FORTIS INC.

Investing in Our Networks

Second Quarter 2018

FORTIS INC.

July 31, 2018

Fortis Inc. Reports Second Quarter 2018 Earnings

ST. JOHN'S, NEWFOUNDLAND AND LABRADOR - Fortis Inc. (TSX / NYSE:FTS)

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. The Corporation reported second quarter 2018 net earnings of $240 million, or $0.57 per common share.

"Our performance in the first half of 2018 positions us well for the year. With capital expenditures on track, we are executing on our growth strategy, and yielding quality operational and financial results from our utility businesses," said Barry Perry, President and Chief Executive Officer, Fortis.

Reported Net Earnings

The Corporation reported second quarter net earnings attributable to common equity shareholders of $240 million, or $0.57 per common share, compared to $257 million, or $0.62 per common share, for the same period in 2017. On a year-to-date basis, net earnings attributable to common equity shareholders were $563 million, or $1.33 per common share, compared to $551 million, or $1.34 per common share, for the same period in 2018.

- Utility operations performed as expected during the quarter.
- Growth quarter over quarter was tempered by unrealized net losses of $14 million on mark-to-market of derivatives at the Aitken Creek natural gas storage facility. Second quarter earnings have also been negatively impacted by U.S. tax reform.
- Other factors impacting the quarter-over-quarter performance included higher operating costs at UNS associated with planned plant outages, unfavourable foreign exchange and a higher number of weighted average shares outstanding.
- The settlement of Fortis Turks and Caicos' business interruption insurance claim, related to the impact of the hurricanes last fall, increased earnings in the quarter. As expected, the revenue that was lower than normal during the post-hurricane period was substantially recouped as a result of this settlement.

Adjusted Net Earnings[1]

Second quarter adjusted net earnings attributable to common equity shareholders were $240 million, or $0.57 per common share, compared to $253 million, or $0.61 per common share for the same period in 2017. This adjusts for the recognition, in the second quarter of 2017, of a $4 million favourable settlement of matters pertaining to FERC-ordered transmission refunds.

Year-to-date adjusted net earnings attributable to common equity shareholders were $533 million, or $1.26 per common share, compared to $540 million, or $1.31 per common share for the same period in 2017. This adjusts for a one-time $30 million tax remeasurement in 2018 and an $11 million favourable settlement of matters pertaining to FERC-ordered transmission refunds in 2017.

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[1] **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 believes are not reflective of normal, ongoing operations of the business. Refer to the Financial Highlights section of the Corporation's Management Discussion and Analysis for further discussion of these items.

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

In June 2018 the New York Public Service Commission approved Central Hudson's three-year rate settlement agreement, establishing new rates effective July 1, 2018, reflecting an allowed return on common shareholder's equity of 8.8% on a common equity level of 48% in year one, 49% in year two, and 50% in year three. This approval was aligned with the settlement filed in May 2018.

Execution of Growth Strategy and Outlook
Consolidated capital expenditures were $1.5 billion during the first half of 2018 and are expected to reach $3.2 billion in 2018.

Progress continued in the second quarter on the Wataynikaneyap Transmission Power Project. In June a leave-to-construct application was filed with the Ontario Energy Board ("OEB"), providing details on project timing, design and costs. Approval of this application is expected from the OEB in early 2019.

The Corporation expects rate base to reach approximately $33 billion by 2022, driven by the five-year $15.1 billion capital plan, resulting in a five-year compound annual growth rate of 5.4%. Opportunities to grow the current five-year capital expenditure plan in the existing regulated subsidiaries are driven by projects that improve the transmission grid, address natural gas system capacity and gas line network integrity, increase cyber protection and allow the grid to deliver cleaner energy.

"Our utilities are at the forefront of the changes occurring in our industry driven by increased customer expectations that focus on delivering cleaner energy, ensuring the resiliency of our energy networks and reducing greenhouse gas emissions in transportation by encouraging the use of natural gas. Investments in these initiatives are driving growth in our business and support our 6% average annual dividend growth target," said Mr. Perry.

This media 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, wwww.sedar.com, or www.sec.gov.

About Fortis
Fortis is a leader in the North American regulated electric and gas utility industry with 2017 revenue of $8.3 billion and total assets of $50 billion as at June 30, 2018. The Corporation's 8,500 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Fortis shares are listed on the TSX and NYSE and trade under the symbol FTS.

Teleconference to Discuss Second Quarter 2018 Results

A teleconference and webcast will be held on July 31 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 2018 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.

A replay of the conference will be available two hours after the conclusion of the call until August 31, 2018. Please call 1.800.585.8367 or 416.621.4642 and enter pass code 9765325.

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: targeted average annual dividend growth through 2022; the Corporation's forecast consolidated capital spending for 2018 and the five-year period from 2018 through 2022; the Corporation's consolidated forecast rate base for 2022; and the nature, timing, benefits, expected costs and potential funding sources of capital projects and additional opportunities beyond the base capital plan.

Forward-looking information involves significant risk, 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 decisions by utility regulators and the expectation of regulatory stability; the implementation of the Corporation's five-year capital expenditure plan; no material capital project and financing cost overrun related to any of the Corporation's capital projects; sufficient human resources to deliver service and execute the capital program; 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. 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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Interim Management Discussion and Analysis

For the three and six months ended June 30, 2018
Dated July 30, 2018

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FORWARD-LOOKING INFORMATION

The following 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, 2018 ("Interim Financial Statements") and the MD&A and audited consolidated financial statements for the year ended December 31, 2017 included in the Corporation's 2017 Annual Report. Financial information contained in the MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars unless otherwise specified.

Fortis includes forward-looking information in the MD&A within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, collectively referred to as "forward-looking information". Forward-looking information included in the MD&A 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 include, without limitation: the expected timing of filing of regulatory applications and receipt and outcome of regulatory decisions; the Corporation's forecast capital expenditures for 2018 and for the period from 2018 through 2022; the nature, timing, benefits, expected costs and potential financing sources of certain capital projects including, without limitation, Tilbury liquefied natural gas expansion, the FortisBC Energy Lower Mainland System Upgrade and the Wataynikaneyap Transmission Power Project and additional opportunities beyond the base capital expenditure plan including the Lake Erie Connector Project, liquefied natural gas infrastructure investment opportunities in British Columbia and renewable energy investments including storage at UNS Energy; the expectation that subsidiary operating expenses and interest costs will be paid out of subsidiary operating cash flows; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of borrowings under credit facilities, long-term debt offerings and equity injections from Fortis; the expectation that cash required of Fortis to support subsidiary capital expenditure programs will be derived from a combination of borrowings under the Corporation's committed corporate credit facility and proceeds from the issuance of common shares, preference shares and long-term debt, as well as proceeds from the dividend reinvestment plan and at-the-market common equity program; the expectation that maintaining the targeted capital structure of the Corporation's 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 2018; the intent of management to refinance certain borrowings under the Corporation's and subsidiaries' long-term committed credit facilities with long-term permanent financing; the expected timing and impact, if any, of the adoption of future accounting pronouncements; the expectation that long-term debt will not be settled prior to maturity; the Corporation's forecast rate base for 2022; the expectation that the Corporation's significant capital expenditure plan will support continuing growth in earnings and dividends; and targeted average annual dividend growth through 2022.*

Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information, including, without limitation: the receipt of applicable regulatory approvals and requested rate orders, no material adverse regulatory decisions being received, and the expectation of regulatory stability; no material capital project and financing cost overrun related to any of the Corporation's capital projects; the realization of additional opportunities; the Board of Directors exercising its discretion to declare dividends, taking into account the business performance and financial conditions of the Corporation; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the electricity and gas systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices and electricity prices; no significant changes in tax laws; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel, coal and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; no significant changes in government energy plans, environmental laws and regulations that may have a material negative affect on the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; 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 First Nations; favourable labour relations; that the Corporation can reasonably assess the merit of and potential liability attributable to ongoing legal proceedings; and sufficient human resources to deliver service and execute the capital expenditure plan.

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 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. Risk factors which could cause results or events to differ from current expectations are detailed under the heading "Business Risk Management" in this MD&A and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and the Securities and Exchange Commission. Key risk factors for 2018 include, but are not limited to: uncertainty regarding the outcome of regulatory proceedings at the Corporation's utilities; the impact of fluctuations in foreign exchange rates; the impact of the Tax Cuts and Jobs Act on the Corporation's future results of operations and cash flows; risk associated with the impacts of less favourable economic conditions on the Corporation's results of operations; risk associated with the Corporation's ability to continue to comply with Section 404(a) of the Sarbanes-Oxley Act of 2002 and the related rules of the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board; risk associated with the completion of the Corporation's 2018 capital expenditure plan, including completion of major capital projects in the timelines anticipated and at the expected amounts; and uncertainty in the timing and access to capital markets to arrange sufficient and cost-effective financing to finance, among other things, capital expenditures and the repayment of maturing debt.

All forward-looking information in the MD&A is given as of the date of the MD&A and 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.

CORPORATE OVERVIEW

Fortis is a leader in the North American regulated electric and gas utility industry, with 2017 revenue of \$8.3 billion and total assets of \$50 billion as at June 30, 2018. The Corporation's 8,500 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Year-to-date June 30, 2018, the Corporation's electricity systems met a combined peak demand of 32,427 megawatts ("MW") and its gas distribution systems met a peak day demand of 1,599 terajoules. For additional information on the Corporation's operations and reportable segments, refer to Note 1 to the Corporation's Interim Financial Statements and to the "Corporate Overview" section of the 2017 Annual MD&A.

FINANCIAL HIGHLIGHTS

Fortis has adopted a strategy of long-term profitable growth with the primary measures of financial performance being earnings per common share and total shareholder return. Key financial highlights are provided below.

Consolidated Financial Highlights						
Periods Ended June 30	**Quarter**			**Year-to-Date**		
($ millions, except for common share data)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**1,947**	2,015	(68)	**4,144**	4,289	(145)
Energy Supply Costs	**507**	524	(17)	**1,236**	1,278	(42)
Operating Expenses	**553**	567	(14)	**1,106**	1,146	(40)
Depreciation and Amortization	**309**	298	11	**611**	595	16
Other Income, Net	**18**	20	(2)	**27**	48	(21)
Finance Charges	**243**	232	11	**479**	461	18
Income Tax Expense	**61**	102	(41)	**83**	208	(125)
Net Earnings	**292**	312	(20)	**656**	649	7
Net Earnings Attributable to:						
Non-Controlling Interests	**35**	38	(3)	**60**	65	(5)
Preference Equity Shareholders	**17**	17	—	**33**	33	—
Common Equity Shareholders	**240**	257	(17)	**563**	551	12
Net Earnings	**292**	312	(20)	**656**	649	7
Earnings per Common Share						
Basic *($)*	**0.57**	0.62	(0.05)	**1.33**	1.34	(0.01)
Diluted *($)*	**0.57**	0.62	(0.05)	**1.33**	1.34	(0.01)
Weighted Average Number of Common Shares Outstanding *(# millions)*	**423.8**	416.8	7.0	**422.9**	411.5	11.4
Cash Flow from Operating Activities	**682**	649	33	**1,271**	1,190	81

Revenue

The decrease in revenue for the quarter was primarily due to unfavourable foreign exchange, the recovery of lower income tax expense due to a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018 ("U.S. tax reform") and the flow through in customer rates of lower overall energy supply costs. The decrease was partially offset by the impact of growth in rate base.

The decrease in revenue year to date was driven by the same factors discussed above for the quarter, partially offset by the impact of the rate case settlement at UNS Energy being effective February 27, 2017.

Energy Supply Costs

The decrease in energy supply costs for the quarter and year to date was primarily due to favourable foreign exchange and lower overall commodity costs.

Operating Expenses

The decrease in operating expenses for the quarter and year to date was primarily due to favourable foreign exchange. The decrease was partially offset by increased maintenance expense due to planned generation outages at UNS Energy during the second quarter of 2018.

Depreciation and Amortization

The increase in depreciation and amortization for the quarter and year to date was primarily due to continued investment in energy infrastructure at the Corporation's utilities, partially offset by favourable foreign exchange.

Other Income, Net

The decrease in other income, net of expenses, for the quarter and year to date was primarily due to the favourable settlement of matters at UNS Energy pertaining to the Federal Energy Regulatory Commission ("FERC") ordered transmission refunds in 2017, mark-to-market net losses on foreign exchange contracts and total return swaps in 2018, and unfavourable foreign exchange.

Finance Charges

The increase in finance charges for the quarter and year to date was primarily due to overall higher debt levels at the Corporation's utilities to support capital expenditure programs, partially offset by favourable foreign exchange.

Income Tax Expense

The decrease in income tax expense for the quarter and year to date was primarily due to U.S. tax reform and favourable foreign exchange. The decrease year to date was also due to a one-time $30 million remeasurement of the Corporation's deferred income tax liabilities that resulted from an election to file a consolidated state income tax return.

Net Earnings Attributable to Common Equity Shareholders and Basic Earnings per Common Share

The decrease in net earnings attributable to common equity shareholders for the quarter was primarily due to: (i) lower earnings from the Aitken Creek natural gas storage facility ("Aitken Creek") related to unrealized net losses on the mark-to-market of natural gas derivatives quarter over quarter; (ii) the impact of U.S. tax reform; (iii) unfavourable foreign exchange; and (iv) the favourable settlement of matters at UNS Energy pertaining to FERC-ordered transmission refunds in 2017. The decrease was partially offset by the settlement of Fortis Turks and Caicos' business interruption insurance claim, related to the impact of Hurricane Irma, and growth in rate base.

The increase in net earnings attributable to common equity shareholders year to date was primarily due to: (i) the one-time remeasurement of the Corporation's deferred income tax liabilities as a result of an election to file a consolidated state income tax return; (ii) the impact of a full year of new rates compared to last year at UNS Energy; and (iii) growth in rate base. The increase was partially offset by the same factors discussed above for the quarter.

Basic earnings per common share for the quarter and year to date were lower by $0.05 and $0.01, respectively, compared to the same periods in 2017. The decrease was due to the impact of the above-noted items on net earnings attributable to common equity shareholders and an increase in the weighted average number of common shares outstanding associated with the Corporation's dividend reinvestment and share plans, and on a year-to-date basis by the issuance of $500 million common equity in March 2017.

Adjusted Net Earnings Attributable to Common Equity Shareholders and Adjusted Basic Earnings per Common Share

Fortis uses financial measures, being adjusted net earnings attributable to common equity shareholders and adjusted basic earnings per common share, that do not have a standardized meaning as prescribed under US GAAP and are not considered US GAAP measures. Therefore, these adjusting items may not be comparable with similar adjustments presented by other companies. The most directly comparable US GAAP measures to adjusted net earnings attributable to common equity shareholders and adjusted basic earnings per common share are net earnings attributable to common equity shareholders and basic earnings per common share, respectively.

The Corporation calculates adjusted net earnings attributable to common equity shareholders as net earnings attributable to common equity shareholders plus or minus items that management believes are not reflective of the normal, ongoing operations of the business.

The Corporation calculates adjusted basic earnings per common share by dividing adjusted net earnings attributable to common equity shareholders by the weighted average number of common shares outstanding.

A reconciliation of the non-US GAAP measures is provided below.

Non-US GAAP Reconciliation Periods Ended June 30 *($ millions, except for common share data)*	**Quarter 2018**	Quarter 2017	Quarter Variance	**Year-to-Date 2018**	Year-to-Date 2017	Year-to-Date Variance
Net Earnings Attributable to Common Equity Shareholders	**240**	257	(17)	**563**	551	12
Adjusting Items:						
UNS Energy -						
Settlement of FERC-ordered transmission refunds	**—**	(4)	4	**—**	(11)	11
Corporate and Other -						
Remeasurement of deferred income tax liabilities - consolidated state income tax election	**—**	—	—	**(30)**	—	(30)
Adjusted Net Earnings Attributable to Common Equity Shareholders	**240**	253	(13)	**533**	540	(7)
Adjusted Basic Earnings Per Common Share *($)*	**0.57**	0.61	(0.04)	**1.26**	1.31	(0.05)
Weighted Average Number of Common Shares Outstanding *(# millions)*	**423.8**	416.8	7.0	**422.9**	411.5	11.4

SEGMENTED RESULTS OF OPERATIONS

Segmented Net Earnings Attributable to Common Equity Shareholders Periods Ended June 30 *($ millions)*	**Quarter 2018**	Quarter 2017	Quarter Variance	**Year-to-Date 2018**	Year-to-Date 2017	Year-to-Date Variance
Regulated Utilities						
ITC	**86**	93	(7)	**172**	184	(12)
UNS Energy	**81**	89	(8)	**131**	130	1
Central Hudson	**12**	10	2	**33**	33	—
FortisBC Energy	**7**	6	1	**105**	103	2
FortisAlberta	**32**	31	1	**59**	56	3
FortisBC Electric	**15**	16	(1)	**31**	31	—
Other Electric	**35**	27	8	**53**	53	—
Non-Regulated						
Energy Infrastructure	**20**	25	(5)	**38**	48	(10)
Corporate and Other	**(48)**	(40)	(8)	**(59)**	(87)	28
Net Earnings Attributable to Common Equity Shareholders	**240**	257	(17)	**563**	551	12

A discussion of the financial results of the Corporation's reporting segments follows. A summary of any developments or changes in significant ongoing regulatory decisions and applications pertaining to the Corporation's utilities is provided in the "Regulatory Highlights" section of this MD&A.

REGULATED UTILITIES

ITC

Financial Highlights (1) Periods Ended June 30 *($ millions)*	**Quarter**			**Year-to-Date**		
	2018	2017	Variance	**2018**	2017	Variance
Average US:CAD Exchange Rate (2)	**1.29**	1.34	(0.05)	**1.28**	1.33	(0.05)
Revenue	**374**	408	(34)	**728**	803	(75)
Earnings	**86**	93	(7)	**172**	184	(12)

(1) Revenue represents 100% of ITC, while earnings represent the Corporation's 80.1% controlling ownership interest in ITC and reflects consolidated purchase price accounting adjustments.
(2) The reporting currency of ITC is the US dollar.

Revenue
The decrease in revenue for the quarter and year to date was primarily due to approximately $16 million and $33 million, respectively, of unfavourable foreign exchange and the recovery of lower federal corporate income tax in customer rates associated with U.S. tax reform, partially offset by the impact of growth in rate base.

Earnings
The decrease in earnings for the quarter and year to date was primarily due to: (i) the unfavourable net impact of U.S. tax reform; (ii) approximately $4 million and $8 million, respectively, of unfavourable foreign exchange; and (iii) higher business development costs on a year-to-date basis. The decrease was partially offset by the impact of growth in rate base.

UNS ENERGY (1)

Financial Highlights Periods Ended June 30	**Quarter**			**Year-to-Date**		
	2018	2017	Variance	**2018**	2017	Variance
Average US:CAD Exchange Rate (2)	**1.29**	1.34	(0.05)	**1.28**	1.33	(0.05)
Electricity Sales *(gigawatt hours ("GWh"))*	**3,974**	3,618	356	**7,299**	7,002	297
Gas Volumes *(petajoules ("PJ"))*	**2**	3	(1)	**7**	8	(1)
Revenue *($ millions)*	**530**	552	(22)	**974**	1,010	(36)
Earnings *($ millions)*	**81**	89	(8)	**131**	130	1

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

Electricity Sales & Gas Volumes
The increase in electricity sales for the quarter and year to date was primarily a result of an increase in short-term wholesale sales due to an increase in system capacity related to Gila River generating station Unit 2, partially offset by lower average consumption, as a result of warmer winter temperatures affecting heating load. Gas volumes were comparable with the same periods in 2017.

Revenue
The decrease in revenue for the quarter was primarily due to approximately $22 million of unfavourable foreign exchange, the recovery of lower corporate income tax in customer rates associated with U.S. tax reform, and the favourable settlement of matters pertaining to FERC-ordered transmission refunds in 2017, partially offset by the flow through of higher energy supply costs and an increase in short-term wholesale sales.

The decrease in revenue year to date was primarily due to approximately $42 million of unfavourable foreign exchange, along with the same factors discussed above for the quarter. The decrease was partially offset by the impact of the rate case settlement effective February 27, 2017.

Earnings
The decrease in earnings for the quarter was primarily due to higher operating costs resulting from planned generation outages, the favourable settlement of matters pertaining to FERC-ordered transmission refunds in 2017, and approximately $3 million of unfavourable foreign exchange. The decrease was partially offset by the favourable net impact of U.S. tax reform.

The increase in earnings year to date was primarily due to the impact of the rate case settlement, as discussed above. The same factors discussed above for the quarter also impacted year-to-date earnings, including approximately $5 million of unfavourable foreign exchange.

CENTRAL HUDSON

Financial Highlights	**Quarter**			**Year-to-Date**		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Average US:CAD Exchange Rate [1]	**1.29**	1.34	(0.05)	**1.28**	1.33	(0.05)
Electricity Sales *(GWh)*	**1,157**	1,134	23	**2,452**	2,378	74
Gas Volumes *(PJ)*	**4**	4	—	**13**	13	—
Revenue *($ millions)*	**201**	206	(5)	**476**	464	12
Earnings *($ millions)*	**12**	10	2	**33**	33	—

[1] The reporting currency of Central Hudson is the US dollar.

Electricity Sales & Gas Volumes
The increase in electricity sales for the quarter and year to date was primarily due to higher average consumption as a result of colder temperatures increasing heating load. Gas volumes were comparable with the same periods in 2017.

Changes in electricity sales and gas volumes at Central Hudson are subject to regulatory revenue decoupling mechanisms and, as a result, do not have a material impact on earnings.

Revenue
The decrease in revenue for the quarter was primarily due to approximately $9 million of unfavourable foreign exchange and the recovery of lower corporate income tax in customer rates associated with U.S. tax reform. The decrease was partially offset by an increase in base electricity rates effective July 1, 2017.

The increase in revenue year to date was mainly due to the recovery from customers of higher commodity costs and an increase in base electricity rates effective July 1, 2017. The increase was partially offset by approximately $20 million of unfavourable foreign exchange and the impact of U.S. tax reform, as discussed above.

Earnings
The increase in earnings for the quarter was primarily due to the rate increase effective July 1, 2017 reflecting a return on increased rate base assets. Year-to-date earnings were comparable with the same period in 2017 as the impact of the rate increase was offset by approximately $2 million of unfavourable foreign exchange and higher operating costs, particularly due to higher storm restoration costs.

FORTISBC ENERGY

Financial Highlights	Quarter			Year-to-Date		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Gas Volumes *(PJ)*	**39**	42	(3)	**119**	125	(6)
Revenue *($ millions)*	**226**	227	(1)	**655**	676	(21)
Earnings *($ millions)*	**7**	6	1	**105**	103	2

Gas Volumes

The decrease in gas volumes for the quarter and year to date was primarily due to lower average consumption by residential and commercial customers as a result of warmer temperatures reducing heating load, partially offset by growth in the number of customers.

Revenue

The decrease in revenue for the quarter and year to date was primarily due to a lower commodity cost of natural gas charged to customers.

Earnings

The increase in earnings for the quarter and year to date was primarily due to the impact of increased investment in regulated assets, partially offset by higher 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 of natural gas. As a result of the operation of regulatory deferral mechanisms, changes in consumption levels and the cost of natural gas do not have a material impact on earnings.

FORTISALBERTA

Financial Highlights	Quarter			Year-to-Date		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Energy Deliveries *(GWh)*	**3,968**	3,983	(15)	**8,571**	8,534	37
Revenue *($ millions)*	**143**	148	(5)	**284**	295	(11)
Earnings *($ millions)*	**32**	31	1	**59**	56	3

Energy Deliveries

The decrease in energy deliveries for the quarter was primarily due to lower average consumption by oil and gas customers, related to sites exiting service since 2017, and residential customers, as a result of lower heating load. The decrease was partially offset by an increase in the number of commercial customers and lower precipitation resulting in increased average consumption by irrigation customers.

The increase in energy deliveries year to date was primarily due to higher average consumption by commercial and irrigation customers, as discussed above, and residential customers, mainly due to increased heating load in the first quarter of 2018 compared to the same period last year. The increase was partially offset by lower average consumption by oil and gas customers, as discussed above.

Revenue

The decrease in revenue for the quarter and year to date was primarily due to an election to record municipal franchise fee revenue on a net basis upon implementation of Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, effective January 1, 2018, using modified retrospective approach under which comparative periods are not restated. The $11 million decrease for the quarter and $22 million decrease year to date due to the change in presentation of municipal franchise fees was partially offset by higher distribution rates effective January 1, 2018 and revenue associated with incremental return due to efficiencies achieved in the first performance-based rate setting ("PBR") term through the return on equity ("ROE") efficiency carryover mechanism.

Earnings
The increase in earnings for the quarter and year to date was primarily due to higher distribution rates and the ROE efficiency carryover mechanism, both discussed above, partially offset by higher operating costs related to vegetation management and higher interest expense related to a long-term debt issuance in 2017.

FORTISBC ELECTRIC

Financial Highlights	**Quarter**			**Year-to-Date**		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Electricity Sales *(GWh)*	**722**	712	10	**1,642**	1,657	(15)
Revenue *($ millions)*	**89**	85	4	**201**	198	3
Earnings *($ millions)*	**15**	16	(1)	**31**	31	—

Electricity Sales
The increase in electricity sales for the quarter was primarily due to favourable economic conditions that lead to higher average consumption by commercial customers.

The decrease in electricity sales year to date was due to lower average consumption as a result of warmer temperatures reducing heating load in the first quarter of 2018 compared to 2017, partially offset by higher average consumption by commercial customers, as discussed above.

Revenue
The increase in revenue for the quarter and year to date was primarily due to higher third-party contract work and the impact of electricity sales, as discussed above.

Earnings
Earnings for the quarter and year to date were comparable with the same periods in 2017.

Variances from regulated forecasts used to set rates for electricity revenue and energy supply costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and, therefore, these variances do not have an impact on earnings.

OTHER ELECTRIC (1)

Financial Highlights	**Quarter**			**Year-to-Date**		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Average US:CAD Exchange Rate (2)	**1.29**	1.34	(0.05)	**1.28**	1.33	(0.05)
Electricity Sales *(GWh)*	**2,134**	2,154	(20)	**5,054**	5,082	(28)
Revenue *($ millions)*	**336**	331	5	**733**	733	—
Earnings *($ millions)*	**35**	27	8	**53**	53	—

(1) Comprised of utilities in Eastern Canada and the Caribbean as follows: Newfoundland Power Inc.; Maritime Electric Company, Limited; FortisOntario Inc.; the Corporation's 49% equity investment in Wataynikaneyap Power Limited Partnership; Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), in which Fortis holds an approximate 60% controlling interest; FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "FortisTCI"); and a 33% equity investment in Belize Electricity Limited ("BEL").

(2) The reporting currency of Caribbean Utilities and FortisTCI 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 decrease in electricity sales for the quarter and year to date was due to overall lower average consumption, including the completion of a large project by a commercial customer in Newfoundland, partially offset by weather variances that increased residential consumption in certain areas.

Revenue
The increase in revenue for the quarter was primarily due to FortisTCI's business interruption insurance proceeds related to Hurricane Irma and the flow through of an overall increase in energy supply costs. The increase was partially offset by approximately $3 million of unfavourable foreign exchange and lower electricity sales, as discussed above.

On a year-to-date basis, revenue was favourably impacted by the same factors discussed above for the quarter as well as the flow through of an overall increase in energy supply costs. However, the favourable impact was offset by approximately $6 million of unfavourable foreign exchange and lower electricity sales.

Earnings
The increase in earnings for the quarter was primarily due to insurance proceeds, as discussed above, the seasonality of energy supply costs at Newfoundland Power, and the timing of operating costs.

Earnings year to date were comparable with the same period in 2017 as the increase due to insurance proceeds, discussed above, was offset by the seasonality of energy supply costs at Newfoundland Power and the timing of operating costs.

NON-REGULATED

ENERGY INFRASTRUCTURE (1)

Financial Highlights	Quarter			Year-to-Date		
Periods Ended June 30	**2018**	2017	Variance	**2018**	2017	Variance
Energy Sales *(GWh)*	**528**	519	9	**617**	601	16
Revenue *($ millions)*	**49**	59	(10)	**97**	115	(18)
Earnings *($ millions)*	**20**	25	(5)	**38**	48	(10)

(1) Primarily comprised of long-term contracted generation assets in British Columbia and Belize, with a combined generating capacity of 391 MW, and the Aitken Creek natural gas storage facility in British Columbia, with a total working gas capacity of 77 billion cubic feet.

Energy Sales
The increase in energy sales for the quarter and year to date was primarily due to increased hydro-electric production in Belize, as a result of higher rainfall.

Revenue and Earnings
The decrease in revenue and earnings for the quarter and year to date was primarily due to the unfavourable impact of the mark-to-market accounting of natural gas derivatives at Aitken Creek with unrealized losses of $11 million and $15 million, respectively, compared to unrealized gains of $3 million and $9 million, respectively, for the same periods in 2017. The decrease was partially offset by higher contribution due to increased gas volumes and favourable pricing at Aitken Creek and increased hydro-electric production in Belize.

CORPORATE AND OTHER (1)

Financial Highlights						
Periods Ended June 30	Quarter			Year-to-Date		
($ millions)	**2018**	2017	Variance	**2018**	2017	Variance
Net loss	**(48)**	(40)	(8)	**(59)**	(87)	28

(1) Includes Fortis net Corporate expenses and non-regulated holding company expenses

The increase in net expenses for the quarter was primarily driven by a lower income tax recovery due to U.S. tax reform, which resulted in the application of a lower annual effective tax rate to consolidated earnings and holding company interest being deductible at a lower corporate tax rate of 21%. The increase was partially offset by lower stock-based compensation.

The decrease in net expenses year to date was primarily driven by higher income tax recovery, due to a one-time $30 million remeasurement of the Corporation's deferred income tax liabilities which resulted from an election to file a consolidated state income tax return. The remaining increase in net expenses was due to mark-to-market net losses on foreign exchange contracts and total return swaps, which was substantially offset by lower stock-based compensation and lower finance charges.

REGULATORY HIGHLIGHTS

Regulation of the Corporation's utilities is generally consistent with that disclosed in its 2017 Annual MD&A. A summary of significant regulatory developments in the first six months of 2018 follows.

U.S. Tax Reform

The Corporation's U.S. utilities are working with their respective regulators to return to customers the net income tax savings resulting from U.S. tax reform.

ITC: In April 2018 ITC reposted formula rates charged to customers of its Midcontinent Independent System Operator ("MISO") regulated subsidiaries retroactive to January 1, 2018, as approved by FERC. As at June 30, 2018, the amounts owing had been substantially returned to customers.

UNS Energy: In April 2018 the Arizona Corporation Commission approved TEP's application to return ongoing income tax savings through a combination of customer bill credits and regulatory liabilities. Customer bill credits became effective in May 2018. As at June 30, 2018, a regulatory liability of $10 million (US$8 million) was recognized for amounts to be returned to customers in the remainder of 2018. In 2019 and beyond, TEP will continue to return savings to customers using the same approach. Regulatory liabilities will be returned to customers as part of TEP's next rate case.

In March 2018 FERC issued an order directing TEP to either: (i) submit proposed revisions to its transmission rates or transmission revenue requirement to reflect the reduction in the federal corporate income tax rate; or (ii) show why a rate adjustment is not required. In May 2018 TEP proposed an overall customer rate reduction, to be effective March 2018, reflecting the lower federal corporate income tax rate. The proposal is currently being reviewed by FERC.

Central Hudson: In June 2018, as part of its approval of a joint proposal, discussed below, the New York Public Service Commission ("PSC") approved Central Hudson's recommendation to reflect the recovery of lower federal corporate income tax in customer rates effective July 1, 2018. As at June 30, 2018, a regulatory liability of $14 million (US$10 million) was recognized related to the income tax savings realized in the first six months of 2018. As approved by the PSC, the refund of this regulatory liability to customers will be determined as part of a future regulatory proceeding.

ITC

In April 2018 a third-party complaint was filed with FERC challenging independence incentive adders that are included in transmission rates charged by ITC's MISO-regulated operating subsidiaries. Independence incentive adders were established to encourage transmission investment and recognize that ITC's operating subsidiaries are independent, dedicated transmission-only operations, with no affiliation to market participants in their regions. The adder allows 0.50% or 1.00% to be added to the authorized ROE, subject to any ROE cap established by FERC. The outcome of this matter cannot be predicted at this time; however, ITC believes it has a strong position in respect of this complaint.

Central Hudson

In June 2018 the PSC issued an order approving a three-year rate plan, or joint proposal, that had been filed by Central Hudson along with multiple stakeholders and intervenors, pursuant to the July 2017 general rate application. The order included an allowed ROE of 8.8% and common equity ratios of 48%, 49% and 50% in rate years one, two and three, respectively, and is effective July 1, 2018 through June 30, 2021. Also included is an earnings sharing mechanism whereby the Company and customers share equally earnings between 50 and 100 basis points above the allowed ROE. Earnings beyond this are primarily returned to customers.

FortisAlberta

Generic Cost of Capital Proceeding: Oral hearings to determine the ROE and capital structure for 2018, 2019 and 2020 were completed in March 2018. The ROE and capital structure approved for 2017 will remain in effect on an interim basis pending a final decision by the Alberta Utilities Commission ("AUC"), which is expected in the third quarter of 2018.

Next Generation Performance-Based Rate Setting Proceeding: In March 2018 the AUC approved the Company's 2018 distribution rates, on an interim basis, until true-up amounts are finalized. New rates were effective January 1, 2018 with collection from customers effective April 1, 2018. Key provisions included an increase of approximately 5.5% in the distribution component of rates.

FortisAlberta is pursuing options to appeal certain elements of the rate-setting design for the second PBR term.

CONSOLIDATED FINANCIAL POSITION

The significant changes in the consolidated balance sheets between June 30, 2018 and December 31, 2017 is provided below.

Significant Changes in the Consolidated Balance Sheets between June 30, 2018 and December 31, 2017

Balance Sheet Account	Increase / (Decrease) [(1)] *($ millions)*	Explanation
Cash and cash equivalents	(130)	The decrease was mainly due to the timing of transmission cost payments at FortisAlberta and a debt issuance at ITC in November 2017.
Property, plant and equipment, net	1,891	The increase was mainly due to capital expenditures, foreign exchange, and the recognition of a capital lease for Gila River generating station Unit 2 at UNS Energy, partially offset by depreciation.
Goodwill	506	The increase was due to foreign exchange.
Accounts payable and other current liabilities	(284)	The decrease was primarily due to the timing of the declaration of common share dividends, timing of transmission cost payments at FortisAlberta, and lower amounts owing for energy supply costs associated with the seasonality of operations. The decrease was partially offset by foreign exchange.
Regulatory liabilities - current and long-term	131	The increase was mainly due to foreign exchange.
Deferred income tax liabilities	167	The increase was mainly due to timing differences related to capital expenditures at the regulated utilities and foreign exchange.
Long-term debt (including current portion and short-term borrowings)	1,073	The increase was mainly due to foreign exchange. The increase also reflects higher net borrowings under committed credit facilities and the issuance of first mortgage bonds by ITC, partially offset by regularly scheduled debt repayments.
Capital lease and finance obligations (including current portion)	201	The increase was mainly due to UNS Energy's recognition of a capital lease for Gila River generating station Unit 2.
Shareholders' equity	1,011	The increase was due to: (i) the increase in accumulated other comprehensive income associated with the translation of the Corporation's US dollar-denominated investments in subsidiaries, net of hedging activities and tax; (ii) net earnings attributable to common shareholders for the six months ended June 30, 2018, less dividends declared on common shares; and (iii) the issuance of common shares under the Corporation's dividend reinvestment, employee share purchase and stock option plans.
Non-controlling interests	104	The increase was mainly due to foreign exchange.

(1) Includes the impact of foreign exchange based upon the closing foreign exchange rate at June 30, 2018 of US$1.00=CAD$1.32 compared to the closing foreign exchange rate at December 31, 2017 of US$1.00=CAD$1.25.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF CONSOLIDATED CASH FLOWS

The Corporation's sources and uses of cash is provided below, followed by a discussion of the nature of the variances in cash flows.

Summary of Consolidated Cash Flows						
Periods Ended June 30	Quarter			Year-to-Date		
($ millions)	**2018**	2017	Variance	**2018**	2017	Variance
Cash, Beginning of Period	**333**	298	35	**327**	269	58
Cash Provided by (Used in):						
Operating Activities	**682**	649	33	**1,271**	1,190	81
Investing Activities	**(792)**	(741)	(51)	**(1,470)**	(1,460)	(10)
Financing Activities	**(31)**	27	(58)	**58**	235	(177)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**5**	(2)	7	**11**	(3)	14
Cash, End of Period	**197**	231	(34)	**197**	231	(34)

Operating Activities

The increase in cash provided by operating activities for the quarter and year to date was primarily due to favourable changes in working capital, mainly due to the payment of an ROE complaint refund in the first quarter of 2017 at ITC, partially offset by the timing of transmission cost payments at FortisAlberta.

Investing Activities

The increase in cash used in investing activities for the quarter was driven by the timing of capital expenditures. Cash used in investing activities was comparable year to date.

Financing Activities

The decrease in cash provided by financing activities for the quarter and year to date was primarily due to lower proceeds from the issuance of long-term debt and higher repayments of long-term debt, partially offset by lower net repayments under committed credit facility borrowings.

In the first quarter of 2017, approximately 12.2 million common shares of Fortis were issued to an institutional investor for proceeds of $500 million. The proceeds were used to repay short-term borrowings.

Proceeds from long-term debt, net of issue costs are summarized below.

Proceeds from Long-Term Debt, Net of Issue Costs						
Periods ended June 30	Quarter			Year-to-Date		
($ millions)	**2018**	2017	Variance	**2018**	2017	Variance
ITC [(1)]	**—**	267	(267)	**290**	601	(311)
Central Hudson [(2)]	**32**	—	32	**32**	—	32
FortisTCI [(3)]	**—**	—	—	**30**	—	30
Newfoundland Power	**—**	75	(75)	**—**	75	(75)
Caribbean Utilities	**—**	26	(26)	**—**	80	(80)
Total	**32**	368	(336)	**352**	756	(404)

(1) In March 2018 ITC issued 35-year US$225 million first mortgage bonds at 4.00%. The net proceeds were used to repay maturing long-term debt, repay credit facility borrowings, finance capital expenditures and for general corporate purposes.

(2) In June 2018 Central Hudson issued 30-year US$25 million unsecured notes at 4.27%. The net proceeds were used for general corporate purposes.

(3) In February 2018 FortisTCI issued 5-year US$25 million unsecured notes at a floating interest rate of a one-month LIBOR plus a spread of 1.75%. The net proceeds were used to repay a hurricane-related emergency standby loan.

Borrowings under credit facilities by the utilities are primarily in support of their respective capital expenditure programs 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. From time to time, proceeds from preference share, common share and long-term debt offerings are used to repay borrowings under the Corporation's committed credit facility.

Common share dividends paid in the second quarter of 2018 totalled $114 million, net of $66 million of dividends reinvested, compared to $104 million, net of $63 million of dividends reinvested, paid in the second quarter of 2017. Common share dividends paid year-to-date 2018 were $230 million, net of $129 million of dividends reinvested, compared to $202 million, net of $125 million of dividends reinvested, paid year-to-date 2017. The dividend paid per common share for each of the first and second quarters of 2018 was $0.425 compared to $0.40 for the same periods in 2017. The weighted average number of common shares outstanding for the second quarter and year-to-date of 2018 was 423.8 million and 422.9 million, respectively, compared to 416.8 million and 411.5 million for the same periods in 2017.

On July 25, 2018, the board of directors of Fortis declared dividends of $0.425 per common share.

CONTRACTUAL OBLIGATIONS

There were no material changes in contractual obligations from that disclosed in the Corporation's 2017 Annual MD&A, except as follows.

In March 2018 Maritime Electric extended its power purchase agreement with New Brunswick Power from March 2019 to February 2024, increasing the total commitment under this agreement by approximately $262 million as at June 30, 2018.

In May 2018, following the acquisition of Gila River generating station Units 1 and 2 by a third party with whom UNS Energy has a power purchase agreement, UNS Energy recorded an increase of US$165 million to capital lease obligations to reflect the anticipated exercising of UNS Energy's option to purchase Unit 2 in December 2019.

CAPITAL STRUCTURE

The Corporation's principal business of regulated electric and gas utilities requires ongoing access to capital to enable the utilities to fund maintenance and expansion of infrastructure. Fortis raises debt at the subsidiary level to ensure regulatory transparency, tax efficiency and financing flexibility. To help ensure access to capital, the Corporation targets a consolidated long-term capital structure that will enable it to maintain investment-grade credit ratings. Each of the Corporation's regulated utilities maintains its own capital structure in line with the deemed capital structure reflected in their customer rates.

The consolidated capital structure of Fortis is presented below.

Capital Structure	**As at**			
	June 30, 2018		December 31, 2017	
	($ millions)	***(%)***	*($ millions)*	*(%)*
Total debt and capital lease and finance obligations (net of cash) [(1)]	**23,143**	**59.1**	21,739	59.2
Preference shares	**1,623**	**4.1**	1,623	4.4
Common shareholders' equity	**14,391**	**36.8**	13,380	36.4
Total	**39,157**	**100.0**	36,742	100.0

(1) Includes long-term debt and capital lease and finance obligations, including current portion, and short-term borrowings, net of cash

Including amounts related to non-controlling interests, the Corporation's capital structure as at June 30, 2018 was 56.4% total debt and capital lease and finance obligations (net of cash), 4.0% preference shares, 35.1% common shareholders' equity and 4.5% non-controlling interests (December 31, 2017 - 56.5% total debt and capital lease and finance obligations (net of cash), 4.2% preference shares, 34.8% common shareholders' equity and 4.5% non-controlling interests).

CREDIT RATINGS

As at June 30, 2018, the Corporation's credit ratings were as follows.

Rating Agency	Credit Rating	Type of Rating	Outlook
Standard & Poor's ("S&P")	A-	Corporate	Negative
	BBB+	Unsecured debt	
DBRS	BBB (high)	Corporate	Stable
	BBB (high)	Unsecured debt	
Moody's Investor Service	Baa3	Issuer	Stable
	Baa3	Unsecured debt	

The above-noted credit ratings reflect the Corporation's low business-risk profile and diversity of its operations, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, and the level of debt at the holding company. In March 2018 S&P affirmed the Corporation's credit ratings and revised its outlook from stable to negative due to modest temporary weakening of financial measures as a result of U.S. tax reform, which reduces cash flow at the Corporation's U.S. regulated utilities.

CAPITAL EXPENDITURE PLAN

A breakdown of the consolidated capital expenditures by reporting segment is provided below.

Consolidated Capital Expenditures [(1)]
Year-to-date June 30, 2018
($ millions)

	Regulated									
	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	**Total Regulated Utilities**	**Non-Regulated** [(2)]	**Total**
Total	468	269	107	200	223	54	125	**1,446**	**31**	**1,477**

(1) Represents cash payments to construct property, plant and equipment and intangible assets, as reflected on the condensed consolidated interim statement of cash flows. Excludes the non-cash equity component of allowance for funds used during construction.
(2) Includes Energy Infrastructure and Corporate and Other segments.

Planned capital expenditures are based on detailed forecasts of energy demand, cost of labour and materials, as well as other factors, including economic conditions and foreign exchange rates, which could change and cause actual expenditures to differ from those forecast.

Consolidated capital expenditures for 2018 are forecast to be approximately $3.2 billion. The Corporation continues to advance its significant capital projects and there have been no material changes in the overall expected level, nature and timing of the Corporation's significant capital projects from those that were disclosed in the 2017 Annual MD&A with the exception of those noted below for FortisBC Energy.

Approximately $450 million, including allowance for funds used during construction ("AFUDC") and development costs, has been invested in the Tilbury liquefied natural gas ("LNG") facility expansion, in British Columbia, to the end of the second quarter of 2018. The total cost of the project is estimated at approximately $470 million, including approximately $70 million of AFUDC and development costs, and includes a new LNG storage tank and liquefier. The commissioning process of the facility was interrupted in the third quarter of 2017. The restart of commissioning and LNG production is anticipated to commence during the second half of 2018. Based on the commissioning process going as planned, the project will be completed in 2019.

The Lower Mainland System Upgrade project is designed to address system capacity and pipeline condition issues for the gas supply system in the Lower Mainland area of British Columbia. The British Columbia Utilities Commission approved, substantially as filed, the application for this project in October 2015. The project is being completed in two phases: (i) the Coastal Transmission System ("CTS") phase, which is intended to increase security of supply; and (ii) the Lower Mainland Intermediate Pressure System Upgrade ("LMIPSU") phase, which is focused on addressing pipeline condition issues. Construction activities for the CTS phase are complete, and the new pipelines have been commissioned and are in-service. FortisBC Energy conducted further detailed engineering work and evaluated construction bids and other costs which resulted in a revised cost estimate for the LMIPSU. The LMIPSU is expected to be constructed primarily during 2018 and 2019. The total capital cost of both phases of the Lower Mainland System Upgrade is now estimated to be approximately $640 million.

Over the five-year period 2018 through 2022, consolidated capital expenditures ("Five-Year Capital Program") are expected to be approximately $15.1 billion. The increase in the Corporation's Five-Year Capital Program from the $14.5 billion disclosed in the 2017 Annual MD&A is the result of the inclusion of Fortis' effective 49% investment in the Wataynikaneyap Transmission Power Project.

The Wataynikaneyap Transmission Power 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. Wataynikaneyap Power is a licensed transmission company, regulated by the Ontario Energy Board ("OEB"), equally owned by 22 First Nations communities (51%), in partnership with Fortis (49%). In 2016 the Government of Ontario designated Wataynikaneyap Power as the licensed transmission company to complete this project. In 2017 the OEB approved a deferral account to recover development costs incurred between November 2010 and the commencement of construction. In March 2018 the project reached a significant milestone with the formal announcement of a funding framework among Wataynikaneyap Power, the Government of Canada and the Government of Ontario. FortisOntario will be responsible for construction management and operation of the transmission line. The total estimated capital cost for the project is approximately $1.6 billion. The initial phase of the project to connect the Pikangikum First Nation to Ontario’s power grid is fully funded by the Canadian government and is expected to be completed by the end of 2018. The next two phases are subject to receipt of all necessary regulatory approvals, including the leave-to-construct approval from the OEB. The leave-to-construct application was filed with the OEB in June 2018 and approval is expected in early 2019. These phases are targeted to be completed by the end of 2020 and 2023, respectively. In addition to providing participating First Nations communities ownership in the transmission line, the project provides socio-economic benefits, reduces environmental risk and lessens greenhouse gas emissions associated with diesel-fired generation currently used in remote locations.

ADDITIONAL INVESTMENT OPPORTUNITIES

Management is pursuing additional investment opportunities within existing service territories. These additional investment opportunities, as discussed below, are not included in the Corporation's Five-Year Capital Program.

ITC - Lake Erie Connector
The Lake Erie Connector is a proposed 1,000 MW, bi-directional, high-voltage direct current underwater transmission line that would provide the first direct link between the markets of the Ontario Independent Electricity System Operator and PJM Interconnection, LLC. The project would enable transmission customers to more efficiently access energy, capacity and renewable energy credit opportunities in both markets.

In 2017 the project's major application process in the United States and Canada was completed upon receipt of permits from the U.S. Army Corps of Engineers. The project continues to advance through regulatory, operational, and economic milestones. Ongoing activities include completing project cost refinement and securing favourable transmission service agreements with prospective counterparties. Pending achievement of key milestones, completion of the project would take approximately three years from the commencement of construction.

FortisBC - Liquefied Natural Gas

The Corporation continues to pursue additional LNG infrastructure investment opportunities in British Columbia, including further expansion of the Tilbury LNG facility which is uniquely positioned to meet customer demand for clean-burning natural gas. The site is scalable and can accommodate additional storage and liquefaction equipment, and is relatively close to international shipping lanes. Fortis continues to have discussions with a number of potential export customers.

Other Opportunities

Other capital investment opportunities include, but are not limited to: incremental regulated transmission investment opportunities and energy storage and contracted transmission projects at ITC; renewable energy investments, energy storage projects, grid modernization, infrastructure resiliency, and transmission investments at UNS Energy; and further gas infrastructure opportunities at FortisBC Energy.

CASH FLOW REQUIREMENTS

At the subsidiary level, it is expected that operating expenses and interest costs will generally be paid out of 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 to complete 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 corporate credit facility and proceeds from the issuance of common shares, preference shares and long-term debt as well as proceeds from the dividend reinvestment plan and at-the-market common equity program. Depending on the timing of cash payments from the subsidiaries, borrowings under the Corporation's committed corporate credit facility may be required from time to time to support the servicing of debt and payment of dividends.

The Corporation's ability to service its debt obligations and pay dividends on its common and preference shares is dependent on the financial results of and the related cash payments from subsidiaries. Certain regulated subsidiaries may be subject to restrictions that may limit their ability to distribute cash to Fortis. These include restrictions by certain regulators limiting the amount of annual dividends and restrictions by certain lenders limiting the amount of debt to total capitalization at the subsidiaries. In addition, there are practical limitations on using the net assets of each of the Corporation's 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 November 2016 Fortis filed a short-form base shelf prospectus, under which the Corporation may issue common or preference shares, subscription receipts or debt securities in an aggregate principal amount of up to $5 billion during the 25-month life of the base shelf prospectus. In March 2018 the Corporation established an at-the-market common equity program that allows the Corporation to issue up to $500 million of common shares from treasury to the public at the Corporation's discretion, effective until December 2018. In July 2017 Fortis exchanged its US$2.0 billion ($2.6 billion) unregistered senior unsecured notes for US$2.0 billion ($2.6 billion) registered senior unsecured notes under the base shelf prospectus. In March 2017 Fortis issued $500 million common equity and in December 2016 issued $500 million unsecured notes at 2.85%, both under the base shelf prospectus. A principal amount of approximately $1.0 billion remains under the base shelf prospectus.

As at June 30, 2018, the average annual consolidated fixed-term debt maturities and repayments over the next five years have not materially changed from that disclosed in the 2017 Annual MD&A. 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, 2018 and are expected to remain compliant throughout 2018.

CREDIT FACILITIES

As at June 30, 2018, the Corporation and its subsidiaries had consolidated credit facilities of approximately $5.1 billion, of which approximately $3.8 billion was unused, including $1.1 billion unused under the Corporation's committed revolving corporate credit facility. The credit facilities are syndicated mostly with large banks in Canada and the United States, with no one bank holding more than 20% of these facilities. Approximately $4.8 billion of the total credit facilities are committed facilities with maturities ranging from 2019 through 2023.

Credit facilities are summarized below.

Credit Facilities			**As at**	
($ millions)	Regulated Utilities	Corporate and Other	**June 30, 2018**	December 31, 2017
Total credit facilities	3,706	1,385	**5,091**	4,952
Credit facilities utilized:				
Short-term borrowings	(69)	—	**(69)**	(209)
Long-term debt (including current portion) [1]	(803)	(248)	**(1,051)**	(671)
Letters of credit outstanding	(69)	(59)	**(128)**	(129)
Credit facilities unutilized	2,765	1,078	**3,843**	3,943

[1] The current portion was $601 million (December 31, 2017 - $312 million).

Borrowings under long-term committed credit facilities were classified as long-term debt. It is management's intention to refinance these borrowings with long-term permanent financing during future periods. There were no material changes in credit facilities from that disclosed in the Corporation's 2017 Annual MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of $128 million as at June 30, 2018 (December 31, 2017 - $129 million), the Corporation had no off-balance sheet arrangements that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

BUSINESS RISK MANAGEMENT

Business risks of the Corporation were generally consistent with those disclosed in the Corporation's 2017 Annual MD&A, including certain risks, as disclosed below, and an update to those risks, where applicable.

Regulatory Risk

For further information, refer to the "Regulatory Highlights" section of this MD&A.

Capital Resources and Liquidity Risk - Credit Ratings

Year-to-date 2018 the following changes occurred to the debt credit ratings of the Corporations' utilities: In March 2018 S&P revised its outlook on ITC, UNS Energy, FortisAlberta and Caribbean Utilities from stable to negative due to modest temporary weakening of the Corporation's financial measures as a result of U.S. tax reform, which reduces cash flow at the Corporation's U.S. regulated utilities. For a discussion on the Corporation's credit ratings refer to the "Liquidity and Capital Resources" section of this MD&A.

CHANGES IN ACCOUNTING POLICIES

The Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Corporation's 2017 annual audited consolidated financial statements, except as described below.

Revenue

Effective January 1, 2018, Fortis adopted ASC Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. Fortis adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of retained earnings.

Most of the Corporation's revenue is derived from energy sales and the provision of transmission services to customers based on regulator-approved tariff rates. Most contracts have a single performance obligation, being the delivery of energy or the provision of transmission services. Revenue is generally measured in kilowatt hours, gigajoules, or transmission load delivered. The billing of energy sales is based on customer meter readings, which occur systematically throughout each month. The billing of transmission services at ITC is based on peak monthly load.

FortisAlberta is a distribution company and is required by its regulator to arrange and pay for transmission services with the Alberta Electric System Operator. These services include the collection of transmission revenue from its customers, which is achieved through invoicing the customers' retailers through the transmission component of its regulator-approved rates. FortisAlberta reports revenue and expenses related to transmission services on a net basis.

Electricity, gas and transmission service revenue includes an unbilled revenue estimate for energy consumed or services provided since the last meter reading that have not been billed at the end of the accounting period. Sales estimates generally reflect an analysis of historical consumption in relation to key inputs, such as current energy prices, population growth, economic activity, weather conditions and system losses. Unbilled revenue accruals are adjusted in the periods actual consumption becomes known.

Generation revenue from non-regulated operations is recognized on delivery at contracted rates.

The Corporation estimates variable consideration at the most likely amount and reassesses its estimate at each reporting date until the amount is known. Variable consideration, including amounts subject to a future regulatory decision, is recognized as a refund liability until the Corporation is certain that it will be entitled to the consideration.

The Corporation's revenue excludes sales and municipal taxes collected from customers. Prior to the adoption of ASC Topic 606, Central Hudson recognized sales tax and FortisAlberta recognized municipal tax on a gross basis, in both revenue and expense. Effective January 1, 2018, the exclusion of these taxes from revenue resulted in a decrease in revenue of $12 million and $26 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

The Corporation has elected not to assess or account for any significant financing components associated with revenue billed in accordance with equal payment plans as the period between the transfer of energy to customers and the customers' payment will be less than one year.

The Corporation disaggregates revenue by regulatory status, service territory and substantially autonomous utility operations, as disclosed in Note 5 of the Interim Financial Statements. This represents the level of disaggregation used by the Corporation's President and Chief Executive Officer in allocating resources and evaluating performance.

Financial Instruments

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* Principally, it requires: (i) equity investments in unconsolidated entities not accounted for using the equity method to be measured at fair value through earnings; however, entities may elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and liabilities to be presented separately in the financial statement notes, grouped by measurement category and form. Adoption of this ASU did not impact the Interim Financial Statements.

Pension and Postretirement Benefit Costs

Effective January 1, 2018, the Corporation adopted ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires current service costs to be disaggregated and grouped in the statement of earnings with other employee compensation costs arising from services rendered. The other components of net periodic benefit costs must be presented separately and outside of operating income. Additionally, only the service cost component is eligible for capitalization. On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in a retrospective $4 million and $7 million reclassification from Operating Expenses to Other Income, Net for the three and six months ended June 30, 2017, respectively, in the Interim Financial Statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for Fortis January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. Based on Fortis' assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities and utility plant and equipment.

Fortis expects to elect a package of practical expedients that will allow it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Fortis also expects to elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

Fortis continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

Hedging

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for Fortis January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. Fortis is assessing the impact of adoption.

Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was 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. Fortis is assessing the impact of adoption.

FINANCIAL INSTRUMENTS

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

As at June 30, 2018, the carrying value of long-term debt, including current portion, was $22,747 million (December 31, 2017 - $21,535 million) compared to an estimated fair value of $24,055 million (December 31, 2017 - $23,481 million).

The fair value of long-term debt is calculated using quoted market prices or, when unavailable, by either: (i) discounting the future cash flows of the specific debt instrument 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 of the same remaining maturities, considered Level 2 inputs. 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.

Derivative Instruments

The Corporation generally limits the use of derivative instruments to those that qualify as accounting, economic or cash flow hedges, or those that are approved for regulatory recovery. The Corporation records all derivative instruments 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 instruments as at the balance sheet dates. The fair value of derivative instruments is the estimate of the amounts that the Corporation would receive or have to pay to terminate the outstanding contracts as at the balance sheet dates. The Corporation's derivatives primarily include energy contracts that are subject to regulatory deferral, as permitted by the regulators, as well as certain limited energy contracts that are not subject to regulatory deferral and cash flow hedges.

Refer to Note 14 to the Corporation's Interim Financial Statements for further details. There were no material changes in the nature and amount of the Corporations' derivative instruments from those disclosed in the Corporation's 2017 Annual MD&A.

CRITICAL ACCOUNTING ESTIMATES

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.

There were no material changes in the nature of the Corporation's critical accounting estimates from those disclosed in the 2017 Annual MD&A.

Contingencies

There were no material changes in the Corporation's contingencies from those disclosed in the 2017 Annual MD&A.

Comparative Figures in the Consolidated Statement of Cash Flows

During the year ended December 31, 2017, the Corporation discovered an immaterial error with respect to the presentation of credit facility borrowings within the financing section of its statement of cash flows. The Corporation evaluated the error and determined that there was no impact to its results of operations or financial position in previously issued financial statements and that the impact was not material to its cash flows in previously issued financial statements. For the three and six months ended June 30, 2017, the correction resulted in $183 million and $245 million, respectively, which was previously reported within Net Repayments/Borrowings under Committed Credit Facilities, now being reported on a gross basis as Borrowings under Committed Credit Facilities of $324 million and $807 million, respectively, and Repayments under Committed Credit Facilities of $507 million and $1,052 million, respectively.

The correction of the error for the periods ended March 31, 2017, June 30, 2017 and September 30, 2017 is detailed below.

	Quarter Ended			Year to Date
($ millions)	March 2017	June 2017	September 2017	September 2017
As reported				
Net repayments and borrowings under committed credit facilities	65	(241)	(221)	(397)
As corrected				
Borrowings under committed credit facilities	483	324	659	1,466
Repayments under committed credit facilities	(545)	(507)	(648)	(1,700)
Net borrowings and repayments under committed credit facilities	127	(58)	(232)	(163)

Effective January 1, 2018, the Corporation elected to present, on the statement of cash flows, all borrowings and repayments under committed credit facilities on a gross basis and continue to present borrowings and repayments under uncommitted or demand credit facilities on a net basis as Net Change in Short-Term Borrowings. In addition to the above noted correction, comparative figures have been reclassified to comply with the current period presentation.

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, 2018 and 2017.

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. Inter-company transactions are summarized below.

Inter-company transactions				
Periods Ended June 30	**Quarter**		**Year-to-Date**	
($ millions)	**2018**	2017	**2018**	**2017**
Sale of capacity from Waneta Expansion to FortisBC Electric	**4**	3	**19**	19
Sale of energy from Belize Electric Company Limited to BEL	**9**	7	**18**	14
Lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy	**6**	5	**13**	13

As at June 30, 2018, accounts receivable included approximately $10 million due from BEL (December 31, 2017 - $20 million).

The Corporation periodically provides short-term financing to subsidiaries to support capital expenditure programs, acquisitions and seasonal working capital requirements. There were no inter-segment loans outstanding as at June 30, 2018 and December 31, 2017.

SUMMARY OF QUARTERLY RESULTS

Quarterly information has been obtained from the Corporation's Interim Financial Statements and is provided below. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Summary of Quarterly Results		**Net Earnings Attributable to Common Equity Shareholders**	**Earnings per Common Share**	
Quarter Ended	**Revenue** *($ millions)*	*($ millions)*	**Basic** *($)*	**Diluted** *($)*
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
June 30, 2017	2,015	257	0.62	0.62
March 31, 2017	2,274	294	0.72	0.72
December 31, 2016	2,053	189	0.49	0.49
September 30, 2016	1,528	127	0.45	0.45

The summary of the past eight quarters reflects the Corporation's continued organic growth, growth from acquisitions net of the associated acquisition-related transaction costs, and seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of electricity and gas demand, as well as the timing and recognition of regulatory decisions. Revenue is also affected by the cost of fuel, purchased power and natural gas, which are flowed through to customers without markup. Given the diversified nature of the Corporation's subsidiaries, seasonality may vary. Most of the annual earnings of the gas utilities are realized in the first and fourth quarters due to space-heating requirements. Earnings for the electric distribution utilities in the United States are generally highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

June 2018 / June 2017: Net earnings attributable to common equity shareholders were $240 million, or $0.57 per common share, for the second quarter of 2018 compared to earnings of $257 million or $0.62 per common share, for the second quarter of 2017. A discussion of the quarter over quarter variance in financial results is provided in the "Financial Highlights" section of this MD&A.

March 2018 / March 2017: Net earnings attributable to common equity shareholders were $323 million, or $0.77 per common share, for the first quarter of 2018 compared to earnings of $294 million, or $0.72 per common share, for the first quarter of 2017. The increase in earnings was primarily due to: (i) the one-time remeasurement of the Corporation's deferred income tax liabilities as a result of an election to file a consolidated state income tax return; (ii) the impact of a full quarter of new rates compared to last year at UNS Energy; and (iii) growth in rate base. The increase was partially offset by: (i) unfavourable foreign exchange associated with the translation of US dollar-denominated earnings; (ii) lower earnings from Aitken Creek related to unrealized net losses on the mark-to-market of natural gas derivatives quarter over quarter; (iii) timing differences at Newfoundland Power; and (iv) the favourable settlement of matters at UNS Energy pertaining to FERC-ordered transmission refunds of $7 million in 2017.

December 2017 / December 2016: Net earnings attributable to common equity shareholders were $134 million, or $0.32 per common share, for the fourth quarter of 2017 compared to earnings of $189 million, or $0.49 per common share, for the fourth quarter of 2016. The decrease in earnings was driven by lower earnings at ITC, due to the one-time remeasurement of deferred income tax assets and liabilities as a result of U.S. tax reform, partially offset by higher earnings at Aitken Creek associated with unrealized gains on the mark-to-market of natural gas derivatives.

September 2017/September 2016: Net earnings attributable to common equity shareholders were $278 million, or $0.66 per common share, for the third quarter of 2017 compared to earnings of $127 million, or $0.45 per common share, for the third quarter of 2016. The increase was driven by earnings of $89 million at ITC, which was acquired in October 2016. The increase for the quarter was also due to: (i) lower Corporate and Other expenses, primarily due to the receipt of a break fee, net of related transaction costs, of $24 million associated with the termination of the Waneta Dam purchase agreement recognized in the third quarter of 2017, and $19 million in acquisition-related transactions costs associated with ITC recognized in the third quarter of 2016; (ii) higher earnings from Aitken Creek related to the unrealized gain on the mark-to-market of natural gas derivatives quarter over quarter; (iii) strong performance at UNS Energy, largely due to the impact of the rate case settlement in 2017 and FERC-ordered refunds of $7 million in the third quarter of 2016; (iv) higher earnings at FortisAlberta due to an increase in capital tracker revenue; and (v) a lower loss at FortisBC Energy due to higher allowance for funds used during construction and lower operating expenses. The increase was partially offset by: (i) higher finance charges associated with the acquisition of ITC; (ii) the favourable settlement of Springerville Unit 1 matters at UNS Energy in the third quarter of 2016; (iii) unfavourable foreign exchange associated with the translation of US dollar-denominated earnings; (iv) lower contribution from the Caribbean, mainly due to the impact of Hurricane Irma and lower equity income from Belize Electricity; and (v) business development costs related to the Wataynikaneyap Transmission Power Project.

OUTLOOK

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

The Corporation's $15.1 billion Five-Year Capital Program is expected to increase rate base to $33 billion by 2022, resulting in a five-year compound annual growth rate of 5.4%. The Five-Year Capital Program is driven by investments that improve and automate the electricity grid, address natural gas system capacity and gas line network integrity, increase cyber protection and allow the grid to deliver cleaner energy.

Fortis is focused on securing further organic growth opportunities at its subsidiaries, which include the ITC Lake Erie Connector Project, gas infrastructure opportunities at FortisBC and renewable energy investments, including storage at UNS Energy. These additional investment opportunities may be funded through debt raised at the utilities, cash from operations, common equity contributions from the dividend reinvestment plan and the at-the-market common equity program.

Fortis expects the long-term sustainable growth in rate base to support continuing growth in earnings and dividends. Fortis has targeted average annual dividend growth of approximately 6% through to 2022. 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 Program, and management's continued confidence in the strength of the Corporation's diversified portfolio of utilities and record of operational excellence.

OUTSTANDING SHARE DATA

As at July 30, 2018, the Corporation had issued and outstanding 424.8 million common shares; 5.0 million First Preference Shares, Series F; 9.2 million First Preference Shares, Series G; 7.0 million First Preference Shares, Series H; 3.0 million First Preference Shares, Series I; 8.0 million First Preference Shares, Series J; 10.0 million First Preference Shares, Series K; and 24.0 million First Preference Shares, 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 and whether such dividends have been declared.

The number of common shares of Fortis that would be issued if all outstanding stock options were converted as at July 30, 2018 is approximately 4.2 million.

Additional information can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov. The information contained on, or accessible through, any of these websites is not incorporated by reference into this document.

FORTIS INC.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2018 and 2017
(Unaudited)

Fortis Inc.

Condensed Consolidated Interim Balance Sheets (Unaudited)

As at

(in millions of Canadian dollars)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	**$ 197**	$ 327
Accounts receivable and other current assets (Note 6)	**1,133**	1,131
Prepaid expenses	**62**	79
Inventories	**346**	367
Regulatory assets (Note 7)	**331**	303
Total current assets	**2,069**	2,207
Other assets	**526**	480
Regulatory assets (Note 7)	**2,780**	2,742
Property, plant and equipment, net	**31,559**	29,668
Intangible assets, net	**1,165**	1,081
Goodwill	**12,150**	11,644
Total assets	**$ 50,249**	$ 47,822
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings (Note 8)	**$ 69**	$ 209
Accounts payable and other current liabilities	**1,769**	2,053
Regulatory liabilities (Note 7)	**587**	490
Current installments of long-term debt (Note 8)	**1,037**	705
Current installments of capital lease and finance obligations	**46**	47
Total current liabilities	**3,508**	3,504
Other liabilities	**1,234**	1,210
Regulatory liabilities (Note 7)	**2,990**	2,956
Deferred income taxes	**2,465**	2,298
Long-term debt (Note 8)	**21,572**	20,691
Capital lease and finance obligations (Note 15)	**616**	414
Total liabilities	**32,385**	31,073
Commitments and Contingencies (Note 15)		
Equity		
Common shares [(1)]	**11,731**	11,582
Preference shares	**1,623**	1,623
Additional paid-in capital	**10**	10
Accumulated other comprehensive income	**540**	61
Retained earnings	**2,110**	1,727
Shareholders' equity	**16,014**	15,003
Non-controlling interests	**1,850**	1,746
Total equity	**17,864**	16,749
Total liabilities and equity	**$ 50,249**	$ 47,822

[(1)] *No par value. Unlimited authorized shares; 424.8 million and 421.1 million issued and outstanding as at June 30, 2018 and December 31, 2017, 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	
	2018	2017	**2018**	2017
Revenue (Note 6)	**$ 1,947**	$ 2,015	**$ 4,144**	$ 4,289
Expenses				
Energy supply costs	**507**	524	**1,236**	1,278
Operating expenses	**553**	567	**1,106**	1,146
Depreciation and amortization	**309**	298	**611**	595
Total expenses	**1,369**	1,389	**2,953**	3,019
Operating income	**578**	626	**1,191**	1,270
Other income, net (Note 10)	**18**	20	**27**	48
Finance charges	**243**	232	**479**	461
Earnings before income taxes	**353**	414	**739**	857
Income tax expense	**61**	102	**83**	208
Net earnings	**$ 292**	$ 312	**$ 656**	$ 649
Net earnings attributable to:				
Non-controlling interests	**$ 35**	$ 38	**$ 60**	$ 65
Preference equity shareholders	**17**	17	**33**	33
Common equity shareholders	**240**	257	**563**	551
	$ 292	$ 312	**$ 656**	$ 649
Earnings per common share (Note 12)				
Basic	**$ 0.57**	$ 0.62	**$ 1.33**	$ 1.34
Diluted	**$ 0.57**	$ 0.62	**$ 1.33**	$ 1.34

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	
	2018	2017	**2018**	2017
Net earnings	**$ 292**	$ 312	**$ 656**	$ 649
Other comprehensive income (loss)				
Unrealized foreign currency translation gains (losses), net of hedging activities and tax	**244**	(244)	**550**	(336)
Other, net of tax	**1**	(2)	**1**	(2)
	245	(246)	**551**	(338)
Comprehensive income	**$ 537**	$ 66	**$ 1,207**	$ 311
Comprehensive income attributable to:				
Non-controlling interests	**$ 68**	$ 38	**$ 132**	$ 65
Preference equity shareholders	**17**	17	**33**	33
Common equity shareholders	**452**	11	**1,042**	213
	$ 537	$ 66	**$ 1,207**	$ 311

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	
	2018	2017	**2018**	2017
Operating activities				
Net earnings	**$ 292**	$ 312	**$ 656**	$ 649
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation - property, plant and equipment	**276**	267	**545**	533
Amortization - intangible assets	**25**	24	**51**	48
Amortization - other	**8**	7	**15**	14
Deferred income tax expense	**76**	102	**61**	174
Accrued employee future benefits	**7**	9	**3**	10
Equity component of allowance for funds used during construction (Note 10)	**(15)**	(19)	**(30)**	(36)
Other	**41**	(33)	**59**	(11)
Change in long-term regulatory assets and liabilities	**(38)**	(2)	**2**	(9)
Change in working capital (Note 13)	**10**	(18)	**(91)**	(182)
Cash from operating activities	**682**	649	**1,271**	1,190
Investing activities				
Capital expenditures - property, plant and equipment	**(724)**	(654)	**(1,379)**	(1,323)
Capital expenditures - intangible assets	**(68)**	(65)	**(98)**	(105)
Contributions in aid of construction	**33**	24	**60**	37
Other	**(33)**	(46)	**(53)**	(69)
Cash used in investing activities	**(792)**	(741)	**(1,470)**	(1,460)
Financing activities				
Proceeds from long-term debt, net of issuance costs	**32**	368	**352**	756
Repayments of long-term debt and capital lease and finance obligations	**(85)**	(19)	**(231)**	(35)
Borrowings under committed credit facilities (Note 16)	**1,196**	1,658	**2,362**	3,624
Repayments under committed credit facilities (Note 16)	**(1,079)**	(1,881)	**(2,185)**	(4,397)
Net change in short-term borrowings (Note 16)	**25**	8	**23**	10
Issue of common shares, net of costs, and dividends reinvested	**5**	30	**20**	544
Dividends				
Common shares, net of dividends reinvested	**(114)**	(104)	**(230)**	(202)
Preference shares	**(17)**	(17)	**(33)**	(33)
Subsidiary dividends paid to non-controlling interests	**(16)**	(22)	**(40)**	(39)
Other	**22**	6	**20**	7
Cash (used in) from financing activities	**(31)**	27	**58**	235
Effect of exchange rate changes on cash and cash equivalents	**5**	(2)	**11**	(3)
Change in cash and cash equivalents	**(136)**	(67)	**(130)**	(38)
Cash and cash equivalents, beginning of period	**333**	298	**327**	269
Cash and cash equivalents, end of period	**$ 197**	$ 231	**$ 197**	$ 231

Supplementary Information to Condensed Consolidated Interim Statements of Cash Flows (Note 13)

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)

	Common Shares	Common Shares	Preference Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interests	Total Equity
	(# millions)							
As at December 31, 2017	**421.1**	**$ 11,582**	**$ 1,623**	**$ 10**	**$ 61**	**$ 1,727**	**$ 1,746**	**$ 16,749**
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 ($0.425 per share)	**—**	**—**	**—**	**—**	**—**	**(180)**	**—**	**(180)**
Dividends declared on preference shares	**—**	**—**	**—**	**—**	**—**	**(33)**	**—**	**(33)**
Other	**—**	**—**	**—**	**1**	**—**	**—**	**12**	**13**
As at June 30, 2018	**424.8**	**$ 11,731**	**$ 1,623**	**$ 10**	**$ 540**	**$ 2,110**	**$ 1,850**	**$ 17,864**
As at December 31, 2016	401.5	$ 10,762	$ 1,623	$ 12	$ 745	$ 1,455	$ 1,853	$ 16,450
Net earnings	—	—	—	—	—	584	65	649
Other comprehensive loss	—	—	—	—	(338)	—	—	(338)
Common shares issued	16.4	673	—	(4)	—	—	—	669
Foreign currency translation impacts	—	—	—	—	—	—	(52)	(52)
Subsidiary dividends paid to non-controlling interests	—	—	—	—	—	—	(39)	(39)
Dividends declared on common shares ($0.40 per share)	—	—	—	—	—	(166)	—	(166)
Dividends declared on preference shares	—	—	—	—	—	(33)	—	(33)
Other	—	—	—	1	—	—	3	4
As at June 30, 2017	417.9	$ 11,435	$ 1,623	$ 9	$ 407	$ 1,840	$ 1,830	$ 17,144

See accompanying Notes to Condensed Consolidated Interim Financial Statements

1. DESCRIPTION OF BUSINESS

Nature of Operations

Fortis Inc. ("Fortis" or the "Corporation") is principally an international 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. Most of the annual earnings of the gas utilities are realized in the first and fourth quarters due to space-heating requirements. Earnings for the electric distribution utilities in the United States are generally highest in the second and third quarters due to the use of air conditioning and other cooling equipment.

Each entity within the reporting segments that follow operates with substantial autonomy.

Regulated Utilities

ITC: Comprised of ITC Holdings Corp. 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 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. ("Newfoundland Power"); Maritime Electric Company, Limited ("Maritime Electric"); FortisOntario Inc. ("FortisOntario"); the Corporation's 49% equity investment in Wataynikaneyap Power Limited Partnership; Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), in which Fortis holds an approximate 60% controlling interest; 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 British Columbia and Belize, and the Aitken Creek natural gas storage facility ("Aitken Creek") in British Columbia.

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 expenses of Fortis and non-regulated holding companies.

2. REGULATORY MATTERS

Regulation of the Corporation's utilities is generally consistent with that disclosed in its 2017 annual audited consolidated financial statements. A summary of significant regulatory developments in the first six months of 2018 follows.

U.S. Tax Reform

The Corporation's U.S. utilities are working with their respective regulators to return to customers the net income tax savings resulting from U.S. tax reform.

ITC: In April 2018 ITC reposted formula rates charged to customers of its Midcontinent Independent System Operator ("MISO") regulated subsidiaries retroactive to January 1, 2018, as approved by the Federal Energy Regulatory Commission ("FERC"). As at June 30, 2018, the amounts owing had been substantially returned to customers.

UNS Energy: In April 2018 the Arizona Corporation Commission ("ACC") approved TEP's application to return ongoing income tax savings through a combination of customer bill credits and regulatory liabilities. Customer bill credits became effective in May 2018. As at June 30, 2018, a regulatory liability of $10 million (US$8 million) was recognized for amounts to be returned to customers in the remainder of 2018. In 2019 and beyond, TEP will continue to return savings to customers using the same approach. Regulatory liabilities will be returned to customers as part of TEP's next rate case.

In March 2018 FERC issued an order directing TEP to either: (i) submit proposed revisions to its transmission rates or transmission revenue requirement to reflect the reduction in the federal corporate income tax rate; or (ii) show why a rate adjustment is not required. In May 2018 TEP proposed an overall customer rate reduction, to be effective March 2018, reflecting the lower federal corporate income tax rate. The proposal is currently being reviewed by FERC.

Central Hudson: In June 2018, as part of its approval of a joint proposal, discussed below, the New York Public Service Commission ("PSC") also approved Central Hudson's recommendation to reflect the recovery of lower federal corporate income tax in customer rates effective July 1, 2018. As at June 30, 2018, a regulatory liability of $14 million (US$10 million) was recognized related to the income tax savings realized in the first six months of 2018. As approved by the PSC, the refund of this regulatory liability to customers will be determined as part of a future regulatory proceeding.

ITC

In April 2018 a third-party complaint was filed with FERC challenging independence incentive adders that are included in transmission rates charged by ITC's MISO-regulated operating subsidiaries. Independence incentive adders were established to encourage transmission investment and recognize that ITC's operating subsidiaries are independent, dedicated transmission-only operations, with no affiliation to market participants in their regions. The adder allows 0.50% or 1.00% to be added to the authorized return on equity ("ROE"), subject to any ROE cap established by FERC. The outcome of this matter cannot be predicted at this time; however, ITC believes it has a strong position in respect of this complaint.

Central Hudson

In June 2018 the PSC issued an order approving a three-year rate plan, or joint proposal, that had been filed by Central Hudson along with multiple stakeholders and intervenors, pursuant to the July 2017 general rate application. The order included an allowed ROE of 8.8% and common equity ratios of 48%, 49% and 50% in rate years one, two and three, respectively, and is effective July 1, 2018 through June 30, 2021. Also included is an earnings sharing mechanism whereby the Company and customers share equally earnings between 50 and 100 basis points above the allowed ROE. Earnings beyond this are primarily returned to customers.

FortisAlberta

Generic Cost of Capital Proceeding: Oral hearings to determine the ROE and capital structure for 2018, 2019 and 2020 were completed in March 2018. The ROE and capital structure approved for 2017 will remain in effect on an interim basis pending a final decision by the Alberta Utilities Commission ("AUC"), which is expected in the third quarter of 2018.

Next Generation Performance-Based Rate Setting Proceeding: In March 2018 the AUC approved the Company's 2018 distribution rates, on an interim basis, until true-up amounts are finalized. New rates are effective January 1, 2018 with collection from customers effective April 1, 2018. Key provisions included an increase of approximately 5.5% in the distribution component of rates.

FortisAlberta is pursuing options to appeal certain elements of the rate-setting design for the second term of performance-based rate setting ("PBR").

3. ACCOUNTING POLICIES

These 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.

These 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 2017 annual audited consolidated 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 2017 annual audited consolidated financial statements, except as described below.

New Accounting Policies

Revenue
Effective January 1, 2018, Fortis adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. Fortis adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures (Note 6). Upon adoption, there were no adjustments to the opening balance of retained earnings.

Most of the Corporation's revenue is derived from energy sales and the provision of transmission services to customers based on regulator-approved tariff rates. Most contracts have a single performance obligation, being the delivery of energy or the provision of transmission services. Revenue is generally measured in kilowatt hours, gigajoules, or transmission load delivered. The billing of energy sales is based on customer meter readings, which occur systematically throughout each month. The billing of transmission services at ITC is based on peak monthly load.

FortisAlberta is a distribution company and is required by its regulator to arrange and pay for transmission services with the Alberta Electric System Operator. These services include the collection of transmission revenue from its customers, which is achieved through invoicing the customers' retailers through the transmission component of its regulator-approved rates. FortisAlberta reports revenue and expenses related to transmission services on a net basis.

Electricity, gas and transmission service revenue includes an unbilled revenue estimate for energy consumed or services provided since the last meter reading that have not been billed at the end of the accounting period. Sales estimates generally reflect an analysis of historical consumption in relation to key inputs, such as current energy prices, population growth, economic activity, weather conditions and system losses. Unbilled revenue accruals are adjusted in the periods actual consumption becomes known.

Generation revenue from non-regulated operations is recognized on delivery at contracted rates.

The Corporation estimates variable consideration at the most likely amount and reassesses its estimate at each reporting date until the amount is known. Variable consideration, including amounts subject to a future regulatory decision, is recognized as a refund liability until the Corporation is certain that it will be entitled to the consideration.

The Corporation's revenue excludes sales and municipal taxes collected from customers. Prior to the adoption of ASC Topic 606, Central Hudson recognized sales tax and FortisAlberta recognized municipal tax on a gross basis, in both revenue and expense. Effective January 1, 2018, the exclusion of these taxes from revenue resulted in a decrease in revenue of $12 million and $26 million for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

The Corporation has elected not to assess or account for any significant financing components associated with revenue billed in accordance with equal payment plans as the period between the transfer of energy to customers and the customers' payment will be less than one year.

The Corporation disaggregates revenue by regulatory status, service territory and substantially autonomous utility operations (Note 5). This represents the level of disaggregation used by the Corporation's President and Chief Executive Officer ("CEO") in allocating resources and evaluating performance.

Financial Instruments
Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* Principally, it requires: (i) equity investments in unconsolidated entities not accounted for using the equity method to be measured at fair value through earnings; however, entities may elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and liabilities to be presented separately in these financial statement notes, grouped by measurement category and form. Adoption of this ASU did not impact the Interim Financial Statements.

Pension and Postretirement Benefit Costs
Effective January 1, 2018, the Corporation adopted ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires current service costs to be disaggregated and grouped in the statement of earnings with other employee compensation costs arising from services rendered. The other components of net periodic benefit costs must be presented separately and outside of operating income. Additionally, only the service cost component is eligible for capitalization. On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in a retrospective $4 million and $7 million reclassification from Operating Expenses to Other Income, Net for the three and six months ended June 30, 2017, respectively, in these Interim Financial Statements.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for Fortis January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. Based on Fortis' assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities and utility plant and equipment.

Fortis expects to elect a package of practical expedients that will allow it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Fortis also expects to elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

Fortis continues to assess the impact of adoption and monitor standard-setting activities that may affect transition requirements.

Hedging

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for Fortis January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. Fortis is assessing the impact of adoption.

Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was 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. Fortis is assessing the impact of adoption.

5. SEGMENTED INFORMATION

Fortis segments its business based on regulatory status, service territory and substantially autonomous utility operations. This represents the information used by the Corporation's President and CEO in deciding how to allocate resources and evaluate performance. Segment performance is evaluated based on net earnings attributable to common equity shareholders.

Effective January 1, 2018 the former Eastern Canadian and Caribbean segments are aggregated as Other Electric as they individually do not meet the quantitative threshold for separate reporting.

Quarter Ended June 30, 2018 ($ millions)	REGULATED ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	**Sub Total**	NON-REGULATED **Energy Infra-structure**	**Corporate and Other**	**Inter-segment eliminations**	**Total**
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**
Quarter Ended June 30, 2017 ($ millions)												
Revenue	408	552	206	227	148	85	331	1,957	59	1	(2)	2,015
Energy supply costs	—	175	64	72	—	21	193	525	—	—	(1)	524
Operating expenses	114	150	99	73	48	21	44	549	10	9	(1)	567
Depreciation and amortization	56	67	17	50	46	15	38	289	8	1	—	298
Operating income	238	160	26	32	54	28	56	594	41	(9)	—	626
Other income, net	10	3	1	6	1	—	(1)	20	—	1	(1)	20
Finance charges	67	26	11	29	24	9	19	185	1	47	(1)	232
Income tax expense	67	48	6	3	—	3	5	132	2	(32)	—	102
Net earnings	114	89	10	6	31	16	31	297	38	(23)	—	312
Non-controlling interests	21	—	—	—	—	—	4	25	13	—	—	38
Preference share dividends	—	—	—	—	—	—	—	—	—	17	—	17
Net earnings attributable to common equity shareholders	93	89	10	6	31	16	27	272	25	(40)	—	257
Goodwill	7,960	1,793	585	913	227	235	251	11,964	27	—	—	11,991
Total assets	17,885	8,696	3,089	6,175	4,241	2,155	3,731	45,972	1,581	93	(65)	47,581
Capital expenditures	244	121	53	103	102	25	68	716	3	—	—	719

	REGULATED								NON-REGULATED			
Year-to-Date June 30, 2018 *($ millions)*	ITC	UNS Energy	Central Hudson	FortisBC Energy	Fortis Alberta	FortisBC Electric	Other Electric	**Sub Total**	**Energy Infra-structure**	**Corporate and Other**	**Inter-segment eliminations**	**Total**
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**
Year-to-Date June 30, 2017 *($ millions)*												
Revenue	803	1,010	464	676	295	198	733	4,179	115	1	(6)	4,289
Energy supply costs	—	346	149	254	—	67	462	1,278	1	—	(1)	1,278
Operating expenses	226	297	208	145	100	44	87	1,107	23	21	(5)	1,146
Depreciation and amortization	110	133	34	100	95	31	75	578	16	1	—	595
Operating income	467	234	73	177	100	56	109	1,216	75	(21)	—	1,270
Other income, net	20	15	2	10	2	—	(1)	48	—	1	(1)	48
Finance charges	130	52	21	58	46	18	38	363	2	97	(1)	461
Income tax expense	132	67	21	26	—	7	11	264	7	(63)	—	208
Net earnings	225	130	33	103	56	31	59	637	66	(54)	—	649
Non-controlling interests	41	—	—	—	—	—	6	47	18	—	—	65
Preference share dividends	—	—	—	—	—	—	—	—	—	33	—	33
Net earnings attributable to common equity shareholders	184	130	33	103	56	31	53	590	48	(87)	—	551
Goodwill	7,960	1,793	585	913	227	235	251	11,964	27	—	—	11,991
Total assets	17,885	8,696	3,089	6,175	4,241	2,155	3,731	45,972	1,581	93	(65)	47,581
Capital expenditures	512	248	103	197	195	46	120	1,421	7	—	—	1,428

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, 2018 and 2017.

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. Inter-company transactions are summarized below.

	Quarter Ended June 30		Year-to-Date June 30	
($ millions)	**2018**	2017	**2018**	2017
Sale of capacity from Waneta Expansion to FortisBC Electric	**4**	3	**19**	19
Sale of energy from Belize Electric Company Limited to BEL	**9**	7	**18**	14
Lease of gas storage capacity and gas sales from Aitken Creek to FortisBC Energy	**6**	5	**13**	13

As at June 30, 2018 accounts receivable included approximately $10 million due from BEL (December 31, 2017 - $20 million).

The Corporation periodically provides short-term financing to subsidiaries to support capital expenditure programs, acquisitions and seasonal working capital requirements. There were no inter-segment loans outstanding as at June 30, 2018 and December 31, 2017.

6. REVENUE

	Quarter Ended June 30		Year-to-Date June 30	
($ millions)	**2018**	2017	**2018**	2017
Electric and gas revenue				
United States				
ITC	**400**	411	**741**	775
UNS Energy	**475**	502	**862**	907
Central Hudson	**208**	186	**496**	422
Canada				
FortisBC Energy	**204**	231	**634**	718
FortisAlberta	**139**	149	**276**	293
FortisBC Electric	**80**	74	**180**	173
Newfoundland Power	**147**	154	**367**	381
Maritime Electric	**48**	47	**102**	98
FortisOntario	**48**	50	**97**	101
Caribbean				
Caribbean Utilities	**62**	57	**114**	107
FortisTCI	**20**	20	**37**	38
Total electric and gas revenue	**1,831**	1,881	**3,906**	4,013
Other services revenue (1)	**111**	106	**209**	199
Revenue from contracts with customers	**1,942**	1,987	**4,115**	4,212
Alternative revenue	**(9)**	(6)	**3**	(2)
Other revenue	**14**	34	**26**	79
Total revenue	**1,947**	2,015	**4,144**	4,289

(1) Includes $57 million and $109 million from regulated operations for the three and six months ended June 30, 2018, respectively ($53 million and $100 million for the three and six months ended June 30, 2017, respectively).

Revenue from Contracts with Customers
Electric and gas revenue includes revenue from the sale and/or delivery of electricity and gas, transmission revenue, and wholesale electric revenue, all based on regulator-approved tariff rates.

Other services revenue includes: (i) the sale of energy from non-regulated generation operations; (ii) management fee revenue at UNS Energy for the operation of Springerville Units 3 and 4; (iii) revenue from storage optimization activities at Aitken Creek; and (iv) revenue from other services that reflect the ordinary business activities of Fortis' utilities.

Alternative Revenue
Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events, if certain criteria are met. Alternative revenue is recognized on an accrual basis with a corresponding regulatory asset or liability until the revenue is settled. Upon settlement, revenue is not recognized as revenue from contracts with customers but rather as settlement of the regulatory asset or liability on the balance sheet. The Corporation's significant alternative revenue programs are summarized below.

ITC's formula rates include an annual true-up mechanism that compares actual revenue requirements to billed revenue and any over- or under-collections are accrued and reflected in future rates within a two-year period. The formula rates do not require annual regulatory approvals, although inputs remain subject to legal challenge.

UNS Energy has a lost fixed-cost recovery mechanism ("LFCR") surcharge that provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with energy efficiency savings and distributed generation that is authorized by the ACC and determined to have occurred. For recovery of the LFCR regulatory asset, UNS Energy is required to file an annual LFCR adjustment request with the ACC for the LFCR revenue recognized in the prior year. The recovery is subject to a year-over-year cap of 1% of total retail revenue. UNS Energy also has a demand side management surcharge that is approved by the ACC annually, which is effective June 1 of each year, to compensate UNS Energy for the costs to design and implement cost-effective energy efficiency and demand response programs until such costs are reflected in UNS Energy's non-fuel base rates as well as a performance incentive.

At FortisBC Energy and FortisBC Electric, an earnings sharing mechanism that allows for a 50/50 sharing of variances from operating and maintenance expenses and capital expenditures was approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current PBR plan in 2019. Additionally, variances in the forecast versus actual customer-use rate are captured throughout the year in a revenue stabilization adjustment mechanism and a flow-through deferral account, which are either refunded to or recovered from customers in rates within two years.

Other Revenue
Other revenue primarily includes gains/losses on energy contract derivatives and lease revenue.

Accounts Receivable and Other Current Assets
The timing of revenue recognition, billings, and cash collections results in trade accounts receivable and unbilled accounts receivable. Accounts receivable are summarized below.

	As at	
($ millions)	**June 30, 2018**	December 31, 2017
Trade accounts receivable	**488**	460
Unbilled accounts receivable	**493**	562
Allowance for doubtful accounts	**(34)**	(31)
Total accounts receivable	**947**	991
Income tax receivable	**32**	8
Other	**154**	132
	1,133	1,131

7. REGULATORY ASSETS AND LIABILITIES

Detailed information about the Corporation's regulatory assets and liabilities is provided in Note 8 to the Corporation's 2017 annual audited consolidated financial statements. A summary follows.

	As at	
($ millions)	**June 30, 2018**	December 31, 2017
Regulatory assets		
Deferred income taxes	**1,417**	1,403
Employee future benefits	**492**	510
Deferred energy management costs	**213**	200
Deferred lease costs	**107**	104
Generation early retirement costs	**103**	105
Deferred operating overhead costs	**97**	91
Derivative instruments	**89**	87
Rate stabilization accounts	**81**	95
Manufactured gas plant site remediation deferral	**77**	75
Other regulatory assets	**435**	375
Total regulatory assets	**3,111**	3,045
Less: current portion	**(331)**	(303)
Long-term regulatory assets	**2,780**	2,742

	As at	
($ millions)	**June 30, 2018**	December 31, 2017
Regulatory liabilities		
Deferred income taxes	**1,522**	1,484
Asset removal cost provision	**1,135**	1,095
Rate stabilization accounts	**272**	254
Return on equity refund liability	**194**	182
Renewable energy surcharge	**76**	66
Energy efficiency liability	**67**	82
Electric and gas moderator account	**62**	58
Employee future benefits	**42**	47
Other regulatory liabilities [(1)]	**207**	178
Total regulatory liabilities	**3,577**	3,446
Less: current portion	**(587)**	(490)
Long-term regulatory liabilities	**2,990**	2,956

[(1)] Includes a $29 million provision reflecting income tax savings, as a result of U.S. tax reform.

8. LONG-TERM DEBT

	As at	
($ millions)	**June 30, 2018**	December 31, 2017
Long-term debt	**21,696**	20,864
Credit facility borrowings	**1,051**	671
Total long-term debt	**22,747**	21,535
Less: Deferred financing costs and debt discounts	**(138)**	(139)
Less: Current installments of long-term debt	**(1,037)**	(705)
	21,572	20,691

In March 2018 ITC issued 35-year US$225 million first mortgage bonds at 4.00%. The net proceeds were used to repay maturing long-term debt, repay credit facility borrowings, finance capital expenditures and for general corporate purposes.

In February 2018 FortisTCI issued 5-year US$25 million unsecured notes at a floating interest rate of a one-month LIBOR plus a spread of 1.75%. The net proceeds were used to repay a hurricane-related emergency standby loan.

In June 2018 Central Hudson issued 30-year US$25 million unsecured notes at 4.27%. The net proceeds were used for general corporate purposes.

Credit Facilities

As at June 30, 2018, the Corporation and its subsidiaries had consolidated credit facilities of approximately $5.1 billion, of which approximately $3.8 billion was unused, including $1.1 billion unused under the Corporation's committed revolving corporate credit facility. The credit facilities are syndicated mostly with large banks in Canada and the United States, with no one bank holding more than 20% of these facilities. Approximately $4.8 billion of the total credit facilities are committed facilities with maturities ranging from 2019 through 2023.

Credit facilities are summarized below.

			As at	
($ millions)	Regulated Utilities	Corporate and Other	**June 30, 2018**	December 31, 2017
Total credit facilities	3,706	1,385	**5,091**	4,952
Credit facilities utilized:				
Short-term borrowings [(1)]	(69)	—	**(69)**	(209)
Long-term debt (including current portion) [(2)]	(803)	(248)	**(1,051)**	(671)
Letters of credit outstanding	(69)	(59)	**(128)**	(129)
Credit facilities unutilized	2,765	1,078	**3,843**	3,943

(1) The weighted average interest rate was approximately 3.0% (December 31, 2017 - 1.8%).
(2) The current portion was $601 million (December 31, 2017 - $312 million). The weighted average interest rate was approximately 2.9% (December 31, 2017 - 2.5%).

Borrowings under long-term committed credit facilities were classified as long-term debt. It is management's intention to refinance these borrowings with long-term permanent financing during future periods. There were no material changes in credit facilities from that disclosed in the Corporation's 2017 annual audited consolidated financial statements.

9. 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.

	Defined Benefit Pension Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Quarter ended June 30				
Components of net benefit cost:				
Service costs	**20**	20	**7**	7
Interest costs	**28**	29	**6**	7
Expected return on plan assets	**(40)**	(38)	**(4)**	(4)
Amortization of actuarial losses	**12**	12	**—**	1
Amortization of past service credits/plan amendments	**—**	—	**(2)**	(3)
Regulatory adjustments	**—**	—	**2**	1
Net benefit cost	**20**	23	**9**	9
Year-to-date June 30				
Components of net benefit cost:				
Service costs	**41**	39	**15**	14
Interest costs	**56**	58	**12**	13
Expected return on plan assets	**(80)**	(76)	**(8)**	(7)
Amortization of actuarial losses	**24**	23	**—**	1
Amortization of past service credits/plan amendments	**—**	—	**(5)**	(6)
Regulatory adjustments	**—**	—	**3**	2
Net benefit cost	**41**	44	**17**	17

For the three and six months ended June 30, 2018, the Corporation expensed $9 million and $20 million, respectively, ($9 million and $20 million for the three and six months ended June 30, 2017, respectively) related to defined contribution pension plans.

10. OTHER INCOME, NET

Other income, net of expenses, includes the equity component of allowance for funds used during construction of $15 million and $30 million for the three and six months ended June 30, 2018, respectively ($19 million and $36 million for the three and six months ended June 30, 2017, respectively).

11. INCOME TAXES

For the three months ended June 30, 2018 and 2017, the Corporation's effective tax rates were 17% and 25%, respectively. For the six months ended June 30, 2018 and 2017, the Corporation's effective tax rates were 11% and 24%, respectively. The decrease in the effective tax rate was primarily driven by the reduction in the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018. On a year-to-date basis, the decrease was also due to a one-time $30 million remeasurement of the Corporation's deferred income tax liabilities, which resulted from an election to file a consolidated state income tax return.

12. EARNINGS PER COMMON SHARE

Earnings per common share ("EPS") is based on the weighted average number of common shares outstanding. Diluted EPS reflects the treasury stock method for options and the "if-converted" method for convertible securities.

	2018			2017		
	Net Earnings to Common Shareholders *($ millions)*	**Weighted Average Shares *(# millions)***	**EPS**	Net Earnings to Common Shareholders *($ millions)*	Weighted Average Shares *(# millions)*	EPS
Quarter Ended June 30						
Basic EPS	**240**	**423.8**	**$ 0.57**	257	416.8	$ 0.62
Potential dilutive effect of stock options	**—**	**0.5**		—	0.6	
Diluted EPS	**240**	**424.3**	**$ 0.57**	257	417.4	$ 0.62
Year-to-Date June 30						
Basic EPS	**563**	**422.9**	**$ 1.33**	551	411.5	$ 1.34
Potential dilutive effect of stock options	**—**	**0.5**		—	0.6	
Diluted EPS	**563**	**423.4**	**$ 1.33**	551	412.1	$ 1.34

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Quarter Ended June 30		Year-to-Date June 30	
($ millions)	**2018**	2017	**2018**	2017
Change in working capital:				
Accounts receivable and other current assets	**48**	19	**32**	6
Prepaid expenses	**17**	10	**20**	11
Inventories	**(19)**	(40)	**33**	11
Regulatory assets - current portion	**(33)**	10	**(23)**	(13)
Accounts payable and other current liabilities	**(58)**	(15)	**(165)**	(21)
Regulatory liabilities - current portion	**55**	(2)	**12**	(176)
	10	(18)	**(91)**	(182)
Non-cash investing and financing activities:				
Accrued capital expenditures	**294**	309	**294**	309
Gila River generating station Unit 2 capital lease	**217**	—	**217**	—
Common share dividends reinvested	**66**	63	**129**	125
Contributions in aid of construction	**13**	15	**13**	15
Exercise of stock options into common shares	**—**	3	**1**	4

14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Derivative Instruments

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

The Corporation records all derivative instruments 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 instruments 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 derivative instruments 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 parties.

FortisBC Energy holds gas supply contracts and financial commodity swaps 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.

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, 2018, unrealized losses of $89 million (December 31, 2017 - $87 million) were recognized as regulatory assets and unrealized gains of $6 million (December 31, 2017 - $2 million) were recognized as regulatory liabilities.

Energy Contracts Not Subject to Regulatory Deferral
UNS Energy holds wholesale trading contracts that qualify as derivative instruments 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, to capture natural gas price spreads, and to 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 earnings. During the three and six months ended June 30, 2018, unrealized losses of $15 million and $21 million, respectively, (three and six months ended June 30, 2017 - unrealized gains of $1 million and $8 million, respectively) were recognized in earnings.

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 2018 and 2019, and have a combined notional amount of $160 million. Fair value was measured using independent third-party information.

Unrealized gains and losses associated with changes in fair value are recognized in earnings. During the three and six months ended June 30, 2018, unrealized losses of $3 million and $7 million, respectively, (three and six months ended June 30, 2017 - nil) were recognized in earnings.

Interest rate and total return swaps
UNS Energy holds an interest rate swap to mitigate exposure to volatility in variable interest rates on capital lease obligations. The swap agreement expires in 2020 and has a notional amount of $16 million. Fair value was measured using an income valuation approach based on six month LIBOR rates.

Unrealized gains and losses associated with changes in the fair value of this interest rate swap, which was designated as cash flow hedge, are recognized in other comprehensive income and reclassified to earnings through interest expense over the life of the hedged debt. The loss expected to be reclassified to earnings within the next twelve months is estimated to be approximately $3 million, net of tax.

The Corporation holds three 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 $41 million and terms ranging from one to three years expiring in January 2019, 2020 and 2021. 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 earnings. During the three and six months ended June 30, 2018, unrealized losses of $1 million and $3 million, respectively, (three and six months ended June 30, 2017 - nil) were recognized in earnings.

Other investments
ITC and Central Hudson hold investments in trust associated with supplemental retirement benefit plans for selected 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 earnings. During the three and six months ended June 30, 2018, unrealized losses of less than $1 million (three and six months ended June 30, 2017 - unrealized gains of less than $1 million) were recognized in earnings.

Recurring Fair Value Measures

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

($ millions)	Level 1 [(1)]	Level 2 [(1)]	Level 3 [(1)]	Total
As at June 30, 2018				
Assets				
Energy contracts subject to regulatory deferral [(2)] [(3)]	**—**	**23**	**6**	**29**
Energy contracts not subject to regulatory deferral [(2)]	**—**	**11**	**7**	**18**
Other investments [(4)]	**86**	**—**	**—**	**86**
	86	**34**	**13**	**133**
Liabilities				
Energy contracts subject to regulatory deferral [(3)] [(5)]	**—**	**(109)**	**(3)**	**(112)**
Energy contracts not subject to regulatory deferral [(5)]	**—**	**(5)**	**(1)**	**(6)**
Foreign exchange contracts, interest rate and total return swaps [(6)]	**(6)**	**(1)**	**—**	**(7)**
	(6)	**(115)**	**(4)**	**(125)**
As at December 31, 2017				
Assets				
Energy contracts subject to regulatory deferral [(2)] [(3)]	—	19	2	21
Energy contracts not subject to regulatory deferral [(2)]	—	26	4	30
Foreign exchange contracts [(6)]	3	—	—	3
Other investments [(4)]	78	—	—	78
	81	45	6	132
Liabilities				
Energy contracts subject to regulatory deferral [(3)] [(5)]	(1)	(103)	(2)	(106)
Energy contracts not subject to regulatory deferral [(5)]	—	—	(1)	(1)
Interest rate and total return swaps [(6)]	—	(1)	—	(1)
	(1)	(104)	(3)	(108)

(1) 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.
(2) Included in "accounts receivable and other current assets" or "other assets".
(3) 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.
(4) Included in "other assets".
(5) Included in "accounts payable and other current liabilities" or "other liabilities".
(6) Included in "accounts receivable and other current assets", "accounts payable and other current liabilities" or "other liabilities".

Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one hierarchical fair value to another. There were no transfers between levels 2 and 3 during the six months ended June 30, 2018.

For Level 3 measurements, changes in the unobservable inputs could have a significant impact on fair value. Excluding long-term wholesale trading contracts and certain gas swap contracts, impacts of fair value changes are subject to regulatory recovery. The following table reconciles changes in the fair value of Level 3 net assets and liabilities.

	Quarter Ended June 30		Year-to-Date June 30	
($ millions)	**2018**	2017	**2018**	2017
Balance, beginning of period	**2**	(9)	**3**	2
Realized losses	**—**	(5)	**—**	(11)
Unrealized gains (losses)	**8**	7	**8**	(3)
Settlements	**(1)**	3	**(2)**	8
Balance, end of period	**9**	(4)	**9**	(4)

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.

($ millions)	**Gross Amount Recognized in Balance Sheet**	**Counterparty Netting of Energy Contracts**	**Cash Collateral Received / Posted**	**Net Amount**
As at June 30, 2018				
Energy contracts				
Derivative assets	**47**	**19**	**6**	**22**
Derivative liabilities	**(118)**	**(19)**	**—**	**(99)**
As at December 31, 2017				
Energy contracts				
Derivative assets	51	17	7	27
Derivative liabilities	(107)	(17)	—	(90)

Volume of Derivative Activity

As at June 30, 2018, the Corporation had a variety of 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, 2018	December 31, 2017
Energy contracts subject to regulatory deferral [(1)]		
Electricity swap contracts *(GWh)*	**1,100**	1,291
Electricity power purchase contracts *(GWh)*	**961**	761
Gas swap contracts *(PJ)*	**242**	216
Gas supply contract premiums *(PJ)*	**225**	219
Energy contracts not subject to regulatory deferral [(1)]		
Wholesale trading contracts *(GWh)*	**2,849**	2,387
Gas swap contracts *(PJ)*	**32**	36

[(1)] 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. Various policies are in place to minimize credit risk, which include requiring deposits, prepayments and/or credit checks for certain customers and performing disconnections and/or using third-party collection agencies for overdue accounts.

ITC has a concentration of credit risk as approximately 67% 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.

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 derivative instruments. 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 derivative instruments 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 $147 million as of June 30, 2018 (December 31, 2017 - $57 million).

Foreign Exchange Hedge

The reporting currency of ITC, UNS Energy, Central Hudson, Caribbean Utilities, FortisTCI and BECOL 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, 2018, US$3,413 million (December 31, 2017 - US$3,385 million) of net investment in foreign subsidiaries was hedged by the Corporation's corporately issued US dollar-denominated long-term debt and approximately US$7,733 million (December 31, 2017 - US$7,548 million) was unhedged. Exchange rate fluctuations associated with the hedged net investment in foreign subsidiaries and the noted debt are recorded on the consolidated balance sheet in accumulated other comprehensive income.

Financial Instruments Not Carried At Fair Value

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

As at June 30, 2018, the carrying value of long-term debt, including current portion, was $22,747 million (December 31, 2017 - $21,535 million) compared to an estimated fair value of $24,055 million (December 31, 2017 - $23,481 million).

The fair value of long-term debt is calculated using quoted market prices or, when unavailable, by either: (i) discounting the future cash flows of the specific debt instrument 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 of the same remaining maturities, considered Level 2 inputs. 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.

15. COMMITMENTS AND CONTINGENCIES

Commitments
There were no material changes in commitments from that disclosed in the Corporation's 2017 annual audited consolidated financial statements, except as follows.

In March 2018 Maritime Electric extended its power purchase agreement with New Brunswick Power from March 2019 to February 2024, increasing the total commitment under this agreement by approximately $262 million as at June 30, 2018.

In May 2018, following the acquisition of Gila River generating station Units 1 and 2 by a third party with whom UNS Energy has a power purchase agreement, UNS Energy recorded an increase of US$165 million to capital lease obligations to reflect the anticipated exercising of UNS Energy's option to purchase Unit 2 in December 2019.

Contingencies
In April 2013 FortisBC Holdings Inc. ("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.

16. COMPARATIVE FIGURES

The Corporation revised a line item within the financing activities section of its statement of cash flows for the three and six months ended June 30, 2017 to correct an immaterial error in the presentation of credit facility borrowings. The error had no impact on the results of operations or financial position and no material impact to cash flows in previously issued financial statements. The correction resulted in $183 million and $245 million for the three and six months ended June 30, 2017, respectively, previously reported within Net Repayments/Borrowings under Committed Credit Facilities, now being reported on a gross basis as Borrowings under Committed Credit Facilities of $324 million and $807 million, respectively, and Repayments under Committed Credit Facilities of $507 million and $1,052 million, respectively.

Effective January 1, 2018, the Corporation elected to present, on the statement of cash flows, borrowings and repayments under committed credit facilities on a gross basis and continue to present borrowings and repayments under uncommitted or demand facilities on a net basis as Net Change in Short-Term Borrowings. Comparative figures were reclassified to conform with the current presentation.

Comparative figures were reclassified to conform with the revised segmentation described in Note 5 and to reflect the retrospective adoption of ASU 2017-07 as described in Note 3.

Expected Dividend* and Earnings Release Dates

Earnings Release Dates

November 2, 2018	February 14, 2019
April 30, 2019	July 30, 2019

Dividend Record Dates

August 21, 2018	November 20, 2018
February 15, 2019	May 21, 2019

Dividend Payment Dates

September 1, 2018	December 1, 2018
March 1, 2019	June 1, 2019

** The setting of dividend record dates and the declaration and payment of dividends are subject to the Board of Directors' approval.*

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Share Listings

The Common Shares; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series I; First Preference Shares, Series J; First Preference Shares, Series K; and First Preference Shares, Series M of Fortis are listed on the Toronto Stock Exchange under the ticker symbols FTS, FTS.PR.F, FTS.PR.G, FTS.PR.H, FTS.PR.I, FTS.PR.J, FTS.PR.K and FTS.PR.M, respectively. The Common Shares are also listed on the New York Stock Exchange and trade under the ticker symbol FTS.

Fortis Common Shares (CDN$) Quarter Ended June 30		
	2018	**2017**
High	**43.83**	**47.06**
Low	**40.21**	**43.12**
Close	**42.02**	**45.58**

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