by a net after-tax gain of \$484 million on the disposition of the Waneta Expansion, and lower finance charges associated with the disposition along with a gain on the repayment of debt. See "Significant Item" on page 2 for further information.

The year-to-date increase was partially offset by lower income tax recovery due to a one-time \$30 million favourable remeasurement of the Corporation's deferred income tax liabilities recognized during 2018 resulting from an election to file a consolidated state income tax return.

## NON-US GAAP FINANCIAL MEASURES

Fortis calculates adjusted Common Equity Earnings as Common Equity Earnings plus or minus items that management excludes in its key decision-making processes and evaluation of operating results. Adjusted basic EPS is calculated by dividing adjusted Common Equity Earnings by the weighted average number of common shares outstanding.

These financial measures do not have a standardized meaning prescribed by US GAAP and may not be comparable with similar measures of other entities. The most directly comparable US GAAP measures are net earnings attributable to common equity shareholders (i.e. Common Equity Earnings) and basic EPS.

Non-US GAAP Reconciliation						
Periods Ended June 30 (\$ millions, except as indicated)	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Common Equity Earnings	720	240	480	1,031	563	468
Adjusting Items:						
Gain on disposition <sup>(1)</sup>	(484)	—	(484)	(484)	—	(484)
Unrealized (gain) loss on mark-to-market of derivatives <sup>(2)</sup>	(1)	11	(12)	4	15	(11)
Consolidated state income tax election <sup>(3)</sup>	—	—	—	—	(30)	30
Adjusted Common Equity Earnings	235	251	(16)	551	548	3
Adjusted Basic EPS (\$)	0.54	0.59	(0.05)	1.28	1.30	(0.02)

<sup>(1)</sup> See "Significant Item" on page 2 for further information.

<sup>(2)</sup> Represents timing differences related to the accounting of natural gas derivatives at Aitken Creek, included in the Energy Infrastructure segment.

<sup>(3)</sup> Remeasurement of deferred income tax liabilities, included in the Corporate and Other segment.

## REGULATORY DEVELOPMENTS

### ITC

In March 2019 the Federal Energy Regulatory Commission ("FERC") issued a notice of inquiry seeking comments on whether and how to improve its electric transmission incentives policy. The outcome may impact the existing incentive adders that are included in transmission rates charged by transmission owners, including ITC.

In March 2019 FERC issued a second notice of inquiry seeking comments on whether and how recent policies concerning the determination of the base ROE for electric utilities should be modified. The outcome may impact ITC's future base ROE.

Refer to the "Regulatory Highlights" section of the 2018 annual MD&A for further information on ITC's incentive adders and ROE complaints.

### UNS Energy

#### *General Rate Application*

In April 2019 TEP filed a general rate application with the Arizona Corporation Commission requesting an increase in non-fuel revenue of US\$115 million, effective May 1, 2020, with electricity rates based on a 2018 test year. The filing includes a request to increase TEP's allowed ROE to 10.35% from 9.75% and the equity component of its capital structure to 53% from 50% on a rate base of US\$2.7 billion. A decision is expected in 2020.

#### *Transmission Rate Application*

In May 2019 TEP filed a proposal with FERC requesting that a forward-looking formula rate replace TEP's stated transmission rates which would allow for more timely recovery of transmission-related costs. On July 31, 2019, FERC issued an order accepting TEP's proposed rate revisions, effective August 1, 2019, subject to refund following hearing and settlement procedures.

### FortisBC Energy and FortisBC Electric

In March 2019 FortisBC Energy and FortisBC Electric filed applications with the British Columbia Utilities Commission requesting approval of a multi-year rate plan and rate-setting methodology for 2020 through 2024. A decision is expected in 2020.

### FortisAlberta

#### *Second-Term Performance-Based Rate-Setting Proceeding*

The Alberta Utilities Commission ("AUC") continues to review regulatory applications for rebasing inputs included in rates under performance-based rate setting ("PBR") for 2018 to 2022, including anomaly related adjustments and approved changes to depreciation parameters. FortisAlberta's 2018 and 2019 PBR rates remain interim pending the completion of the AUC's review.

#### *Generic Cost of Capital Proceeding*

In December 2018 the AUC initiated a generic cost of capital proceeding to consider a formula-based approach to setting the allowed ROE beginning in 2021 and whether any process changes are necessary for determining capital structure in years in which a ROE formula is in place. In April 2019 the AUC determined that a traditional non-formulaic approach for assessing ROE and deemed capital structure would be used in 2021, with consideration of a formula-based approach for determining the allowed ROE for 2022 and subsequent years.

## CONSOLIDATED FINANCIAL POSITION

### Significant Changes between June 30, 2019 and December 31, 2018

Balance Sheet Account	(Decrease)/Increase		Explanation
	FX (\$ millions)	Other (\$ millions)	
Cash and cash equivalents	(12)	(129)	Due primarily to capital expenditures and the timing of debt issuances and repayments.
Accounts receivable and other current assets	(27)	(160)	Due primarily to seasonality, flow through of lower gas supply costs and a lower income tax receivable.
Assets held for sale	—	(766)	Due to the disposition of the Waneta Expansion.
Regulatory assets (including current and long-term)	(46)	158	Due primarily to higher rate stabilization accounts mainly at ITC and FortisBC Energy.
Property, plant and equipment, net	(812)	910	Due primarily to capital expenditures, partially offset by depreciation.
Goodwill	(439)	1	The other increase was not significant.
Short-term borrowings	(2)	247	Due primarily to the issuance of commercial paper at ITC.

### Significant Changes between June 30, 2019 and December 31, 2018

Balance Sheet Account	(Decrease)/Increase		Explanation
	FX (\$ millions)	Other (\$ millions)	
Accounts payable and other current liabilities	(46)	(381)	Due primarily to the timing of the declaration of common share dividends and lower gas supply costs.
Other liabilities	(27)	138	Due primarily to reclassifications from finance lease liabilities associated with the adoption of the new lease standard and higher derivative balances.
Regulatory liabilities (including current and long-term)	(108)	(18)	The other decrease was not significant.
Deferred income tax liabilities	(58)	169	Due primarily to the utilization of taxable losses and timing differences related to capital expenditures.
Long-term debt (including current portion)	(610)	(865)	Due primarily to the repayment of Corporate debt. See "Significant Item" on page 2.
Shareholders' equity	(460)	1,186	Due to: (i) Common Equity Earnings for the six months ended June 30, 2019, less dividends declared on common shares; and (ii) the issuance of common shares.
Non-controlling interests	(63)	(305)	Due primarily to the disposition of the Waneta Expansion.

#### Outstanding Share Data

As at August 1, 2019, the Corporation had issued and outstanding 436.6 million common shares; and the following First Preference Shares: 5.0 million Series F; 9.2 million Series G; 7.0 million Series H; 3.0 million Series I; 8.0 million Series J; 10.0 million Series K; and 24.0 million Series M.

Only the common shares of the Corporation have voting rights. The Corporation's First Preference Shares do not have voting rights unless and until Fortis fails to pay eight quarterly dividends, whether or not consecutive or declared.

If all outstanding stock options were converted as at August 1, 2019, an additional 3.7 million common shares would be issued and outstanding.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOW REQUIREMENTS

At the subsidiary level, it is expected that operating expenses and interest costs will be paid from subsidiary operating cash flows, with varying levels of residual cash flows available for subsidiary capital expenditures and/or dividend payments to Fortis. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash required for subsidiary capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, long-term debt offerings and equity injections from Fortis.

Cash required of Fortis to support subsidiary capital expenditure programs is expected to be derived from a combination of borrowings under the Corporation's committed credit facility, proceeds from the dividend reinvestment plan and proceeds from the issuance of common shares, preference shares and long-term debt. Depending on the timing of subsidiary dividend receipts, borrowings under the Corporation's committed credit facility may be required periodically to support debt servicing and payment of dividends.

Credit Facilities (\$ millions)			As at	
	Regulated Utilities	Corporate and Other	June 30, 2019	December 31, 2018
Total credit facilities	3,917	1,381	<b>5,298</b>	5,165
Credit facilities utilized:				
Short-term borrowings	(305)	—	<b>(305)</b>	(60)
Long-term debt (including current portion)	(764)	—	<b>(764)</b>	(1,066)
Letters of credit outstanding	(63)	(50)	<b>(113)</b>	(119)
<b>Credit facilities unutilized</b>	<b>2,785</b>	<b>1,331</b>	<b>4,116</b>	<b>3,920</b>

The Corporation's ability to service debt and pay dividends is dependent on the financial results of, and the related cash payments from, subsidiaries. Certain regulated subsidiaries are subject to restrictions that limit their ability to distribute cash to Fortis. These include restrictions by certain regulators limiting annual dividends and restrictions by certain lenders limiting debt to total capitalization. There are also practical limitations on using the net assets of the regulated subsidiaries to pay dividends based on management's intent to maintain the subsidiaries' regulator-approved capital structures. The Corporation does not expect that maintaining the targeted capital structures of its regulated subsidiaries will have an impact on its ability to pay dividends in the foreseeable future.

In December 2018 Fortis filed a short-form base shelf prospectus with a 25-month life under which it may issue common or preference shares, subscription receipts or debt securities in an aggregate principal amount of up to \$2.5 billion. In December 2018 Fortis re-established its ATM Program that allows the issuance of up to \$500 million of common shares from treasury to the public at the Corporation's discretion, effective until January 2021. As at June 30, 2019, 2.8 million common shares were issued under the ATM Program at an average price of \$51.32 per share for gross proceeds of \$142 million (\$140 million net of commissions). The proceeds were used to fund capital expenditures. As at June 30, 2019, approximately \$358 million remains available under the ATM Program and \$2.0 billion under the short-form base shelf prospectus.

As at June 30, 2019, consolidated fixed-term debt maturities and repayments are expected to average approximately \$1,007 million annually over the next five years. The combination of available credit facilities and manageable annual debt maturities and repayments provides the Corporation and its subsidiaries with flexibility in the timing of access to capital markets.

Fortis and its subsidiaries were in compliance with debt covenants as at June 30, 2019 and are expected to remain compliant throughout 2019.

## CASH FLOW SUMMARY

Summary of Consolidated Cash Flows						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions)	2019	2018	Variance	2019	2018	Variance
Cash, beginning of period	<b>233</b>	333	(100)	<b>332</b>	327	5
Cash provided by (used in):						
Operating activities	<b>631</b>	682	(51)	<b>1,172</b>	1,271	(99)
Investing activities	<b>99</b>	(792)	891	<b>(633)</b>	(1,470)	837
Financing activities	<b>(776)</b>	(31)	(745)	<b>(682)</b>	58	(740)
Foreign exchange	<b>(5)</b>	5	(10)	<b>(13)</b>	11	(24)
Change in cash associated with assets held for sale	<b>9</b>	—	9	<b>15</b>	—	15
<b>Cash, end of period</b>	<b>191</b>	197	(6)	<b>191</b>	197	(6)

### Operating Activities

See "Performance Overview - Cash Flow from Operating Activities" on page 3.

### Investing Activities

Cash from investing activities during the quarter primarily reflects proceeds from the disposition of the Waneta Expansion, partially offset by planned capital expenditures. The consolidated capital expenditure plan for 2019 is estimated to be \$4.3 billion, up approximately 34% from \$3.2 billion last year. Cash used in investing activities year to date reflects the higher planned spending level for 2019.

### Financing Activities

Borrowings under credit facilities by the regulated utilities are primarily in support of their capital expenditure plans and/or for working capital requirements. Repayments are primarily financed through the issuance of long-term debt, cash from operations and/or equity injections from Fortis. Periodically, proceeds from share and long-term debt offerings are used to repay borrowings under the Corporation's committed credit facility. Changes in these drivers along with scheduled debt maturities cause cash flows related to financing activities to fluctuate accordingly from period to period.

Net proceeds from the disposition of the Waneta Expansion were used to repay credit facility borrowings and repurchase US\$400 million of Corporate debt.

### Debt Financing

Long-Term Debt Issuances Year-to-date 2019 (\$ millions, except %)	Month Issued	Interest Rate (%)	Maturity	Amount		Use of Proceeds
				US	Other	
ITC						
Secured Notes	January	4.55	2049	US	50	(1)(2)(3)
Unsecured term loan credit agreement <sup>(4)</sup>	June	<sup>(5)</sup>	2021	US	200	(6)
Secured Notes	July	4.65	2049	US	50	(1)(2)(3)
FortisTCI						
Unsecured non-revolving term loan <sup>(7)</sup>	February	<sup>(8)</sup>	2025	US	5	(2)(3)
CUC						
Unsecured Notes	May	4.14	2049	US	40	(1)(2)(3)(6)

<sup>(1)</sup> Repay credit facility borrowings

<sup>(2)</sup> Finance capital expenditures

<sup>(3)</sup> General corporate purposes

<sup>(4)</sup> Maximum amount of borrowings under this agreement is US\$400 million

<sup>(5)</sup> Floating rate of a one-month LIBOR plus a spread of 0.60%

<sup>(6)</sup> Repay maturing long-term debt

<sup>(7)</sup> Maximum amount of borrowings under this agreement of US\$10 million has been withdrawn.

<sup>(8)</sup> Floating rate of a one-month LIBOR plus a spread of 1.75%

### Common Equity Financing

Common Equity Issuances and Dividends Paid Periods Ended June 30 (\$ millions, except as indicated)	Quarter			Year-to-Date		
	2019	2018	Variance	2019	2018	Variance
Common shares issued <sup>(1)</sup> (# millions)	4.9	1.8	3.1	7.3	3.7	3.6
Total common shares issued	241	72	169	349	149	200
Non-cash issuances	(77)	(67)	(10)	(153)	(129)	(24)
Cash proceeds from common shares issued	164	5	159	196	20	176
Dividends paid per common share (\$)	0.450	0.425	0.025	0.900	0.850	0.050
Total dividends paid	(194)	(180)	(14)	(387)	(359)	(28)
Non-cash dividend reinvestment plan	76	66	10	151	129	22
Cash dividends paid	(118)	(114)	(4)	(236)	(230)	(6)

<sup>(1)</sup> Mainly related to the Corporation's dividend reinvestment plan and ATM Program. See "Cash Flow Requirements" on page 10 for further information.



On February 14, 2019 and July 31, 2019, Fortis declared a dividend of \$0.45 per common share payable on June 1, 2019 and September 1, 2019, respectively. The payment of dividends is at the discretion of the Board of Directors and depends on the Corporation's financial condition and other factors.

## CONTRACTUAL OBLIGATIONS

There were no material changes to the contractual obligations disclosed in the Corporation's 2018 annual MD&A, except issuances of long-term debt and credit facility utilization described above and other items as follows.

In the first quarter of 2019, FortisBC Energy entered into two separate agreements to purchase pipeline capacity on the Westcoast Pipeline over a 42-year term, beginning in the fourth quarter of 2020, increasing gas purchase obligations by a total of approximately \$334 million.

In March 2019 UNS Energy entered into a build-transfer agreement to develop a wind-powered electric generation facility, the Oso Grande Wind Project, which is expected to be completed by December 2020. UNS Energy expects to make payments under the agreement of US\$259 million in 2019 and US\$111 million in 2020, contingent upon certain performance obligations.

On April 16, 2019, the Waneta Expansion ceased to be a related party. This resulted in the disclosure of power purchase obligations of approximately \$2.6 billion related to FortisBC Electric's agreement to purchase capacity from the Waneta Expansion over the 40-year agreement that began in April 2015.

## CAPITAL STRUCTURE AND CREDIT RATINGS

Fortis requires ongoing access to capital to enable its utilities to fund infrastructure maintenance, modernization and expansion. The Corporation, therefore, targets a consolidated long-term capital structure that will enable it to maintain investment-grade credit ratings. The regulated utilities maintain their own capital structures in line with those reflected in customer rates.

Consolidated Capital Structure (%)	As at	
	June 30, 2019	December 31, 2018
Debt <sup>(1)</sup>	55.3	57.0
Preference shares	3.9	3.8
Common shareholders' equity and minority interest	40.8	39.2
	100.0	100.0

<sup>(1)</sup> Includes long-term debt and finance leases, including current portion, and short-term borrowings, net of cash

The Corporation's credit ratings reflect its low-risk profile, diversity of operations, stand-alone nature and financial separation of each regulated subsidiary, and level of holding company debt.

Credit Ratings			
As at June 30, 2019	Rating	Type	Outlook
S&P	A-	Corporate	Negative
	BBB+	Unsecured debt	
DBRS	BBB (high)	Corporate	Stable
	BBB (high)	Unsecured debt	
Moody's	Baa3	Issuer	Stable
	Baa3	Unsecured debt	

Between March and May 2019, all three rating agencies affirmed the Corporation's credit ratings and outlooks. The negative outlook from S&P reflects a modest temporary weakening of financial measures as a result of U.S. tax reform reducing cash flow at the Corporation's U.S. regulated utilities.

In July 2019 Moody's downgraded Central Hudson's unsecured debt rating to A3 from A2 and revised its outlook to stable from negative due to higher capital expenditures and the impacts of U.S. tax reform.

## CAPITAL EXPENDITURE PLAN

Planned capital expenditures are based on detailed forecasts of energy demand, labour and material costs, general economic conditions, foreign exchange rates and other factors. These could change and cause actual expenditures to differ from forecast.

The planned capital expenditures are expected to be funded primarily with cash from operations, utility debt and common equity from the Corporation's dividend reinvestment plan. The Corporation's ATM Program is also available to provide further financing flexibility.

### 2019 Capital Plan

The 2019 annual capital plan has increased to \$4.3 billion, up \$0.6 billion from \$3.7 billion as disclosed in the 2018 annual MD&A, with \$1.6 billion spent in the first half of 2019. The increase is due primarily to UNS Energy and ITC, as discussed below.

<b>Consolidated Capital Expenditures <sup>(1)</sup></b>										
<b>Year-to-date June 30, 2019</b>										
<i>(\$ millions)</i>										
	<b>Regulated</b>							<b>Total</b>	<b>Non-</b>	<b>Total</b>
	UNS ITC	Central Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	<b>Regulated Utilities</b>	<b>Regulated <sup>(2)</sup></b>	
<b>Total</b>	537	323	142	174	202	51	124	<b>1,553</b>	<b>30</b>	<b>1,583</b>

<sup>(1)</sup> Excludes the non-cash equity component of the allowance for funds used during construction

<sup>(2)</sup> Includes Energy Infrastructure and Corporate and Other segments

UNS Energy finalized its plans for the construction of the Oso Grande Wind Project (also referred to as the New Mexico Wind Project). This wind farm will complement UNS Energy's solar generation portfolio. UNS Energy's share will be 247 MW, under a build-transfer asset contract, up from 150 MW disclosed in the 2018 annual MD&A. Construction is expected to commence in 2019, with completion expected by the end of 2020. The capital cost of the project for UNS Energy is estimated at \$527 million (US\$399 million) including AFUDC, up from approximately \$280 million (US\$217 million) disclosed in the 2018 annual MD&A.

The 2019 capital forecast for the Oso Grande Wind Project has been updated to reflect the additional capacity. Total capital costs for 2019 are expected to be approximately \$346 million (US\$262 million), including AFUDC, up from approximately \$55 million (US\$43 million) disclosed in the 2018 annual MD&A.

At ITC, the 2019 capital forecast has increased approximately \$132 million (US\$100 million) associated with the purchased and expected purchase of additional transmission assets in its service territory.

The 2019 capital forecast is based on a forecast exchange rate of US\$1.00=CAD\$1.32, up from the previously disclosed forecast exchange rate of US\$1.00=CAD\$1.28.

### Major Capital Projects Updates

#### *Eagle Mountain Woodfibre Gas Line Project*

In July 2019 Woodfibre LNG Limited ("Woodfibre") received a permit from the British Columbia Oil and Gas Commission, one of the key permits for construction and operation of the project. FortisBC Energy's anticipated capital expenditures, net of forecast customer contributions, related to this project total approximately \$350 million. Contingent on Woodfibre making a final investment decision, the project is targeted to be in service in 2023.

#### *Wataynikaneyap Transmission Power Project*

This project will connect 17 remote First Nations communities in Northwestern Ontario to the main electricity grid through construction of 1,800 kilometres of transmission lines. Fortis maintains a 39% equity investment in the Wataynikaneyap Power Limited Partnership. The initial phase of the project to connect the Pikangikum First Nation to Ontario's power grid was fully funded by the Canadian government and was completed in late 2018.

In April 2019 the Ontario Energy Board approved the leave-to-construct application. In June and July 2019 the environmental assessment notices of approval were received for the final two phases of the project. Also in July, the Wataynikaneyap Limited Partnership and the Government of Canada signed agreements that secure Canada's support of \$1.6 billion. The project's next significant milestones include selection of engineering, procurement and construction contracts, and the finalization of financing. The estimated total capital cost for the project is approximately \$1.6 billion, with the final two phases of the project targeted for completion by the end of 2020 and 2023, respectively.

## **BUSINESS RISK MANAGEMENT**

The Corporation's business risks are generally consistent with those disclosed in its 2018 annual MD&A. See "Regulatory Developments" on page 8 and "Capital Structure and Credit Ratings" on page 13 for applicable updates.

## **OFF-BALANCE SHEET ARRANGEMENTS**

There were no significant changes to off-balance sheet arrangements from that disclosed in the 2018 annual MD&A.

## **FINANCIAL INSTRUMENTS**

### **Derivatives**

The Corporation records all derivatives at fair value, with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception.

There were no material changes with respect to the nature and purpose, methodologies for fair value determination, and carrying values of the Corporation's derivatives from that disclosed in the 2018 annual MD&A. Additional details are provided in Note 16 to the Interim Financial Statements.

### **Financial Instruments Not Carried At Fair Value**

Excluding long-term debt, the consolidated carrying value of the Corporation's remaining financial instruments approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

As at June 30, 2019, the carrying value of long-term debt, including current portion, was \$22,744 million (December 31, 2018 - \$24,231 million) compared to an estimated fair value of \$25,451 million (December 31, 2018 - \$25,110 million). These fair values were calculated in the manner described in the Corporation's 2018 annual MD&A and in Note 16 to the Interim Financial Statements.

## **RELATED-PARTY AND INTER-COMPANY TRANSACTIONS**

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three and six months ended June 30, 2019 and 2018.

The Corporation periodically provides short-term financing to subsidiaries to support capital expenditure programs, acquisitions and seasonal working capital requirements. As at June 30, 2019, there were inter-segment loans outstanding of \$73 million (December 31, 2018 - \$nil). Total interest charged was not material for the three and six months ended June 30, 2019.

Additional details are provided in Note 5 to the Interim Financial Statements.

## SUMMARY OF QUARTERLY RESULTS

Quarter Ended	Common Equity			
	Revenue (\$ millions)	Earnings (\$ millions)	Basic EPS (\$)	Diluted EPS (\$)
<b>June 30, 2019</b>	<b>1,970</b>	<b>720</b>	<b>1.66</b>	<b>1.66</b>
March 31, 2019	2,436	311	0.72	0.72
December 31, 2018	2,206	261	0.61	0.61
September 30, 2018	2,040	276	0.65	0.65
June 30, 2018	1,947	240	0.57	0.57
March 31, 2018	2,197	323	0.77	0.76
December 31, 2017	2,111	134	0.32	0.31
September 30, 2017	1,901	278	0.66	0.66

These quarterly results reflect organic growth, the timing and recognition of regulatory decisions, seasonality associated with electricity and gas demand, and the disposition of the Waneta Expansion. Revenue is also affected by the cost of fuel, purchased power and natural gas that is flowed through to customers without markup. Given the diversified nature of the Corporation's subsidiaries, seasonality varies. Earnings of the gas utilities tend to be highest in the first and fourth quarters due to space-heating requirements. Earnings of the electric distribution utilities in the United States tend to be highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

**June 2019/June 2018:** Common Equity Earnings were \$720 million, or \$1.66 per common share, for the second quarter of 2019 compared to \$240 million or \$0.57 per common share, for the second quarter of 2018. See "Performance Overview" on page 2.

**March 2019/March 2018:** Common Equity Earnings were \$311 million, or \$0.72 per common share, for the first quarter of 2019 compared to \$323 million, or \$0.77 per common share, for the first quarter of 2018. The decrease in earnings was due primarily to a one-time \$30 million favourable remeasurement of the Corporation's deferred income tax liabilities in the first quarter of 2018 as a result of an election to file a consolidated state income tax return, which offsets earnings growth in the first quarter of 2019. Earnings growth in the first quarter of 2019 was driven by: (i) strong performance at the regulated utilities due primarily to rate base growth; (ii) increased earnings at Central Hudson associated with its rate order effective July 1, 2018; (iii) higher electricity and gas sales at UNS Energy due largely to weather; and (iv) favourable foreign exchange of \$9 million. Growth was tempered by: (i) lower earnings contribution from the Energy Infrastructure segment due to lower realized margins and higher unrealized losses on the mark-to-market accounting of natural gas derivatives at Aitken Creek, along with lower hydroelectric production in Belize; and (ii) a lower ROE incentive adder at ITC.

**December 2018/December 2017:** Common Equity Earnings were \$261 million, or \$0.61 per common share, for the fourth quarter of 2018 compared to \$134 million, or \$0.32 per common share, for the fourth quarter of 2017. The increase in earnings was due primarily to: (i) a \$146 million increase in 2017 income tax expense associated with deferred tax remeasurements under U.S. tax reform; and (ii) a \$14 million decrease in 2018 income tax expense associated with deferred tax remeasurements related to assets held for sale, partially offset by; (iii) a \$21 million unrealized foreign exchange gain on a US-dollar denominated affiliate loan in 2017.

**September 2018/September 2017:** Common Equity Earnings were \$276 million, or \$0.65 per common share, for the third quarter of 2018 compared to \$278 million, or \$0.66 per common share, for the third quarter of 2017. The decrease in earnings was due primarily to: (i) the receipt of a break fee associated with the termination of the Waneta Dam purchase agreement recognized in the third quarter of 2017; and (ii) lower earnings from Aitken Creek related to unrealized net losses on the mark-to-market of natural gas derivatives quarter over quarter. These were partially offset by: (i) rate base growth driven by ITC; (ii) higher electricity sales at UNS Energy; (iii) stronger overall performance at the Canadian and Caribbean utilities, tempered by higher operating and interest expenses at FortisBC Energy; and (iv) favourable foreign exchange of \$10 million.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Interim Financial Statements requires management to make estimates and judgments that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues, expenses and contingencies. Actual results could differ materially from estimates.

There were no material changes to the nature of the Corporation's critical accounting estimates or contingencies from that disclosed in the 2018 annual MD&A.

## ACCOUNTING POLICY CHANGES

### Leases

Effective January 1, 2019, the Corporation adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures. Fortis applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods in accordance with the modified retrospective approach. Fortis elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the classification of existing leases; or (iii) the initial direct costs for existing leases. Fortis also utilized the hindsight practical expedient to determine the lease term. Upon adoption, Fortis did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows. Refer to Note 8 to the Interim Financial Statements for more detail.

### Hedging

Effective January 1, 2019 the Corporation adopted ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. Adoption did not have a material impact on the Interim Financial Statements and related disclosures.

### Fair Value Measurement Disclosures

Effective January 1, 2019, the Corporation adopted elements of ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, that are allowed to be early adopted. This ASU improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The partial adoption of this ASU removed the following disclosures: (a) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for level 3 fair value measurements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

### Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for Fortis January 1, 2020 and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. Adoption is not expected to have a material impact on the consolidated financial statements and related disclosures.

### Pensions and Other Post-Retirement Plan Disclosures

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for Fortis January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. Fortis plans to early adopt this update in the 2019 annual audited consolidated financial statements.

## OUTLOOK

Over the long term, Fortis is well positioned to enhance shareholder value through the execution of its capital expenditure plan, the balance and strength of its diversified portfolio of utility businesses, and growth opportunities within and proximate to its service territories.

The Corporation's \$17.3 billion five-year capital plan is expected to increase rate base from \$26.1 billion in 2018 to \$35.5 billion in 2023, translating into a five-year compound average growth rate of 6.3%. The five-year capital plan addresses system capacity and improves safety and reliability for the benefit of customers through investments that enhance resiliency and improve the performance of the electricity grid. The plan also addresses natural gas system capacity and gas line network integrity, increases cybersecurity protection and will enable the grid to deliver cleaner energy.

Fortis expects long-term sustainable growth in rate base to support continuing growth in earnings and dividends. Fortis is targeting average annual dividend growth of approximately 6% through 2023. This dividend guidance takes into account many factors, including the expectation of reasonable outcomes for regulatory proceedings at the Corporation's utilities, the successful execution of the five-year capital plan, and management's continued confidence in the strength of the Corporation's diversified portfolio of utilities and record of operational excellence.

## FORWARD-LOOKING INFORMATION

*Fortis includes forward-looking information and statements in the MD&A within the meaning of applicable Canadian securities laws and the U.S. Private Securities Litigation Reform Act of 1995, collectively referred to as "forward-looking information", which reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would and the negative of these terms and other similar terminology or expressions have been used to identify the forward-looking information, which includes, without limitation: targeted average annual dividend growth through 2023; forecast capital expenditures for 2019 and the period 2019 through 2023 and potential funding sources for the capital plan; expected outcome and impact of regulatory decisions; expected or potential funding sources for operating expenses, interest costs and capital expenditure plans; the expectation that maintaining the targeted capital structure of the regulated operating subsidiaries will not have an impact on its ability to pay dividends in the foreseeable future; expected consolidated fixed-term debt maturities and repayments over the next five years; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants throughout 2019; the nature, timing, benefits, funding sources and expected costs of certain capital projects including the Oso Grande Wind Project, Eagle Mountain Woodfibre Gas Line Project, and the Wataynikaneyap Transmission Power Project; the expectation that the adoption of future accounting pronouncements will not have a material impact on the Corporation's consolidated financial statements and the anticipated timing for adoption; forecast rate base for 2023; and the expectation that capital investment will support growth in earnings and dividends.*

*Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information, including, without limitation: reasonable regulatory decisions and the expectation of regulatory stability; the implementation of the five-year capital expenditure plan; no material capital project and financing cost overruns; sufficient human resources to deliver service and execute the capital expenditure plan; the realization of additional opportunities; the Board exercising its discretion to declare dividends, taking into account the financial performance and condition of the Corporation; no significant variability in interest rates; no significant operational disruptions or environmental liability or upset; the continued ability to maintain the performance of the electricity and gas systems; no severe and prolonged economic downturn; sufficient liquidity and capital resources; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices and electricity prices; the continued availability of natural gas, fuel, coal and electricity supply; continuation of power supply and capacity purchase contracts; no significant changes in government energy plans, environmental laws and regulations that could have a material negative impact; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no significant changes in tax laws and the continued tax deferred treatment of earnings from the Corporation's foreign operations; continued maintenance of information technology infrastructure and no material breach of cybersecurity; continued favourable relations with Indigenous Peoples; and favourable labour relations.*

*Forward-looking information involves significant risks, uncertainties and assumptions. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from those discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the heading "Business Risk Management" in the 2018 annual MD&A and in other continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and the Securities and Exchange Commission.*

*All forward-looking information herein is given as of August 1, 2019. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.*

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**FORTIS INC.**

Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30, 2019 and 2018  
(Unaudited)

**FORTIS INC.**  
**Condensed Consolidated Interim Balance Sheets (Unaudited)**  
**As at**  
(in millions of Canadian dollars)

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 191	\$ 332
Accounts receivable and other current assets	1,170	1,357
Prepaid expenses	62	84
Inventories	369	398
Regulatory assets (Note 6)	333	324
Assets held for sale (Note 11)	—	766
<b>Total current assets</b>	<b>2,125</b>	<b>3,261</b>
Other assets	617	552
Regulatory assets (Note 6)	2,957	2,854
Property, plant and equipment, net	32,752	32,654
Intangible assets, net	1,156	1,200
Goodwill	12,092	12,530
<b>Total assets</b>	<b>\$ 51,699</b>	<b>\$ 53,051</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings (Note 7)	\$ 305	\$ 60
Accounts payable and other current liabilities	1,862	2,289
Regulatory liabilities (Note 6)	640	656
Current installments of long-term debt (Note 7)	380	926
Current installments of finance leases (Note 8)	231	252
Liabilities associated with assets held for sale (Note 11)	—	69
<b>Total current liabilities</b>	<b>3,418</b>	<b>4,252</b>
Other liabilities	1,249	1,138
Regulatory liabilities (Note 6)	2,860	2,970
Deferred income taxes	2,797	2,686
Long-term debt (Note 7)	22,230	23,159
Finance leases (Note 8)	331	390
<b>Total liabilities</b>	<b>32,885</b>	<b>34,595</b>
Commitments and contingencies (Note 17)		
<b>Equity</b>		
Common shares <sup>(1)</sup>	12,238	11,889
Preference shares	1,623	1,623
Additional paid-in capital	11	11
Accumulated other comprehensive income	468	928
Retained earnings	2,919	2,082
Shareholders' equity	17,259	16,533
Non-controlling interests	1,555	1,923
<b>Total equity</b>	<b>18,814</b>	<b>18,456</b>
<b>Total liabilities and equity</b>	<b>\$ 51,699</b>	<b>\$ 53,051</b>

<sup>(1)</sup> No par value. Unlimited authorized shares; 435.8 million and 428.5 million issued and outstanding as at June 30, 2019 and December 31, 2018, respectively

See accompanying Notes to Condensed Consolidated Interim Financial Statements



**FORTIS INC.**  
**Condensed Consolidated Interim Statements of Earnings (Unaudited)**  
**For the periods ended June 30**  
(in millions of Canadian dollars, except per share amounts)

	Quarter Ended		Year-to-Date	
	2019	2018	2019	2018
<b>Revenue</b>	<b>\$ 1,970</b>	\$ 1,947	<b>\$ 4,406</b>	\$ 4,144
<b>Expenses</b>				
Energy supply costs	496	507	1,329	1,236
Operating expenses	603	553	1,219	1,106
Depreciation and amortization	338	309	672	611
<b>Total expenses</b>	<b>1,437</b>	1,369	<b>3,220</b>	2,953
Gain on disposition (Note 11)	577	—	577	—
<b>Operating income</b>	<b>1,110</b>	578	<b>1,763</b>	1,191
Other income, net (Note 12)	43	18	81	27
Finance charges	263	243	532	479
<b>Earnings before income tax expense</b>	<b>890</b>	353	<b>1,312</b>	739
Income tax expense	125	61	191	83
<b>Net earnings</b>	<b>\$ 765</b>	\$ 292	<b>\$ 1,121</b>	\$ 656
<b>Net earnings attributable to:</b>				
Non-controlling interests	\$ 28	\$ 35	\$ 56	\$ 60
Preference equity shareholders	17	17	34	33
Common equity shareholders	720	240	1,031	563
	<b>\$ 765</b>	\$ 292	<b>\$ 1,121</b>	\$ 656
<b>Earnings per common share</b> (Note 14)				
Basic	<b>\$ 1.66</b>	\$ 0.57	<b>\$ 2.39</b>	\$ 1.33
Diluted	<b>\$ 1.66</b>	\$ 0.57	<b>\$ 2.39</b>	\$ 1.33

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**FORTIS INC.**  
**Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)**  
**For the periods ended June 30**  
(in millions of Canadian dollars)

	Quarter Ended		Year-to-Date	
	2019	2018	2019	2018
<b>Net earnings</b>	<b>\$ 765</b>	\$ 292	<b>\$ 1,121</b>	\$ 656
<b>Other comprehensive (loss) income</b>				
Unrealized foreign currency translation (losses) gains <sup>(1)</sup>	(257)	245	(523)	551
<b>Comprehensive income</b>	<b>\$ 508</b>	\$ 537	<b>\$ 598</b>	\$ 1,207
<b>Comprehensive (loss) income attributable to:</b>				
Non-controlling interests	\$ (2)	\$ 68	\$ (7)	\$ 132
Preference equity shareholders	17	17	34	33
Common equity shareholders	493	452	571	1,042
	<b>\$ 508</b>	\$ 537	<b>\$ 598</b>	\$ 1,207

<sup>(1)</sup> Net of hedging activities and income tax expense of \$4 million and \$9 million for the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 - \$nil and \$nil)

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**FORTIS INC.**  
**Condensed Consolidated Interim Statements of Cash Flows (Unaudited)**  
**For the periods ended June 30**  
(in millions of Canadian dollars)

	Quarter Ended		Year-to-Date	
	2019	2018	2019	2018
<b>Operating activities</b>				
Net earnings	\$ 765	\$ 292	\$ 1,121	\$ 656
Adjustments to reconcile net earnings to cash from operating activities:				
Depreciation - property, plant and equipment	297	276	595	545
Amortization - intangible assets	34	25	64	51
Amortization - other	7	8	13	15
Deferred income tax expense	88	76	111	61
Equity component of allowance for funds used during construction (Note 12)	(19)	(15)	(37)	(30)
Gain on disposition (Note 11)	(583)	—	(583)	—
Other	40	48	74	62
Change in long-term regulatory assets and liabilities	(36)	(38)	(86)	2
Change in working capital (Note 15)	38	10	(100)	(91)
<b>Cash from operating activities</b>	<b>631</b>	<b>682</b>	<b>1,172</b>	<b>1,271</b>
<b>Investing activities</b>				
Capital expenditures - property, plant and equipment	(814)	(724)	(1,526)	(1,379)
Capital expenditures - intangible assets	(29)	(68)	(57)	(98)
Contributions in aid of construction	23	33	49	60
Proceeds on disposition (Note 11)	995	—	995	—
Other	(76)	(33)	(94)	(53)
<b>Cash from (used in) investing activities</b>	<b>99</b>	<b>(792)</b>	<b>(633)</b>	<b>(1,470)</b>
<b>Financing activities</b>				
Proceeds from long-term debt, net of issuance costs	320	32	392	352
Repayments of long-term debt, net of extinguishment costs, and finance leases	(922)	(85)	(939)	(231)
Borrowings under committed credit facilities	2,221	1,196	3,684	2,362
Repayments under committed credit facilities	(2,545)	(1,079)	(3,963)	(2,185)
Net change in short-term borrowings	144	25	261	23
Issue of common shares, net of costs and dividends reinvested (Note 9)	164	5	196	20
Dividends				
Common shares, net of dividends reinvested	(118)	(114)	(236)	(230)
Preference shares	(17)	(17)	(34)	(33)
Subsidiary dividends paid to non-controlling interests	(19)	(16)	(51)	(40)
Other	(4)	22	8	20
<b>Cash (used in) from financing activities</b>	<b>(776)</b>	<b>(31)</b>	<b>(682)</b>	<b>58</b>
Effect of exchange rate changes on cash and cash equivalents	(5)	5	(13)	11
<b>Change in cash and cash equivalents</b>	<b>(51)</b>	<b>(136)</b>	<b>(156)</b>	<b>(130)</b>
Change in cash associated with assets held for sale	9	—	15	—
Cash and cash equivalents, beginning of period	233	333	332	327
<b>Cash and cash equivalents, end of period</b>	<b>\$ 191</b>	<b>\$ 197</b>	<b>\$ 191</b>	<b>\$ 197</b>

Supplementary Cash Flow Information (Note 15)

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**FORTIS INC.**  
**Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)**  
**For the periods ended June 30**  
(In millions of Canadian dollars, except share numbers)

	Common Shares (# millions)	Common Shares (Note 9)	Preference Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non- Controlling Interests	Total Equity
<b>As at December 31, 2018</b>	<b>428.5</b>	<b>\$ 11,889</b>	<b>\$ 1,623</b>	<b>\$ 11</b>	<b>\$ 928</b>	<b>\$ 2,082</b>	<b>\$ 1,923</b>	<b>\$ 18,456</b>
Net earnings	—	—	—	—	—	1,065	56	1,121
Other comprehensive loss	—	—	—	—	(460)	—	(63)	(523)
Common shares issued	7.3	349	—	(4)	—	—	—	345
Subsidiary dividends paid to non-controlling interests	—	—	—	—	—	—	(51)	(51)
Dividends declared on common shares (\$0.45 per share)	—	—	—	—	—	(194)	—	(194)
Dividends declared on preference shares	—	—	—	—	—	(34)	—	(34)
Disposition (Note 11)	—	—	—	—	—	—	(318)	(318)
Other	—	—	—	4	—	—	8	12
<b>As at June 30, 2019</b>	<b>435.8</b>	<b>\$ 12,238</b>	<b>\$ 1,623</b>	<b>\$ 11</b>	<b>\$ 468</b>	<b>\$ 2,919</b>	<b>\$ 1,555</b>	<b>\$ 18,814</b>
<b>As at December 31, 2017</b>	<b>421.1</b>	<b>\$ 11,582</b>	<b>\$ 1,623</b>	<b>\$ 10</b>	<b>\$ 61</b>	<b>\$ 1,727</b>	<b>\$ 1,746</b>	<b>\$ 16,749</b>
Net earnings	—	—	—	—	—	596	60	656
Other comprehensive income	—	—	—	—	479	—	72	551
Common shares issued	3.7	149	—	(1)	—	—	—	148
Subsidiary dividends paid to non-controlling interests	—	—	—	—	—	—	(40)	(40)
Dividends declared on common shares (\$0.425 per share)	—	—	—	—	—	(180)	—	(180)
Dividends declared on preference shares	—	—	—	—	—	(33)	—	(33)
Other	—	—	—	1	—	—	12	13
<b>As at June 30, 2018</b>	<b>424.8</b>	<b>\$ 11,731</b>	<b>\$ 1,623</b>	<b>\$ 10</b>	<b>\$ 540</b>	<b>\$ 2,110</b>	<b>\$ 1,850</b>	<b>\$ 17,864</b>

See accompanying Notes to Condensed Consolidated Interim Financial Statements

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
For the three and six months ended June 30, 2019 and 2018 (Unaudited)

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## **1. DESCRIPTION OF BUSINESS**

### **Nature of Operations**

Fortis Inc. ("Fortis" or the "Corporation") is principally a North American regulated electric and gas utility holding company.

Earnings for interim periods may not be indicative of annual results due to the impact of seasonal weather conditions on customer demand and market pricing and the timing and recognition of regulatory decisions. Earnings of the gas utilities tend to be highest in the first and fourth quarters due to space-heating requirements. Earnings of the electric distribution utilities in the United States tend to be highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Entities within the reporting segments that follow operate with substantial autonomy.

### **Regulated Utilities**

*ITC:* Comprised of ITC Holdings Corp., ITC Investment Holdings Inc. and the electric transmission operations of its regulated operating subsidiaries, which include International Transmission Company, Michigan Electric Transmission Company, LLC, ITC Midwest LLC and ITC Great Plains, LLC, all operating in the United States. Fortis owns 80.1% of ITC and an affiliate of GIC Private Limited owns a 19.9% minority interest.

*UNS Energy:* Comprised of UNS Energy Corporation, which primarily includes Tucson Electric Power Company ("TEP"), UNS Electric, Inc. and UNS Gas, Inc., all operating in the United States.

*Central Hudson:* Represents Central Hudson Gas & Electric Corporation, operating in the United States.

*FortisBC Energy:* Represents FortisBC Energy Inc., operating in Canada.

*FortisAlberta:* Represents FortisAlberta Inc., operating in Canada.

*FortisBC Electric:* Represents FortisBC Inc., operating in Canada.

*Other Electric:* Comprised of utilities in Eastern Canada and the Caribbean as follows: Newfoundland Power Inc.; Maritime Electric Company, Limited; FortisOntario Inc.; a 39% equity investment in Wataynikaneyap Power Limited Partnership; an approximate 60% controlling interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"); FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "FortisTCI"); and a 33% equity investment in Belize Electricity Limited ("BEL").

### **Non-Regulated**

*Energy Infrastructure:* Primarily comprised of long-term contracted generation assets in Belize and the Aitken Creek natural gas storage facility ("Aitken Creek") in British Columbia. The long-term contracted generation assets in British Columbia were sold on April 16, 2019 (Note 11).

*Corporate and Other:* Captures expenses and revenues not specifically related to any reportable segment and those business operations that are below the required threshold for segmented reporting, including net corporate expenses of Fortis and the non-regulated holding company FortisBC Holdings Inc ("FHI") of FortisBC Energy.

## **2. REGULATORY MATTERS**

Regulation of the Corporation's utilities is generally consistent with that disclosed in its 2018 annual audited consolidated financial statements ("2018 Annual Financial Statements"). A summary of significant regulatory developments year-to-date 2019 follows.

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
For the three and six months ended June 30, 2019 and 2018 (Unaudited)

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## **ITC**

In March 2019 the Federal Energy Regulatory Commission ("FERC") issued a notice of inquiry seeking comments on whether and how to improve its electric transmission incentives policy. The outcome may impact the existing incentive adders that are included in transmission rates charged by transmission owners, including ITC.

In March 2019 FERC issued a second notice of inquiry seeking comments on whether and how recent policies concerning the determination of the base rate of return on common equity ("ROE") for electric utilities should be modified. The outcome may impact ITC's future base ROE.

Refer to the Corporation's 2018 Annual Financial Statements for further information on ITC's incentive adders and ROE complaints.

## **UNS Energy**

### *General Rate Application*

In April 2019 TEP filed a general rate application with the Arizona Corporation Commission requesting an increase in non-fuel revenue of US\$115 million effective May 1, 2020 with electricity rates based on a 2018 test year. The filing includes a request to increase TEP's allowed ROE to 10.35% from 9.75% and the equity component of its capital structure to 53% from 50% on a rate base of US\$2.7 billion. A decision is expected in 2020.

### *Transmission Rate Application*

In May 2019 TEP filed a proposal with FERC requesting that a forward-looking formula rate replace TEP's stated transmission rates which would allow for more timely recovery of transmission-related costs. On July 31, 2019, FERC issued an order accepting TEP's proposed rate revisions, effective August 1, 2019, subject to refund following hearing and settlement procedures.

## **FortisBC Energy and FortisBC Electric**

In March 2019 FortisBC Energy and FortisBC Electric filed applications with the British Columbia Utilities Commission requesting approval of a multi-year rate plan and rate-setting methodology for 2020 through 2024. A decision is expected in 2020.

## **FortisAlberta**

### *Second-Term Performance-Based Rate-Setting Proceeding*

The Alberta Utilities Commission ("AUC") continues to review regulatory applications for rebasing inputs included in rates under performance-based rate setting ("PBR") for 2018 to 2022, including anomaly related adjustments and approved changes to depreciation parameters. FortisAlberta's 2018 and 2019 PBR rates remain interim pending the completion of the AUC's review.

### *Generic Cost of Capital Proceeding*

In December 2018 the AUC initiated a generic cost of capital proceeding to consider a formula-based approach to setting the allowed ROE beginning in 2021 and whether any process changes are necessary for determining capital structure in years in which a ROE formula is in place. In April 2019 the AUC determined that a traditional non-formulaic approach for assessing ROE and deemed capital structure would be used in 2021, with consideration of a formula-based approach for determining the allowed ROE for 2022 and subsequent years.

## **3. ACCOUNTING POLICIES**

The condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States of America and are in Canadian dollars unless otherwise noted.

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
For the three and six months ended June 30, 2019 and 2018 (Unaudited)

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The Interim Financial Statements are comprised of the accounts of Fortis and its wholly owned subsidiaries and controlling ownership interests. All inter-company balances and transactions have been eliminated on consolidation, except as disclosed in Note 5.

These Interim Financial Statements do not include all of the disclosures required in the annual financial statements and should be read in conjunction with the Corporation's 2018 Annual Financial Statements. In management's opinion, these Interim Financial Statements include all adjustments that are of a normal recurring nature, necessary for fair presentation.

The preparation of the Interim Financial Statements requires management to make estimates and judgments, including those related to regulatory decisions, that affect the reported amounts of, and disclosures related to, assets, liabilities, revenues and expenses. Actual results could differ from estimates.

The accounting policies applied herein are consistent with those outlined in the Corporation's 2018 Annual Financial Statements, except as described below.

### **New Accounting Policies**

#### *Leases*

Effective January 1, 2019, the Corporation adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures (Note 8).

At lease inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which Fortis accounts for as a single lease component. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Fortis applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods in accordance with the modified retrospective approach. Fortis elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the classification of existing leases; or (iii) the initial direct costs for existing leases. Fortis also utilized the hindsight practical expedient to determine the lease term. Upon adoption, Fortis did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows.

#### *Hedging*

Effective January 1, 2019, the Corporation adopted ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. Adoption did not have a material impact on the Interim Financial Statements and related disclosures.

#### *Fair Value Measurement Disclosures*

Effective January 1, 2019, the Corporation adopted elements of ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, that are allowed to be early adopted. This ASU improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The partial adoption of this ASU removed the following disclosures: (a) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for level 3 fair value measurements.

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
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**4. FUTURE ACCOUNTING PRONOUNCEMENTS**

**Financial Instruments**

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for Fortis January 1, 2020 and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. Adoption is not expected to have a material impact on the consolidated financial statements and related disclosures.

**Pensions and Other Post-Retirement Plan Disclosures**

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for Fortis January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. Fortis plans to early adopt this update in the 2019 annual audited consolidated financial statements.

**5. SEGMENTED INFORMATION**

**General**

Fortis segments its business based on regulatory status and service territory, as well as the information used by its President and Chief Executive Officer in deciding how to allocate resources. Segment performance is evaluated based on net earnings attributable to common equity shareholders.

**Related-party and inter-company transactions**

Related-party transactions are in the normal course of operations and are measured at the amount of consideration agreed to by the related parties. There were no material related-party transactions for the three and six months ended June 30, 2019 and 2018.

Inter-company balances, transactions and profit are eliminated on consolidation, except for certain inter-company transactions between non-regulated and regulated entities in accordance with accounting standards for rate-regulated entities, which are summarized below.

(\$ millions)	Quarter Ended June 30		Year-to-Date June 30	
	2019	2018	2019	2018
Sale of capacity from Waneta Expansion to FortisBC Electric <sup>(1)</sup>	1	4	17	19
Lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy	6	6	12	13

<sup>(1)</sup> Reflects amounts to the April 16, 2019, disposition of the Waneta Expansion hydroelectric generating facility ("Waneta Expansion") (Note 11)

As at June 30, 2019, accounts receivable included approximately \$9 million due from BEL (December 31, 2018 - \$16 million).

The Corporation periodically provides short-term financing to subsidiaries to support capital expenditure programs, acquisitions and seasonal working capital requirements. As at June 30, 2019, there were inter-segment loans outstanding of \$73 million (December 31, 2018 - \$nil). Total interest charged was not material for the three and six months ended June 30, 2019.

## FORTIS INC.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018 (unaudited)

Quarter Ended June 30, 2019 (\$ millions)	REGULATED								NON-REGULATED			Total
	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	Sub Total	Energy Infra- structure	Corporate and Other	Inter- segment eliminations	
Revenue	428	500	199	235	150	90	343	1,945	25	—	—	1,970
Energy supply costs	—	164	58	63	—	15	195	495	1	—	—	496
Operating expenses	132	161	107	78	36	27	46	587	9	7	—	603
Depreciation and amortization	68	74	19	59	53	15	44	332	5	1	—	338
Gain on disposition	—	—	—	—	—	—	—	—	—	577	—	577
Operating income	228	101	15	35	61	33	58	531	10	569	—	1,110
Other income, net	12	5	4	3	—	1	—	25	1	17	—	43
Finance charges	79	33	11	34	27	18	19	221	(1)	43	—	263
Income tax expense	39	13	1	(6)	—	1	6	54	1	70	—	125
Net earnings	122	60	7	10	34	15	33	281	11	473	—	765
Non-controlling interests	21	—	—	—	—	—	4	25	3	—	—	28
Preference share dividends	—	—	—	—	—	—	—	—	—	17	—	17
Net earnings attributable to common equity shareholders	101	60	7	10	34	15	29	256	8	456	—	720
Goodwill	8,037	1,809	591	913	228	235	252	12,065	27	—	—	12,092
Total assets	19,533	9,884	3,574	6,885	4,732	2,267	4,085	50,960	671	187	(119)	51,699
Capital expenditures	301	156	78	104	95	26	68	828	7	8	—	843
Quarter Ended June 30, 2018 (\$ millions)												
Revenue	374	530	201	226	143	89	336	1,899	49	—	(1)	1,947
Energy supply costs	—	186	63	50	—	19	189	507	—	—	—	507
Operating expenses	109	157	97	75	39	24	43	544	6	4	(1)	553
Depreciation and amortization	57	67	18	55	48	15	40	300	8	1	—	309
Operating income	208	120	23	46	56	31	64	548	35	(5)	—	578
Other income, net	11	4	3	1	—	—	1	20	—	(2)	—	18
Finance charges	70	25	11	34	24	10	19	193	2	48	—	243
Income tax expense	45	18	3	6	—	6	7	85	—	(24)	—	61
Net earnings	104	81	12	7	32	15	39	290	33	(31)	—	292
Non-controlling interests	18	—	—	—	—	—	4	22	13	—	—	35
Preference share dividends	—	—	—	—	—	—	—	—	—	17	—	17
Net earnings attributable to common equity shareholders	86	81	12	7	32	15	35	268	20	(48)	—	240
Goodwill	8,082	1,819	594	913	227	235	253	12,123	27	—	—	12,150
Total assets	18,786	9,451	3,376	6,347	4,550	2,210	3,930	48,650	1,566	84	(51)	50,249
Capital expenditures	245	144	59	114	104	25	72	763	29	—	—	792



## FORTIS INC.

### Notes to Condensed Consolidated Interim Financial Statements

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Year-to-Date June 30, 2019 (\$ millions)	REGULATED							NON-REGULATED			Inter- segment eliminations	Total
	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	Sub Total	Energy Infra- structure	Corporate and Other		
Revenue	836	1,043	476	720	295	209	769	<b>4,348</b>	<b>61</b>	—	(3)	<b>4,406</b>
Energy supply costs	—	396	150	244	—	55	482	<b>1,327</b>	<b>2</b>	—	—	<b>1,329</b>
Operating expenses	256	313	225	161	77	52	93	<b>1,177</b>	<b>23</b>	<b>22</b>	(3)	<b>1,219</b>
Depreciation and amortization	131	148	39	118	105	31	86	<b>658</b>	<b>13</b>	<b>1</b>	—	<b>672</b>
Gain on disposition	—	—	—	—	—	—	—	—	—	<b>577</b>	—	<b>577</b>
Operating income	449	186	62	197	113	71	108	<b>1,186</b>	<b>23</b>	<b>554</b>	—	<b>1,763</b>
Other income, net	22	14	8	6	1	2	1	<b>54</b>	<b>2</b>	<b>25</b>	—	<b>81</b>
Finance charges	156	66	22	69	52	36	39	<b>440</b>	—	<b>92</b>	—	<b>532</b>
Income tax expense	81	19	9	24	1	6	11	<b>151</b>	<b>1</b>	<b>39</b>	—	<b>191</b>
Net earnings	234	115	39	110	61	31	59	<b>649</b>	<b>24</b>	<b>448</b>	—	<b>1,121</b>
Non-controlling interests	41	—	—	—	—	—	7	<b>48</b>	<b>8</b>	—	—	<b>56</b>
Preference share dividends	—	—	—	—	—	—	—	—	—	<b>34</b>	—	<b>34</b>
Net earnings attributable to common equity shareholders	193	115	39	110	61	31	52	<b>601</b>	<b>16</b>	<b>414</b>	—	<b>1,031</b>
Goodwill	8,037	1,809	591	913	228	235	252	<b>12,065</b>	<b>27</b>	—	—	<b>12,092</b>
Total assets	19,533	9,884	3,574	6,885	4,732	2,267	4,085	<b>50,960</b>	<b>671</b>	<b>187</b>	(119)	<b>51,699</b>
Capital expenditures	537	323	142	174	202	51	124	<b>1,553</b>	<b>13</b>	<b>17</b>	—	<b>1,583</b>
Year-to-Date June 30, 2018 (\$ millions)												
Revenue	728	974	476	655	284	201	733	4,051	97	—	(4)	4,144
Energy supply costs	—	348	182	184	—	62	459	1,235	1	—	—	1,236
Operating expenses	212	296	202	151	81	50	88	1,080	19	11	(4)	1,106
Depreciation and amortization	113	132	35	110	95	30	79	594	16	1	—	611
Operating income	403	198	57	210	108	59	107	1,142	61	(12)	—	1,191
Other income, net	21	6	5	2	—	1	—	35	—	(8)	—	27
Finance charges	138	50	21	67	49	20	38	383	3	93	—	479
Income tax expense	77	23	8	40	—	9	11	168	2	(87)	—	83
Net earnings	209	131	33	105	59	31	58	626	56	(26)	—	656
Non-controlling interests	37	—	—	—	—	—	5	42	18	—	—	60
Preference share dividends	—	—	—	—	—	—	—	—	—	33	—	33
Net earnings attributable to common equity shareholders	172	131	33	105	59	31	53	584	38	(59)	—	563
Goodwill	8,082	1,819	594	913	227	235	253	12,123	27	—	—	12,150
Total assets	18,786	9,451	3,376	6,347	4,550	2,210	3,930	48,650	1,566	84	(51)	50,249
Capital expenditures	468	269	107	200	223	54	125	1,446	31	—	—	1,477

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
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**6. REGULATORY ASSETS AND LIABILITIES**

Detailed information about the Corporation's regulatory assets and liabilities is provided in Note 9 to the 2018 Annual Financial Statements. A summary follows.

(\$ millions)	As at	
	June 30, 2019	December 31, 2018
<b>Regulatory assets</b>		
Deferred income taxes	1,532	1,532
Employee future benefits	459	485
Deferred energy management costs	246	230
Rate stabilization and related accounts	173	90
Deferred lease costs	113	110
Deferred operating overhead costs	113	103
Manufactured gas plant site remediation deferral	89	73
Generation early retirement costs	88	98
Derivatives	83	57
Other regulatory assets	394	400
<b>Total regulatory assets</b>	<b>3,290</b>	<b>3,178</b>
<b>Less: Current portion</b>	<b>(333)</b>	<b>(324)</b>
<b>Long-term regulatory assets</b>	<b>2,957</b>	<b>2,854</b>
<b>Regulatory liabilities</b>		
Deferred income taxes	1,495	1,574
Asset removal cost provision	1,168	1,169
ROE complaints liability	203	206
Rate stabilization and related accounts	162	220
Energy efficiency liability	100	106
Renewable energy surcharge	85	85
Electric and gas moderator account	53	60
Other regulatory liabilities	234	206
<b>Total regulatory liabilities</b>	<b>3,500</b>	<b>3,626</b>
<b>Less: Current portion</b>	<b>(640)</b>	<b>(656)</b>
<b>Long-term regulatory liabilities</b>	<b>2,860</b>	<b>2,970</b>

**7. LONG-TERM DEBT**

(\$ millions)	As at	
	June 30, 2019	December 31, 2018
Long-term debt	21,980	23,165
Credit facility borrowings	764	1,066
<b>Total long-term debt</b>	<b>22,744</b>	<b>24,231</b>
Less: Deferred financing costs and debt discounts	(134)	(146)
Less: Current installments of long-term debt	(380)	(926)
	<b>22,230</b>	<b>23,159</b>

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The long-term debt issuances for the six months ended June 30, 2019 are summarized below.

(\$ millions, except %)	Month Issued	Interest Rate (%)	Maturity	Amount	Use of Proceeds
ITC					
Secured Notes	January	4.55	2049	US 50	(1)(2)(3)
Unsecured term loan credit agreement <sup>(4)</sup>	June	(5)	2021	US 200	(6)
FortisTCI					
Unsecured non-revolving term loan <sup>(7)</sup>	February	(8)	2025	US 5	(2)(3)
CUC					
Unsecured Notes	May	4.14	2049	US 40	(1)(2)(3)(6)

<sup>(1)</sup> Repay credit facility borrowings

<sup>(2)</sup> Finance capital expenditures

<sup>(3)</sup> General corporate purposes

<sup>(4)</sup> Maximum amount of borrowings under this agreement is US\$400 million.

<sup>(5)</sup> Floating rate of a one-month LIBOR plus a spread of 0.60%

<sup>(6)</sup> Repay maturing long-term debt

<sup>(7)</sup> Maximum amount of borrowings under this agreement of US\$10 million has been withdrawn.

<sup>(8)</sup> Floating rate of a one-month LIBOR plus a spread of 1.75%

Fortis used the proceeds from the disposition of Waneta Expansion (Note 11) to repay credit facility borrowings and repurchase, via a tender offer, US\$400 million of its outstanding 3.055% unsecured senior notes due in 2026. A gain on the repayment of debt of \$11 million (\$7 million after tax), net of expenses, was recognized in other income, net.

In July 2019 ITC issued 30-year US\$50 million secured notes at 4.65%. The net proceeds were used to repay credit facility borrowings, finance capital expenditures and for general corporate purposes.

### Credit Facilities

As at June 30, 2019, the Corporation and its subsidiaries had consolidated credit facilities of approximately \$5.3 billion, of which approximately \$4.1 billion was unused, including \$1.3 billion unused under the Corporation's committed revolving corporate credit facility, as follows.

(\$ millions)	As at			
	Regulated Utilities	Corporate and Other	June 30, 2019	December 31, 2018
Total credit facilities	3,917	1,381	5,298	5,165
Credit facilities utilized:				
Short-term borrowings <sup>(1)</sup>	(305)	—	(305)	(60)
Long-term debt (including current portion) <sup>(2)</sup>	(764)	—	(764)	(1,066)
Letters of credit outstanding	(63)	(50)	(113)	(119)
<b>Credit facilities unutilized</b>	<b>2,785</b>	<b>1,331</b>	<b>4,116</b>	<b>3,920</b>

<sup>(1)</sup> The weighted average interest rate was approximately 2.9% (December 31, 2018 - 4.2%).

<sup>(2)</sup> The weighted average interest rate was approximately 2.9% (December 31, 2018 - 3.3%). The current portion was \$306 million (December 31, 2018 - \$735 million).

Credit facilities are syndicated primarily with large banks in Canada and the United States, with no one bank holding more than 20% of the total facilities. Approximately \$4.9 billion of the total credit facilities are committed facilities with maturities ranging from 2020 through 2024.

There were no material changes in credit facilities, other than the amounts utilized, from that disclosed in the Corporation's 2018 Annual Financial Statements.

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**8. LEASES**

The Corporation and its subsidiaries lease office facilities, utility equipment, land, and communication tower space with remaining terms of up to 22 years, with optional renewal terms. Certain lease agreements include rental payments adjusted periodically for inflation or require the payment of real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

The Corporation's subsidiaries also have finance leases related to generating facilities with remaining terms of up to 37 years.

Leases were presented on the balance sheet as follows.

<i>(\$ millions)</i>	<b>As at June 30, 2019</b>
<b>Operating leases</b>	
Other assets	44
Accounts payable and other current liabilities	8
Other liabilities	35
<b>Finance leases</b>	
Regulatory assets	121
Property, plant and equipment, net	432
Current installments of finance leases	231
Finance leases	331

The components of lease expense were as follows.

<i>(\$ millions)</i>	<b>June 30, 2019</b>	
	<b>Quarter Ended</b>	<b>Year-to-Date</b>
Operating lease cost	3	5
Finance lease cost:		
Amortization	5	9
Interest	12	24
Variable lease cost	13	22
<b>Total lease cost</b>	<b>33</b>	<b>60</b>

For the three and six months ended June 30, 2018, operating lease cost was \$3 million and \$5 million, respectively.

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As of June 30, 2019, the present value of minimum lease payments was as follows.

<i>(\$ millions)</i>	Operating Leases	Finance Leases	Total
July - December 2019	5	239	<b>244</b>
2020	8	59	<b>67</b>
2021	7	32	<b>39</b>
2022	6	32	<b>38</b>
2023	4	33	<b>37</b>
Thereafter	24	1,109	<b>1,133</b>
	54	1,504	<b>1,558</b>
Less: Imputed interest	(11)	(942)	<b>(953)</b>
Total lease obligations	43	562	<b>605</b>
Less: Current installments	(8)	(231)	<b>(239)</b>
	35	331	<b>366</b>

As at December 31, 2018, the present value of minimum lease payments was as follows.

<i>(\$ millions)</i>	Total
2019	313
2020	77
2021	80
2022	49
2023	47
Thereafter	1,885
	2,451
Less: Imputed interest and executory costs	(1,809)
Total capital lease and finance obligations	642
Less: Current installments	(252)
	390

Supplemental lease information was as follows.

	As at June 30, 2019
<b>Weighted-average remaining lease term (years)</b>	
Operating leases	10
Finance leases	21
<b>Weighted-average discount rate (%)</b>	
Operating leases	4.2
Finance leases	5.4

<i>(\$ millions)</i>	June 30, 2019	
	Quarter Ended	Year-to-Date
<b>Cash payments included in lease liabilities</b>		
Operating cash flows used in operating leases	(3)	(5)
Operating cash flows used in finance leases	(4)	(9)
Financing cash flows used in finance leases	—	(15)
<b>Right-of-use assets obtained in exchange for new lease liabilities</b>		
Operating leases	2	48

**FORTIS INC.**  
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**9. COMMON SHARES**

During the second quarter of 2019, the Corporation issued approximately 2.8 million common shares under its at-the-market common equity program at an average price of \$51.32 per share for gross proceeds of \$142 million (\$140 million net of commissions). The proceeds were used to fund capital expenditures.

**10. EMPLOYEE FUTURE BENEFITS**

The Corporation and its subsidiaries each maintain one or a combination of defined benefit pension plans and defined contribution pension plans, including group Registered Retirement Savings Plans and group 401(k) plans, for employees. The Corporation and certain subsidiaries also offer other post-employment benefit ("OPEB") plans for qualifying employees. The net benefit cost is detailed below.

<i>(\$ millions)</i>	<b>Defined Benefit Pension Plans</b>		<b>OPEB Plans</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Quarter Ended June 30</b>				
<b>Components of net benefit cost</b>				
Service costs	<b>19</b>	20	<b>7</b>	7
Interest costs	<b>32</b>	28	<b>7</b>	6
Expected return on plan assets	<b>(40)</b>	(40)	<b>(4)</b>	(4)
Amortization of actuarial losses (gains)	<b>6</b>	12	<b>(1)</b>	—
Amortization of past service credits/plan amendments	<b>(1)</b>	—	<b>(2)</b>	(2)
Regulatory adjustments	<b>—</b>	—	<b>1</b>	2
<b>Net benefit cost</b>	<b>16</b>	20	<b>8</b>	9
<b>Year-to-Date June 30</b>				
<b>Components of net benefit cost</b>				
Service costs	<b>38</b>	41	<b>14</b>	15
Interest costs	<b>63</b>	56	<b>13</b>	12
Expected return on plan assets	<b>(80)</b>	(80)	<b>(8)</b>	(8)
Amortization of actuarial losses (gains)	<b>12</b>	24	<b>(2)</b>	—
Amortization of past service credits/plan amendments	<b>(1)</b>	—	<b>(4)</b>	(5)
Regulatory adjustments	<b>1</b>	—	<b>3</b>	3
<b>Net benefit cost</b>	<b>33</b>	41	<b>16</b>	17

Defined contribution pension plan expense for the three and six months ended June 30, 2019 was \$10 million and \$22 million, respectively (three and six months ended June 30, 2018 - \$9 million and \$20 million, respectively).

**11. DISPOSITION**

On April 16, 2019, Fortis sold its 51% ownership interest in the 335-megawatt Waneta Expansion for proceeds of \$995 million. A gain on disposition of \$577 million (\$484 million after tax), net of expenses, was recognized in the Corporate and Other segment, and the related non-controlling interest has been removed from equity. Refer to Note 7 for use of proceeds.

For the three and six months ended June 30, 2019, excluding the gain on disposition, Waneta Expansion contributed \$7 million and \$17 million, respectively, to earnings before income tax expense (three and six months ended June 30, 2018 - \$27 million and \$37 million, respectively), of which Fortis' share was 51%.

# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018 (Unaudited)

### 12. OTHER INCOME, NET

<i>(\$ millions)</i>	Quarter ended June 30		Year-to-Date June 30	
	2019	2018	2019	2018
Equity component of allowance for funds used during construction	19	15	37	30
Gain on repayment of debt (Note 7)	11	—	11	—
Derivative gains (losses)	6	(4)	13	(8)
Interest income	4	4	8	8
Other	3	3	12	(3)
	<b>43</b>	18	<b>81</b>	27

### 13. INCOME TAXES

For the three months ended June 30, 2019 and 2018, the Corporation's effective tax rates were 14% and 17%, respectively. The decrease in the effective tax rate was driven primarily by the impact of accelerated capital cost allowance, partially offset by the disposition of the Waneta Expansion.

For the six months ended June 30, 2019 and 2018, the Corporation's effective tax rates were 15% and 11%, respectively. The increase in the effective tax rate was driven primarily by the disposition of Waneta Expansion, along with a one-time remeasurement of the Corporation's deferred income tax liabilities in 2018 that resulted from an election to file a consolidated state income tax return, partially offset by the impact of accelerated capital cost allowance.

### 14. EARNINGS PER COMMON SHARE

Diluted earnings per share ("EPS") was calculated using the treasury stock method for stock options.

	2019			2018		
	Net Earnings to Common Shareholders <i>(\$ millions)</i>	Weighted Average Shares <i>(# millions)</i>	EPS <i>(\$)</i>	Net Earnings to Common Shareholders <i>(\$ millions)</i>	Weighted Average Shares <i>(# millions)</i>	EPS <i>(\$)</i>
<b>Quarter Ended June 30</b>						
<b>Basic EPS</b>	720	433.1	1.66	240	423.8	0.57
Potential dilutive effect of stock options	—	0.6		—	0.5	
<b>Diluted EPS</b>	720	433.7	1.66	240	424.3	0.57
<b>Year-to-Date June 30</b>						
<b>Basic EPS</b>	1,031	431.3	2.39	563	422.9	1.33
Potential dilutive effect of stock options	—	0.6		—	0.5	
<b>Diluted EPS</b>	1,031	431.9	2.39	563	423.4	1.33

# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018 (Unaudited)

### 15. SUPPLEMENTARY CASH FLOW INFORMATION

(\$ millions)	Quarter Ended June 30		Year-to-Date June 30	
	2019	2018	2019	2018
<b>Change in working capital</b>				
Accounts receivable and other current assets	237	48	135	32
Prepaid expenses	21	17	18	20
Inventories	(7)	(19)	16	33
Regulatory assets - current portion	(10)	(33)	(16)	(23)
Accounts payable and other current liabilities	(199)	(58)	(256)	(165)
Regulatory liabilities - current portion	(4)	55	3	12
	<b>38</b>	<b>10</b>	<b>(100)</b>	<b>(91)</b>
<b>Non-cash investing and financing activities</b>				
Accrued capital expenditures	329	294	329	294
Common share dividends reinvested	76	66	151	129
Contributions in aid of construction	12	13	12	13
Right-of-use assets obtained in exchange for operating lease liabilities	2	—	48	—
Exercise of stock options into common shares	2	—	4	1
Gila River generating station Unit 2 capital lease	—	217	—	217

### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Derivatives

The Corporation generally limits the use of derivatives to those that qualify as accounting, economic or cash flow hedges, or those that are approved for regulatory recovery.

The Corporation records all derivatives at fair value, with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception. Fair values reflect estimates based on current market information about the derivatives as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

Cash flows associated with the settlement of all derivatives are included in operating activities on the consolidated statements of cash flows.

#### *Energy contracts subject to regulatory deferral*

UNS Energy holds electricity power purchase contracts and gas swap contracts to reduce its exposure to energy price risk. Fair values were measured primarily under the market approach using independent third-party information, where possible. When published prices are not available, adjustments are applied based on historical price curve relationships, transmission costs and line losses.

Central Hudson holds swap contracts for electricity and natural gas to minimize price volatility by fixing the effective purchase price. Fair values were measured using forward pricing provided by independent third-party information.

FortisBC Energy holds gas supply contracts to fix the effective purchase price of natural gas. Fair values reflect the present value of future cash flows based on published market prices and forward natural gas curves.



# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018 (Unaudited)

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Unrealized gains or losses associated with changes in the fair value of these energy contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulators. As at June 30, 2019, unrealized losses of \$83 million (December 31, 2018 - \$57 million) were recognized as regulatory assets and unrealized gains of \$13 million (December 31, 2018 - \$9 million) were recognized as regulatory liabilities.

### *Energy contracts not subject to regulatory deferral*

UNS Energy holds wholesale trading contracts to fix power prices and realize potential margin, of which 10% of any realized gains are shared with customers through rate stabilization accounts. Fair values were measured using a market approach using independent third-party information, where possible.

Aitken Creek holds gas swap contracts to manage its exposure to changes in natural gas prices, capture natural gas price spreads, and manage the financial risk posed by physical transactions. Fair values were measured using forward pricing from published market sources.

Unrealized gains or losses associated with changes in the fair value of these energy contracts are recognized in revenue. During the three and six months ended June 30, 2019, unrealized gains of \$8 million and \$2 million, respectively, were recognized in revenue (three and six months ended June 30, 2018 - unrealized losses of \$15 million and \$21 million, respectively).

### *Total return swaps*

The Corporation holds total return swaps to manage the cash flow risk associated with forecasted future cash settlements of certain stock-based compensation obligations. The swaps have a combined notional amount of \$111 million and terms of one to three years expiring in January 2020, 2021 and 2022. Fair value was measured using an income valuation approach based on forward pricing curves. Unrealized gains and losses associated with changes in the fair value of the total return swaps are recognized in other income, net and were not material for the three and six months ended June 30, 2019 and 2018.

### *Foreign exchange contracts*

The Corporation holds US dollar foreign exchange contracts to help mitigate exposure to volatility of foreign exchange rates. The contracts expire in 2019 and 2020, and have a combined notional amount of \$165 million. Fair value was measured using independent third-party information. Unrealized gains and losses associated with changes in fair value are recognized in other income, net and were not material for the three and six months ended June 30, 2019 and 2018.

### *Other investments*

ITC, UNS Energy and Central Hudson hold investments in trust associated with supplemental retirement benefit plans for select employees. These investments consist of mutual funds and money market accounts, which are recorded at fair value based on quoted market prices in active markets. Gains and losses on these funds are recognized in other income, net and were not material for the three and six months ended June 30, 2019 and 2018.

**FORTIS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
For the three and six months ended June 30, 2019 and 2018 (Unaudited)

**Recurring Fair Value Measures**

The following table presents the fair value of assets and liabilities that are accounted for at fair value on a recurring basis.

(\$ millions)	Level 1 <sup>(1)</sup>	Level 2 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	Total
<b>As at June 30, 2019</b>				
<b>Assets</b>				
Energy contracts subject to regulatory deferral <sup>(2) (3)</sup>	—	37	8	45
Energy contracts not subject to regulatory deferral <sup>(2)</sup>	—	12	7	19
Total return swaps <sup>(2)</sup>	7	—	—	7
Other investments <sup>(4)</sup>	122	—	—	122
	<b>129</b>	<b>49</b>	<b>15</b>	<b>193</b>
<b>Liabilities</b>				
Energy contracts subject to regulatory deferral <sup>(3) (5)</sup>	—	(96)	(19)	(115)
Energy contracts not subject to regulatory deferral <sup>(5)</sup>	—	(6)	—	(6)
	<b>—</b>	<b>(102)</b>	<b>(19)</b>	<b>(121)</b>

As at December 31, 2018

<b>Assets</b>				
Energy contracts subject to regulatory deferral <sup>(2) (3)</sup>	—	33	8	41
Energy contracts not subject to regulatory deferral <sup>(2)</sup>	—	13	3	16
Other investments <sup>(4)</sup>	155	—	—	155
	<b>155</b>	<b>46</b>	<b>11</b>	<b>212</b>
<b>Liabilities</b>				
Energy contracts subject to regulatory deferral <sup>(3) (5)</sup>	—	(86)	(3)	(89)
Energy contracts not subject to regulatory deferral <sup>(5)</sup>	—	(1)	—	(1)
Foreign exchange contracts, interest rate and total return swaps <sup>(5)</sup>	(8)	(1)	—	(9)
	<b>(8)</b>	<b>(88)</b>	<b>(3)</b>	<b>(99)</b>

<sup>(1)</sup> Under the hierarchy, fair value is determined using: (i) level 1 - unadjusted quoted prices in active markets; (ii) level 2 - other pricing inputs directly or indirectly observable in the marketplace; and (iii) level 3 - unobservable inputs, used when observable inputs are not available. Classifications reflect the lowest level of input that is significant to the fair value measurement. The change in level 3 from December 31, 2018 was immaterial.

<sup>(2)</sup> Included in accounts receivable and other current assets or other assets

<sup>(3)</sup> Unrealized gains and losses arising from changes in fair value of these contracts are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates as permitted by the regulators, with the exception of long-term wholesale trading contracts and certain gas swap contracts.

<sup>(4)</sup> Included in other assets

<sup>(5)</sup> Included in accounts payable and other current liabilities or other liabilities

# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

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The Corporation has elected gross presentation for its derivative contracts under master netting agreements and collateral positions, which applies only to its energy contracts. The following table presents the potential offset of counterparty netting.

Energy Contracts	Gross Amount Recognized in Balance Sheet	Counterparty Netting of Energy Contracts	Cash Collateral Received/ Posted	Net Amount
<i>(\$ millions)</i>				
<b>As at June 30, 2019</b>				
Derivative assets	64	36	20	8
Derivative liabilities	(121)	(36)	—	(85)
<b>As at December 31, 2018</b>				
Derivative assets	57	28	16	13
Derivative liabilities	(90)	(28)	—	(62)

### Volume of Derivative Activity

As at June 30, 2019, the Corporation had various energy contracts that will settle on various dates through 2029. The volumes related to electricity and natural gas derivatives are outlined below.

	As at June 30, 2019	December 31, 2018
<b>Energy contracts subject to regulatory deferral <sup>(1)</sup></b>		
Electricity swap contracts (GWh)	726	774
Electricity power purchase contracts (GWh)	2,880	651
Gas swap contracts (PJ)	185	203
Gas supply contract premiums (PJ)	280	266
<b>Energy contracts not subject to regulatory deferral <sup>(1)</sup></b>		
Wholesale trading contracts (GWh)	3,442	1,440
Gas swap contracts (PJ)	40	37

<sup>(1)</sup> GWh means gigawatt hours and PJ means petajoules.

### Credit Risk

For cash equivalents, accounts receivable and other current assets, and long-term other receivables, credit risk is generally limited to the carrying value on the consolidated balance sheets. The Corporation's subsidiaries generally have a large and diversified customer base, which minimizes the concentration of credit risk. Policies in place to minimize credit risk include requiring customer deposits, prepayments and/or credit checks for certain customers, performing disconnections and/or using third-party collection agencies for overdue accounts.

ITC has a concentration of credit risk as approximately 65% of its revenue is derived from three customers. Credit risk is limited as such customers have investment-grade credit ratings. ITC further reduces credit risk by requiring a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit-scoring model and other factors.

FortisAlberta has a concentration of credit risk as distribution service billings are to a relatively small group of retailers. The Company reduces its exposure by obtaining from the retailers either a cash deposit, bond, letter of credit, an investment-grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment-grade credit rating.

# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019 and 2018 (Unaudited)

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UNS Energy, Central Hudson, FortisBC Energy, Aitken Creek and the Corporation may be exposed to credit risk in the event of non-performance by counterparties to derivatives. Credit risk is limited by net settling payments when possible and dealing only with counterparties that have investment-grade credit ratings. At UNS Energy and Central Hudson, certain contractual arrangements require counterparties to post collateral.

The value of derivatives in net liability positions under contracts with credit risk-related contingent features that, if triggered, could require the posting of a like amount of collateral was \$115 million as of June 30, 2019 (December 31, 2018 - \$75 million).

### Foreign Exchange Hedge

The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCI and Belize Electric Company Limited is the US dollar. The Corporation's earnings from, and net investments in, foreign subsidiaries are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The Corporation has decreased this exposure by designating US dollar-denominated borrowings at the corporate level as a hedge of its net investment in foreign subsidiaries. The foreign exchange gain or loss on the translation of US dollar-denominated interest expense partially offsets the foreign exchange gain or loss on the translation of US dollar-denominated subsidiary earnings.

As at June 30, 2019, US\$2,735 million (December 31, 2018 - US\$3,441 million) of net investment in foreign subsidiaries was hedged by the Corporation's corporately issued US dollar-denominated long-term debt and approximately US\$8,780 million (December 31, 2018 - US\$7,970 million) was unhedged. Exchange rate fluctuations associated with the hedged net investment in foreign subsidiaries and the debt serving as the hedge are recognized in accumulated other comprehensive income.

### Financial Instruments Not Carried at Fair Value

Excluding long-term debt, the consolidated carrying value of the Corporation's remaining financial instruments approximates fair value, reflecting their short-term maturity, normal trade credit terms and/or nature.

As at June 30, 2019, the carrying value of long-term debt, including current portion, was \$22,744 million (December 31, 2018 - \$24,231 million) compared to an estimated fair value of \$25,451 million (December 31, 2018 - \$25,110 million). Long-term debt is fair valued using level 2 inputs.

The fair value of long-term debt is calculated using quoted market prices or, when unavailable, by either: (i) discounting the associated future cash flows at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality; or (ii) obtaining from third parties indicative prices for the same or similarly rated issues of debt with similar maturities. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.

## 17. COMMITMENTS AND CONTINGENCIES

### Commitments

There were no material changes in commitments from that disclosed in the Corporation's 2018 Annual Financial Statements, except as follows.

In the first quarter of 2019, FortisBC Energy entered into two separate agreements to purchase pipeline capacity on the Westcoast Pipeline over a 42-year term, beginning in the fourth quarter of 2020, increasing gas purchase obligations by a total of approximately \$334 million.

# FORTIS INC.

## Notes to Condensed Consolidated Interim Financial Statements

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In March 2019 UNS Energy entered into a build-transfer agreement to develop a wind-powered electric generation facility, the Oso Grande Wind Project, which is expected to be completed by December 2020. UNS Energy expects to make payments under the agreement of US\$259 million in 2019 and US\$111 million in 2020, contingent upon certain performance obligations.

On April 16, 2019, Waneta Expansion ceased to be a related party (Note 11). This resulted in the disclosure of power purchase obligations of approximately \$2.6 billion related to FortisBC Electric's agreement to purchase capacity from Waneta Expansion over the 40-year agreement that began in April 2015.

### Contingencies

In April 2013 FHI and Fortis were named as defendants in an action in the Supreme Court of British Columbia by the Coldwater Indian Band ("Band") regarding interests in a pipeline right of way on reserve lands. The pipeline was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in April 2007. The Band seeks cancellation of the right of way and damages for wrongful interference with the Band's use and enjoyment of reserve lands. In May 2016 the Federal Court dismissed the Band's application for judicial review of the ministerial consent. In September 2017 the Federal Court of Appeal set aside the minister's consent and returned the matter to the minister for redetermination. No amount has been accrued in the Interim Financial Statements as the outcome cannot yet be reasonably determined.