

Second Quarter
2014



Dear Shareholder:

Fortis achieved second quarter net earnings attributable to common equity shareholders of \$47 million, or \$0.22 per common share, compared to \$54 million, or \$0.28 per common share, for the second quarter of 2013. For the first half of 2014, net earnings attributable to common equity shareholders were \$190 million, or \$0.89 per common share, compared to \$205 million, or \$1.06 per common share, for the first half of 2013.

Earnings for the second quarter were impacted by a number of significant items. Interest expense of \$13 million after tax, or \$0.06 per common share, associated with convertible debentures issued to finance a portion of the pending acquisition of UNS Energy

Corporation (“UNS Energy”) was recognized in the second quarter of 2014. Earnings for the second quarter of 2013 were reduced by \$32 million, or \$0.17 per common share, due to acquisition-related expenses and customer and community benefits offered to obtain regulatory approval of the acquisition of Central Hudson Gas & Electric Corporation (“Central Hudson”), compared to \$1 million in acquisition-related expenses associated with UNS Energy in the second quarter of 2014. Earnings for the second quarter of 2013 were favourably impacted by an income tax recovery of \$25 million, or \$0.13 per common share, due to the enactment of higher deductions associated with Part VI.1 tax on the Corporation’s preference share dividends. This income tax recovery impacted earnings at Newfoundland Power, Maritime Electric and the Corporate and Other segment in the second quarter of 2013.

Excluding the above-noted impacts of interest expense on the convertible debentures, acquisition-related expenses and Part VI.1 tax impacts, net earnings attributable to common equity shareholders for the second quarter of 2014 were \$61 million, or \$0.28 per common share, compared to \$61 million, or \$0.32 per common share, for the same period last year. Earnings per common share were impacted by an increase in the weighted average number of common shares outstanding, largely due to the issuance of 18.5 million common shares in June 2013 associated with the acquisition of Central Hudson.

Fortis announced in December 2013 that it agreed to acquire UNS Energy for US\$60.25 per common share in cash, representing an aggregate purchase price of approximately US\$4.3 billion, including the assumption of approximately US\$1.8 billion of debt on closing. UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona, serving approximately 657,000 electricity and gas customers. The closing of the acquisition remains subject to approval by the Arizona Corporation Commission (“ACC”) and the satisfaction of customary closing conditions. In March 2014 UNS Energy common shareholders approved the acquisition of UNS Energy by Fortis and in April 2014 the U.S. Federal Energy Regulatory Commission approved the transaction. The transaction review by the Committee on Foreign Investment in the United States was completed in May 2014 and in June 2014 early termination of the waiting period under the Hart-Scott-Rodino Act was received.

The approval process for the UNS Energy acquisition is progressing well. In May 2014 the Corporation, UNS Energy, ACC Staff, the Residential Utility Consumer Office and other parties entered into a settlement agreement in which the parties agree that the merger is in the public interest and recommend approval by the ACC, subject to certain conditions. The settlement agreement is subject to review and approval by the ACC, which could approve, reject or require modifications to the settlement agreement as a condition of approval of



Stan Marshall
CEO, Fortis Inc.



Barry Perry
President, Fortis Inc.

the merger. In June 2014 a hearing was held before an ACC Administrative Law Judge (“ALJ”). On July 29, 2014, the ALJ issued an opinion and order recommending approval of the acquisition, as conditioned by the settlement agreement. Consideration of this recommended order has tentatively been scheduled for the ACC’s open meeting to be held on August 12-13, 2014. The recommended order will be considered by the ACC in determining whether to approve the acquisition. If the transaction is approved by the ACC at this meeting, the acquisition is expected to close by the end of August 2014.

The acquisition of UNS Energy will enhance the geographic diversification of the Corporation’s regulated assets, resulting in no more than one-third of total assets being located in any one regulatory jurisdiction. When we close the acquisition, total assets of Fortis will increase by approximately one-third to approach \$25 billion.

To finance a portion of the UNS Energy acquisition, Fortis completed the sale of \$1.8 billion 4% convertible unsecured subordinated debentures represented by installment receipts. Proceeds from the first installment of approximately \$599 million were received in January 2014. The final installment is payable on a date to be fixed not less than 15 days nor more than 90 days following satisfaction of conditions precedent to the closing of the acquisition of UNS Energy. In March 2014 the Corporation secured, as bridge financing for the pending acquisition of UNS Energy, an aggregate of \$2 billion non-revolving term credit facilities from a syndicate of banks.

Corporate and Other expenses were \$16 million higher quarter over quarter, excluding the impacts of interest expense on the convertible debentures, acquisition-related expenses and approximately \$8 million associated with Part VI.1 tax. The increase was primarily due to a \$4 million foreign exchange loss in the second quarter of 2014 compared to a \$3 million foreign exchange gain in the same quarter last year and the impact of the release of income tax provisions of \$5 million in the second quarter of 2013. The remaining increase was largely due to finance charges associated with the acquisition of Central Hudson and higher operating expenses, partially offset by a higher income tax recovery and interest income. The increase in operating expenses was mainly due to approximately \$3 million after tax of retirement expenses recognized in the second quarter of 2014.

The Corporation’s regulated utilities contributed earnings of \$76 million compared to \$78 million for the second quarter of 2013. Earnings in the second quarter of 2013 were favourably impacted by income tax recoveries of \$13 million at Newfoundland Power and \$4 million at Maritime Electric associated with Part VI.1 tax. Earnings in the second quarter of 2013 were reduced by the cumulative impact of the first stage of the Generic Cost of Capital (“GCOC”) Proceeding in British Columbia, which reduced the allowed rate of return on common shareholders’ equity (“ROE”) and common equity component of capital structure for the benchmark utility, FortisBC Energy Inc., effective January 1, 2013. The cumulative impact of this regulatory decision was recognized in the second quarter of 2013, when the decision was received. As a result, a reduction of earnings of approximately \$5 million at the FortisBC Energy companies and \$1 million at FortisBC Electric related to the first quarter of 2013 was recognized in the second quarter of 2013. Excluding the impacts of Part VI.1 tax and the GCOC Proceeding, earnings at the Corporation’s regulated utilities increased by \$9 million quarter over quarter. The increase was driven by earnings of \$7 million at Central Hudson, which was acquired in June 2013. Earnings at Caribbean Regulated Electric Utilities were \$2 million higher than the second quarter of 2013, driven by electricity sales growth.

In February 2014 the FortisBC Energy companies received regulatory approval for the amalgamation of their regulated utilities. The regulator approved the adoption of common rates for the majority of natural gas customers, to be phased in over a three-year period. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and is expected to be effective December 31, 2014. In March 2014 the regulatory decision on the second stage of the GCOC Proceeding in British Columbia was received. The decision resulted in increases in the common equity component of capital structures for FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. (“FEWI”), as well as an increase in the allowed ROE for FEWI. The outcome of the second stage of the GCOC Proceeding did not have a material impact on earnings for the first half of 2014.

Multi-year performance-based rate applications are progressing in British Columbia and a cost of capital proceeding is continuing in Alberta. In May 2014 FortisAlberta filed a combined capital tracker application for 2013 through 2015, which is an application for revenue increases related to its capital program. FortisAlberta continues to recognize capital tracker revenue based on the interim regulatory decision granting 60% of the applied for capital tracker amounts. A hearing on the combined capital tracker application is scheduled for October 2014 and a decision is expected in the first quarter of 2015. In July 2014 Central Hudson filed a general rate application to establish rates effective mid-2015.

Non-Regulated Fortis Generation contributed \$6 million to earnings, \$2 million higher quarter over quarter. Higher earnings were driven by increased production, mainly in Belize, due to higher rainfall.

Non-Utility operations contributed earnings of \$7 million compared to \$8 million for the second quarter of 2013. The decrease was primarily due to lower contribution from Fortis Properties' Hospitality Division.

In March 2014 Fortis priced a private placement of US\$500 million in senior unsecured notes. The notes will be issued in multiple tranches with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 5.03%. On June 30, 2014, Fortis issued US\$213 million of the senior unsecured notes with a weighted average term to maturity of approximately 9 years and a weighted average coupon rate of 3.51%. Net proceeds were used to repay US-dollar denominated borrowings on the Corporation's committed credit facility and for general corporate purposes. The remaining US\$287 million of the senior unsecured notes will be issued on September 15, 2014, subject to the satisfaction of customary closing conditions, and the net proceeds will be used to refinance existing indebtedness and for general corporate purposes.

Cash flow from operating activities was \$586 million for the first half of 2014, \$33 million higher than the same period last year. Higher cash earnings were partially offset by unfavourable changes in working capital.

Consolidated capital expenditures were approximately \$535 million for the first half of 2014. Construction of the \$900 million, 335-megawatt Waneta Expansion hydroelectric generating facility ("Waneta Expansion") in British Columbia continues on time and on budget, with completion of the facility expected in spring 2015. Approximately \$633 million has been invested in the Waneta Expansion since construction began in late 2010. FortisBC has begun preliminary work related to an expansion of its Tilbury liquefied natural gas ("LNG") facility in British Columbia. The Tilbury expansion is estimated to cost approximately \$400 million and will include a second LNG tank and a new liquefier, both to be in service in the second half of 2016.

The Corporation's capital program is expected to total \$1.4 billion in 2014. Over the five-year period 2014 through 2018, the Corporation's capital program is expected to exceed \$6.5 billion. Additionally, UNS Energy has forecast that its capital program for 2015 through 2018 will be approximately \$1.5 billion (US\$1.4 billion).

Our investment in energy infrastructure to serve our customers is expected to grow by an average annual rate of 7% over the next five years. Earnings contributions from the UNS Energy and Central Hudson acquisitions, combined with our capital program, including the completion of the Waneta Expansion in 2015 and the Tilbury LNG facility expansion in 2016, should support earnings per common share growth in 2015 and beyond.



H. Stanley Marshall
Chief Executive Officer
Fortis Inc.



Barry V. Perry
President
Fortis Inc.

Interim Management Discussion and Analysis

For the three and six months ended June 30, 2014

Dated August 1, 2014

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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 interim unaudited consolidated financial statements and notes thereto for the three and six months ended June 30, 2014 and the MD&A and audited consolidated financial statements for the year ended December 31, 2013 included in the Corporation’s 2013 Annual Report. Financial information contained in the MD&A has been prepared in accordance with accounting principles generally accepted in the United States (“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 securities laws in Canada (“forward-looking information”). The purpose of the forward-looking information is to provide management’s expectations regarding the Corporation’s future growth, results of operations, performance, business prospects and opportunities, and it may not be appropriate for other purposes. All forward-looking information is given pursuant to the safe harbour provisions of applicable Canadian securities legislation. The words “anticipates”, “believes”, “budgets”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “might”, “plans”, “projects”, “schedule”, “should”, “will”, “would” and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management’s current beliefs and is based on information currently available to the Corporation’s management. The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the expected timing of closing the acquisition of UNS Energy Corporation (“UNS Energy”) by Fortis and the expectation that the acquisition will be accretive to earnings per common share of Fortis in the first full year after closing, excluding one-time acquisition-related costs; the expected increase in the Corporation’s rate base at the time of closing the acquisition of UNS Energy; the expectation that the acquisition of UNS Energy will lessen the business risk of Fortis by enhancing the geographic diversification of the Corporation’s regulated assets; the Corporation’s forecast gross consolidated capital expenditures for 2014 and total capital spending over the five-year period 2014 through 2018; UNS Energy’s forecast capital program for 2015 through 2018; the financing costs the Corporation expects to incur in 2014 associated with the convertible debentures represented by Installment Receipts (the “Debentures”); the expected net proceeds from the final installment of the Debentures; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation’s significant capital expenditure program will support continuing growth in earnings and dividends; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation’s subsidiaries will be able to source the cash required to fund their 2014 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2014 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2014; and the expected timing of filing of regulatory applications and of receipt of regulatory decisions.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders, no material adverse regulatory decisions being received, and the expectation of regulatory stability; FortisAlberta's continued recovery of its cost of service and ability to earn its allowed rate of return on common shareholder's equity ("ROE") under performance-based rate-setting ("PBR"), which commenced for a five-year term effective January 1, 2013; the receipt of regulatory approval required to close the acquisition of UNS Energy; the receipt of the final installment of the Debentures; 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 gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun related to the construction of the Waneta Expansion hydroelectric generating facility; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that Belize Electric Company Limited will not be expropriated by the GOB; 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 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 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 and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; no material change in public policies and directions by governments that could materially negatively affect 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 ability to report under US GAAP beyond 2018 or the adoption of International Financial Reporting Standards after 2018 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by 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, the Corporation's MD&A for the year ended December 31, 2013 and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. Key risk factors for 2014 include, but are not limited to: uncertainty of the impact a continuation of a low interest rate environment may have on the allowed ROE at the Corporation's regulated utilities; uncertainty regarding the treatment of certain capital expenditures at FortisAlberta under the newly implemented PBR mechanism; risks relating to the ability to close the acquisition of UNS Energy, the timing of such closing and the realization of the anticipated benefits of the acquisition; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; and the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

Fortis is the largest investor-owned electric and gas distribution utility in Canada, with total assets of approximately \$18.6 billion and fiscal 2013 revenue exceeding \$4 billion. Its regulated utilities account for approximately 90% of total assets and serve approximately 2.5 million customers across Canada and in New York State and the Caribbean. Fortis owns non-regulated hydroelectric generation assets in Canada, Belize and Upstate New York. The Corporation's non-utility investment is comprised of hotels and commercial real estate in Canada.

Year-to-date June 30, 2014, the Corporation's electricity distribution systems met a combined peak demand of 6,305 megawatts ("MW") and its gas distribution system met a peak day demand of 1,462 terajoules. For additional information on the Corporation's business segments, refer to Note 1 to the Corporation's interim unaudited consolidated financial statements for the three and six months ended June 30, 2014 and to the "Corporate Overview" section of the 2013 Annual MD&A.

The Corporation's main business, utility operations, is highly regulated and the earnings of the Corporation's regulated utilities are primarily determined under cost of service ("COS") regulation. Generally, under COS regulation, the respective regulatory authority sets customer gas and/or electricity rates to permit a reasonable opportunity for the utility to recover, on a timely basis, estimated costs of providing service to customers, including a fair return on a regulatory deemed or targeted capital structure applied to an approved regulatory asset value ("rate base"). The ability of a regulated utility to recover prudently incurred costs of providing service and earn the regulator-approved rate of return on common shareholders' equity ("ROE") and/or rate of return on rate base assets ("ROA") depends on the utility achieving the forecasts established in the rate-setting processes. As such, earnings of regulated utilities are generally impacted by: (i) changes in the regulator-approved allowed ROE and/or ROA and common equity component of capital structure;

(ii) changes in rate base; (iii) changes in energy sales or gas delivery volumes; (iv) changes in the number and composition of customers; (v) variances between actual expenses incurred and forecast expenses used to determine revenue requirements and set customer rates; and (vi) timing differences within an annual financial reporting period between when actual expenses are incurred and when they are recovered from customers in rates. When forward test years are used to establish revenue requirements and set base customer rates, these rates are not adjusted as a result of actual COS being different from that which is estimated, other than for certain prescribed costs that are eligible to be deferred on the balance sheet. In addition, the Corporation's regulated utilities, where applicable, are permitted by their respective regulatory authority to flow through to customers, without markup, the cost of natural gas, fuel and/or purchased power through base customer rates and/or the use of rate stabilization and other mechanisms.

When performance-based rate-setting ("PBR") mechanisms are utilized in determining annual revenue requirements and resulting customer rates, a formula is generally applied that incorporates inflation and assumed productivity improvements. The use of PBR mechanisms should allow a utility a reasonable opportunity to recover prudent COS and earn its allowed ROE.

SIGNIFICANT ITEMS

Pending Acquisition of UNS Energy Corporation: In December 2013 Fortis entered into an agreement and plan of merger to acquire UNS Energy Corporation ("UNS Energy") (NYSE:UNS) for US\$60.25 per common share in cash, representing an aggregate purchase price of approximately US\$4.3 billion, including the assumption of approximately US\$1.8 billion of debt on closing. UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona, serving approximately 657,000 electricity and gas customers.

The closing of the acquisition remains subject to approval by the Arizona Corporation Commission ("ACC") and the satisfaction of customary closing conditions. In March 2014 UNS Energy common shareholders approved the acquisition of UNS Energy by Fortis and in April 2014 the U.S. Federal Energy Regulatory Commission ("FERC") approved the transaction. The transaction review by the Committee on Foreign Investment in the United States was completed in May 2014 and in June 2014 early termination of the waiting period under the Hart-Scott-Rodino Act was received.

In May 2014 the Corporation, UNS Energy, ACC Staff, the Residential Utility Consumer Office and other parties entered into a settlement agreement in which the parties agree that the merger is in the public interest and recommend approval by the ACC, subject to certain conditions. The settlement agreement is subject to review and approval by the ACC, which could approve, reject or require modifications to the settlement agreement as a condition of approval of the merger. In June 2014 a hearing was held before an ACC Administrative Law Judge ("ALJ"). On July 29, 2014, the ALJ issued an opinion and order recommending approval of the acquisition, as conditioned by the settlement agreement. Consideration of this recommended order has tentatively been scheduled for the ACC's open meeting to be held on August 12-13, 2014. The recommended order will be considered by the ACC in determining whether to approve the acquisition. If the transaction is approved by the ACC at this meeting, the acquisition is expected to close by the end of August 2014.

The acquisition is consistent with the Corporation's strategy of investing in high-quality regulated utility assets in Canada and the United States and is expected to be accretive to earnings per common share of Fortis in the first full year after closing, excluding one-time acquisition-related costs. At the time of closing the acquisition, the Corporation's consolidated rate base is expected to increase by approximately US\$3 billion. The acquisition of UNS Energy will further mitigate business risk for Fortis by enhancing the geographic diversification of the Corporation's regulated assets, resulting in no more than one-third of total assets being located in any one regulatory jurisdiction.

In March 2014 the Corporation secured, as bridge financing for the pending acquisition of UNS Energy, an aggregate of \$2 billion non-revolving term credit facilities from a syndicate of banks. The non-revolving term credit facilities are comprised of a \$1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a \$300 million medium-term bridge facility, repayable in full on the second anniversary of its advance.

Convertible Debentures Represented by Installment Receipts: To finance a portion of the pending acquisition of UNS Energy, in January 2014, Fortis, through a direct wholly owned subsidiary, completed the sale of \$1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures, represented by Installment Receipts (the “Debentures”).

The offering of the Debentures consisted of a bought deal placement of \$1.594 billion aggregate principal amount of Debentures underwritten by a syndicate of underwriters and the sale of \$206 million aggregate principal amount of Debentures to certain institutional investors on a private placement basis (the “Offerings”).

The Debentures were sold on an installment basis at a price of \$1,000 per Debenture, of which \$333 was paid on closing of the Offerings and the remaining \$667 is payable on a date (“Final Installment Date”) to be fixed not less than 15 days nor more than 90 days following satisfaction of conditions precedent to the closing of the acquisition of UNS Energy. Prior to the Final Installment Date, the Debentures are represented by Installment Receipts. The Installment Receipts began trading on the Toronto Stock Exchange (“TSX”) on January 9, 2014 under the symbol “FTS.IR”. The Debentures will not be listed. The Debentures will mature on January 9, 2024 and bear interest at an annual rate of 4% per \$1,000 principal amount of Debentures until and including the Final Installment Date, after which the interest rate will be zero.

If the Final Installment Date occurs prior to the first anniversary of the closing of the Offerings, holders of Debentures who have paid the final installment will be entitled to receive, in addition to the payment of accrued and unpaid interest, an amount equal to the interest that would have accrued from the day following the Final Installment Date to, but excluding, the first anniversary of the closing of the Offerings had the Debentures remained outstanding until such date. Approximately \$18 million (\$13 million after tax) and \$34 million (\$24 million after tax) in interest expense associated with the Debentures was recognized in the second quarter and first half of 2014, respectively. A total of approximately \$72 million (\$51 million after tax) in interest expense associated with the Debentures is expected to be incurred in 2014.

At the option of the holders and provided that payment of the final installment has been made, each Debenture will be convertible into common shares of Fortis at any time after the Final Installment Date but prior to maturity or redemption by the Corporation at a conversion price of \$30.72 per common share, being a conversion rate of 32.5521 common shares per \$1,000 principal amount of Debentures.

The Debentures will not be redeemable, except that Fortis will redeem the Debentures at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the conditions necessary to approve the acquisition of UNS Energy will not be satisfied; (ii) termination of the acquisition agreement; and (iii) July 2, 2015, if notice of the Final Installment Date has not been given to holders on or before June 30, 2015. In addition, after the Final Installment Date, any Debentures not converted may be redeemed by Fortis at a price equal to their principal amount plus unpaid interest accrued prior to the Final Installment Date. Under the terms of the Installment Receipt Agreement, Fortis agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Installment Date has occurred, the Corporation will at all times maintain availability under its committed revolving corporate credit facility of not less than \$600 million to cover the principal amount of the first installment of the Debentures in the event of a mandatory redemption.

At maturity, Fortis will have the right to pay the principal amount due in common shares, which will be valued at 95% of the weighted average trading price on the TSX for the 20 consecutive trading days ending five trading days preceding the maturity date.

The proceeds of the first installment of the Offerings were approximately \$599 million, or \$561 million net of issue costs. A significant portion of the net proceeds is cash on hand, while a portion was used to repay borrowings under the Corporation’s existing revolving credit facility and for other general corporate purposes, including intercompany loan advances to subsidiaries. The net proceeds of the final installment payment of the Offerings are expected to be, in aggregate, approximately \$1.165 billion.

Private Placement of US Notes: In March 2014 Fortis priced a private placement to US-based institutional investors of US\$500 million in senior unsecured notes. The notes will be issued in multiple tranches with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 5.03%. The weighted average term to maturity is approximately 11 years and the weighted average coupon rate is 3.85%.

On June 30, 2014, Fortis issued US\$213 million of the senior unsecured notes with a weighted average term to maturity of approximately 9 years and a weighted average coupon rate of 3.51%. Net proceeds were used to repay US-dollar denominated borrowings on the Corporation's committed credit facility and for general corporate purposes.

The remaining US\$287 million of the senior unsecured notes will be issued on September 15, 2014, subject to the satisfaction of customary closing conditions. Net proceeds will be used to refinance existing indebtedness, including the US\$150 million 5.74% senior unsecured notes of Fortis maturing on October 30, 2014 and \$125 million 5.56% unsecured debentures of a subsidiary maturing on September 15, 2014, and for general corporate purposes.

Sale of Griffith: In March 2014 Griffith Energy Services, Inc. ("Griffith") was sold for proceeds of approximately \$105 million (US\$95 million). The results of operations have been presented as discontinued operations on the consolidated statements of earnings for the six months ended June 30, 2014. Earnings for the first quarter of 2014 included \$5 million associated with Griffith from normal operations to the date of sale.

FINANCIAL HIGHLIGHTS

Fortis has adopted a strategy of profitable growth with earnings per common share and total shareholder return as the primary measures of performance. The Corporation's business is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. Key financial highlights for the second quarter and year-to-date periods ended June 30, 2014 and 2013 are provided in the following table.

Consolidated Financial Highlights (Unaudited)						
Periods Ended June 30	Quarter			Year-to-Date		
<i>(\$ millions, except for common share data)</i>	2014	2013	Variance	2014	2013	Variance
Revenue	1,056	790	266	2,511	1,903	608
Energy Supply Costs	403	282	121	1,082	787	295
Operating Expenses	307	206	101	626	427	199
Depreciation and Amortization	149	130	19	297	259	38
Other Income (Expenses), Net	(1)	(44)	43	6	(38)	44
Finance Charges	124	92	32	247	181	66
Income Tax Expense (Recovery)	9	(34)	43	48	(4)	52
Earnings from Continuing Operations	63	70	(7)	217	215	2
Earnings from Discontinued Operations, Net of Tax	-	-	-	5	-	5
Earnings Before Extraordinary Item	63	70	(7)	222	215	7
Extraordinary Gain, Net of Tax	-	-	-	-	22	(22)
Net Earnings	63	70	(7)	222	237	(15)
Net Earnings Attributable to:						
Non-Controlling Interests	3	2	1	5	4	1
Preference Equity Shareholders	13	14	(1)	27	28	(1)
Common Equity Shareholders	47	54	(7)	190	205	(15)
Net Earnings	63	70	(7)	222	237	(15)
Earnings per Common Share from Continuing Operations						
Basic (\$)	0.22	0.28	(0.06)	0.87	0.95	(0.08)
Diluted (\$)	0.22	0.28	(0.06)	0.86	0.94	(0.08)
Earnings per Common Share						
Basic (\$)	0.22	0.28	(0.06)	0.89	1.06	(0.17)
Diluted (\$)	0.22	0.28	(0.06)	0.88	1.05	(0.17)
Weighted Average Common Shares Outstanding (# millions)	214.8	193.4	21.4	214.2	192.7	21.5
Cash Flow from Operating Activities	321	270	51	586	553	33

Revenue

The increase in revenue for the quarter and year to date was driven by the acquisition of Central Hudson Gas & Electric Corporation (“Central Hudson”) in June 2013. Higher electricity sales and gas volumes, an increase in the base component of rates at most of the regulated utilities, an increase in the commodity cost of natural gas charged to customers at the FortisBC Energy companies, and favourable foreign exchange associated with the translation of US dollar-denominated revenue also contributed to the increase in revenue.

Energy Supply Costs

The increase in energy supply costs for the quarter and year to date was primarily due to the acquisition of Central Hudson and a higher commodity cost of natural gas at the FortisBC Energy companies. Higher electricity sales and gas volumes also contributed to the increase in fuel, power and natural gas purchases.

Operating Expenses

The increase in operating expenses for the quarter and year to date was primarily due to the acquisition of Central Hudson and general inflationary and employee-related cost increases.

Depreciation and Amortization

The increase in depreciation and amortization for the quarter and year to date was primarily due to the acquisition of Central Hudson and continued investment in energy infrastructure at the Corporation’s regulated utilities.

Other Income (Expenses), Net

The increase in other income, net of expenses, for the quarter and year to date was mainly due to lower acquisition-related expenses. Approximately \$41 million (US\$40 million), or \$26 million (US\$26 million) after tax, of expenses associated with customer and community benefits offered by the Corporation to close the acquisition of CH Energy Group, Inc. (“CH Energy Group”) were recognized in the second quarter of 2013, as well as an additional \$8 million (\$6 million after tax) in costs related to that acquisition. In comparison, expenses related to the pending acquisition of UNS Energy in 2014 were approximately \$2 million (\$1 million after tax) for the second quarter and \$4 million (\$3 million after tax) year to date. Higher interest income also contributed to the increase in other income period over period. The increase was partially offset by unfavourable foreign exchange on the translation into Canadian dollars of the Corporation’s US dollar-denominated long-term other asset representing the book value of the Corporation’s expropriated investment in Belize Electricity. The Corporation recognized a foreign exchange loss of approximately \$4 million for the second quarter, with no net foreign exchange impact year-to-date 2014, compared to foreign exchange gains of approximately \$3 million and \$5 million for the second quarter and year-to-date 2013, respectively.

Finance Charges

The increase in finance charges for the quarter and year to date was primarily due to approximately \$18 million (\$13 million after tax) and \$34 million (\$24 million after tax) in interest expense associated with convertible debentures issued to finance a portion of the pending acquisition of UNS Energy, and the acquisition of Central Hudson, including interest expense on debt issued to complete the financing of the acquisition.

Income Tax Expense (Recovery)

The increase in income tax expense for the quarter and year to date was primarily due to an income tax recovery of \$25 million in the second quarter of 2013, due to the enactment of higher deductions associated with Part VI.1 tax, and the release of income tax provisions of \$5 million in the second quarter of 2013. The remaining increase in income tax expense for the quarter and year to date compared to the same periods last year was mainly due to an increase in earnings before income taxes.

Earnings from Discontinued Operations, Net of Tax

Approximately \$5 million in earnings from discontinued operations, net of tax, was recognized in the first quarter of 2014 associated with Griffith, which was sold in March 2014, from normal operations to the date of sale.

Extraordinary Gain, Net of Tax

An approximate \$22 million after-tax extraordinary gain was recognized in the first quarter of 2013 on the settlement of expropriation matters associated with the Exploits River Hydro Partnership (“Exploits Partnership”).

Net Earnings Attributable to Common Equity Shareholders

Earnings were impacted by a number of significant items. Earnings for the quarter and year to date were reduced by \$13 million and \$24 million, respectively, in after-tax interest expense associated with the convertible debentures. Earnings for the second quarter and year-to-date 2013 were reduced by \$32 million, due to acquisition-related expenses and customer and community benefits offered to obtain regulatory approval of the acquisition of Central Hudson, compared to \$1 million and \$3 million in acquisition-related expenses associated with UNS Energy in the second quarter and year-to-date 2014, respectively. Earnings for the second quarter of 2013 were favourably impacted by an income tax recovery of \$25 million, due to the enactment of higher deductions associated with Part VI.1 tax on the Corporation’s preference share dividends. Earnings year-to-date 2014 included \$5 million from discontinued operations associated with Griffith, while earnings for the same period last year included an approximate \$22 million extraordinary gain associated with the Exploits Partnership.

Excluding the above-noted impacts of interest expense on the convertible debentures, acquisition-related expenses and Part VI.1 tax impacts, net earnings attributable to common equity shareholders for the second quarter of 2014 were \$61 million, consistent with the same period last year. Corporate and Other expenses were higher quarter over quarter, reflecting a \$4 million foreign exchange loss in the second quarter of 2014 compared to a \$3 million foreign exchange gain in the same quarter last year and the impact of the release of income tax provisions of \$5 million in the second quarter of 2013. The remaining increase was largely due to finance charges associated with the acquisition of Central Hudson and higher operating expenses, partially offset by a higher income tax recovery and interest income. The increase in operating expenses was mainly due to approximately \$3 million after tax of retirement expenses recognized in the second quarter of 2014.

The decrease was partially offset by earnings contribution from Central Hudson, which was acquired in June 2013, and the timing of the recognition of the regulatory decision on the first stage of the Generic Cost of Capital (“GCOC”) Proceeding in British Columbia at the FortisBC Energy companies and FortisBC Electric in 2013. The first stage of the GCOC Proceeding reduced the allowed ROE and common equity component of capital structure for the benchmark utility, FortisBC Energy Inc. (“FEI”), effective January 1, 2013. The cumulative impact of this regulatory decision was recognized in the second quarter of 2013, when the decision was received. As a result, a reduction of earnings of approximately \$5 million at the FortisBC Energy companies and \$1 million at FortisBC Electric related to the first quarter of 2013 was recognized in the second quarter of 2013. Earnings at Caribbean Regulated Utilities were \$2 million higher than the second quarter of 2013, driven by electricity sales growth. Higher earnings at Non-Regulated Fortis Generation were driven by increased production, mainly in Belize, due to higher rainfall.

Excluding the above-noted impacts of Griffith, interest expense on the convertible debentures, the Exploits Partnership, acquisition-related expenses and Part VI.1 tax impacts, net earnings attributable to common equity shareholders year to date were \$212 million compared to \$190 million for the same period last year. The increase was mainly due to the same reasons discussed above for the quarter; however, the timing of the recognition of the GCOC Proceeding in British Columbia did not have an impact on earnings on a year-to-date basis. In addition, Newfoundland Power’s earnings were \$3 million higher year to date, due to electricity sales growth and the rebasing of customer electricity rates, effective July 1, 2013. The increase was partially offset by higher Corporate and Other expenses. The increase in Corporate and Other expenses on a year-to-date basis was primarily due to the same reasons discussed above for the quarter.

SEGMENTED RESULTS OF OPERATIONS

Segmented Net Earnings Attributable to Common Equity Shareholders (Unaudited)						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions)	2014	2013	Variance	2014	2013	Variance
Regulated Gas Utilities - Canadian FortisBC Energy Companies	12	6	6	91	91	-
Regulated Gas & Electric Utility - United States Central Hudson	7	-	7	25	-	25
Regulated Electric Utilities - Canadian						
FortisAlberta	26	25	1	51	51	-
FortisBC Electric	7	8	(1)	25	26	(1)
Newfoundland Power	11	24	(13)	21	31	(10)
Other Canadian Electric Utilities	5	9	(4)	12	15	(3)
	49	66	(17)	109	123	(14)
Regulated Electric Utilities - Caribbean	8	6	2	13	9	4
Non-Regulated - Fortis Generation	6	4	2	12	27	(15)
Non-Regulated - Non-Utility	7	8	(1)	12	9	3
Corporate and Other	(42)	(36)	(6)	(72)	(54)	(18)
Net Earnings Attributable to Common Equity Shareholders	47	54	(7)	190	205	(15)

The following is a discussion of the financial results of the Corporation's reporting segments. A discussion of the nature of regulation and material regulatory decisions and applications pertaining to the Corporation's regulated utilities is provided in the "Regulatory Highlights" section of this MD&A.

REGULATED GAS UTILITIES - CANADIAN

FORTISBC ENERGY COMPANIES ⁽¹⁾

Financial Highlights (Unaudited)		Quarter			Year-to-Date		
Periods Ended June 30	2014	2013	Variance	2014	2013	Variance	
Gas Volumes (<i>petajoules ("PJ")</i>)	36	36	-	111	107	4	
Revenue (<i>\$ millions</i>)	282	246	36	795	738	57	
Earnings (<i>\$ millions</i>)	12	6	6	91	91	-	

⁽¹⁾ Primarily includes FEI, FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.

Gas Volumes

Gas volumes for the quarter were consistent with the same period last year. The year-to-date increase in gas volumes was primarily due to higher average consumption by residential, commercial and transportation customers as a result of colder temperatures in the first quarter of 2014.

As at June 30, 2014, the total number of customers served by the FortisBC Energy companies was approximately 961,000, an increase of 5,000 customers from December 31, 2013.

The FortisBC Energy companies earn 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 commodity cost of natural gas from those forecast to set residential and commercial customer gas rates do not materially affect earnings.

Seasonality has a material impact on the earnings of the FortisBC Energy companies as a major portion of the gas distributed is used for space heating. Most of the annual earnings of the FortisBC Energy companies are realized in the first and fourth quarters.

Revenue

The increase in revenue for the quarter and year to date was primarily due to a higher commodity cost of natural gas charged to customers. Higher gas volumes also contributed to the increase in revenue year to date. Revenue for the quarter was also favourably impacted by the timing of the recognition of the regulatory decision on the first stage of the GCOC Proceeding in British Columbia. The first stage of the GCOC Proceeding reduced the allowed ROE and common equity component of capital structure for the benchmark utility, FEI, effective January 1, 2013. The cumulative impact of this regulatory decision was recognized the second quarter of 2013, when the decision was received.

In March 2014 the regulatory decision on the second stage of the GCOC Proceeding was received, resulting in an increase in the allowed ROE at FortisBC Energy (Whistler) Inc. ("FEWI") and an increase in the common equity component of capital structure at FortisBC Energy (Vancouver Island) Inc. ("FEVI") and FEWI, effective January 1, 2013. The cumulative impact of this regulatory decision was recognized in the first quarter of 2014, when the decision was received. For further details on the GCOC Proceeding, refer to the "Material Regulatory Decisions and Applications" section of this MD&A.

Earnings

The increase in earnings for the quarter was mainly due to the timing of the recognition of the cumulative impact of the first stage of the GCOC Proceeding. A reduction of earnings of approximately \$5 million related to the first quarter of 2013 was recognized in the second quarter of 2013.

Year-to-date earnings were consistent with the same period last year. The regulatory decision on the first stage of the GCOC Proceeding did not have an impact on earnings on a year-to-date basis. The cumulative impact of the regulatory decision on the second stage of the GCOC Proceeding was recognized in the first quarter of 2014 and did not have a material impact on earnings.

REGULATED GAS & ELECTRIC UTILITY - UNITED STATES

CENTRAL HUDSON ⁽¹⁾

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Average US:CDN Exchange Rate ⁽²⁾	1.09	1.02	0.07	1.10	1.01	0.09
Electricity Sales (<i>gigawatt hours ("GWh")</i>)	1,169	-	1,169	2,576	-	2,576
Gas Volumes (<i>PJ</i>)	5	-	5	15	-	15
Revenue (<i>\$ millions</i>)	190	-	190	462	-	462
Earnings (<i>\$ millions</i>)	7	-	7	25	-	25

⁽¹⁾ Financial results of Central Hudson are from June 27, 2013, the date of acquisition.

⁽²⁾ The reporting currency of Central Hudson is the US dollar.

Electricity Sales & Gas Volumes

Electricity sales for the quarter were 1,169 gigawatt hours ("GWh") compared to 1,195 GWh for the same period last year. The decrease in electricity sales was mainly due to lower sales at several large industrial customers and lower average consumption. Electricity sales for the first half of 2014 were 2,576 GWh compared to 2,530 GWh for the same period last year. The increase was primarily due to colder temperatures, mainly in the first quarter of 2014.

Gas volumes for the quarter and year to date were comparable with the same period last year.

Seasonality impacts delivery revenue at Central Hudson, as electricity sales are highest during the summer months, primarily due to the use of air conditioning and other cooling equipment, and gas volumes are highest during the winter months, primarily due to space-heating usage.

Revenue

Revenue for the quarter and year to date was US\$174 million and US\$420 million, respectively, compared to US\$153 million and US\$347 million, respectively, for the same periods last year. The increase in revenue for the quarter and year to date was primarily due to the recovery from customers of higher commodity purchases, which were driven by higher wholesale prices. The increase in electricity sales also had a favourable impact on revenue year-to-date 2014; however, the increase was largely offset by the impact of regulatory revenue decoupling mechanisms.

Earnings

Earnings for the quarter were US\$6 million compared to US\$8 million for the same period last year. The decrease in earnings was due to a number of items, including the impact of higher depreciation and expenses during the two-year rate freeze period post acquisition in June 2013. The decrease in electricity sales quarter over quarter did not impact earnings as a result of the operation of revenue decoupling mechanisms.

Earnings year to date of US\$23 million were consistent with the same period last year. The impact of US\$2 million in expenses recognized in the first quarter of 2013 as a result of a regulatory order denying the deferral of certain storm-restoration costs was largely offset by lower earnings in the second quarter of 2014, as discussed above.

REGULATED ELECTRIC UTILITIES - CANADIAN

FORTISALBERTA

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Energy Deliveries (GWh)	4,091	3,995	96	8,774	8,486	288
Revenue (\$ millions)	129	117	12	255	235	20
Earnings (\$ millions)	26	25	1	51	51	-

Energy Deliveries

The increase in energy deliveries for the quarter and year to date was driven by growth in the number of customers and higher average consumption by residential, commercial, and farm and irrigation customers, mainly due to colder temperatures. Lower levels of precipitation also contributed to the increase in energy deliveries for farm and irrigation customers. The total number of customers increased by approximately 9,000 year over year as at June 30, 2014, as a result of strong economic growth in the Province of Alberta.

As a significant portion of FortisAlberta's distribution revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries.

Revenue

The increase in revenue for the quarter and year to date was primarily due to an interim increase in customer distribution rates, effective January 1, 2014, growth in the number of customers and an increase in revenue related to flow-through costs to customers. The increase for the year-to-date period was partially offset by lower net transmission revenue. Approximately \$2 million was recognized in the first quarter of 2013 associated with the finalization of 2012 net transmission volume variances.

Earnings

The increase in earnings for the quarter was mainly due to rate base growth and growth in the number of customers, partially offset by the timing of certain operating expenses. Earnings year to date were consistent with the same period last year. The impact of rate base growth and growth in the number of customers was offset by lower net transmission revenue, as discussed above, and the timing of certain operating expenses.

Earnings associated with rate base growth continue to be tempered by the interim regulatory decision granting 60% of the revenue requirement associated with the capital tracker component of the PBR mechanism. For further details on FortisAlberta's Capital Tracker Application, refer to the "Material Regulatory Decisions and Applications" section of this MD&A.

FORTISBC ELECTRIC ⁽¹⁾

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Electricity Sales (GWh)	694	681	13	1,601	1,572	29
Revenue (\$ millions)	71	68	3	166	156	10
Earnings (\$ millions)	7	8	(1)	25	26	(1)

⁽¹⁾ Includes the regulated operations of FortisBC Inc. and operating, maintenance and management services related to the Waneta, Brilliant and Arrow Lakes hydroelectric generating plants. Excludes the non-regulated generation operations of FortisBC Inc.'s wholly owned Walden Power Partnership.

Electricity Sales

The increase in electricity sales for the quarter and year to date was driven by customer growth. Higher average consumption as a result of colder temperatures in the first quarter of 2014 also had a favourable impact on year-to-date electricity sales.

Revenue

The increase in revenue for the quarter and year to date was driven by an interim refundable increase in base electricity rates, effective January 1, 2014, and electricity sales growth.

Earnings

The decrease in earnings for the quarter was primarily due to the timing of operating and maintenance expenses and the impact of lower-than-expected finance charges in 2013, which were not subject to regulatory deferral mechanisms. The decrease was partially offset by the timing of the recognition of the regulatory decision on the first stage of the GCOC Proceeding in British Columbia in 2013. The cumulative impact of the regulatory decision was recognized in the second quarter of 2013, when the decision was received, of which approximately \$1 million related to the first quarter of 2013. The timing of recognition of regulatory deferrals also had a favourable impact on earnings quarter over quarter.

The decrease in earnings year to date was due to the same factors discussed above for the quarter; however, the timing of the recognition of the first stage of the GCOC Proceeding did not have an impact on earnings on a year-to-date basis. For further details on the GCOC Proceeding, refer to the "Material Regulatory Decisions and Applications" section of this MD&A.

NEWFOUNDLAND POWER

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Electricity Sales (GWh)	1,346	1,288	58	3,346	3,230	116
Revenue (\$ millions)	145	132	13	354	329	25
Earnings (\$ millions)	11	24	(13)	21	31	(10)

Electricity Sales

The increase in electricity sales for the quarter and year to date was primarily due to higher average consumption and customer growth. Higher average consumption was driven by colder temperatures in 2014, an increase in commercial activity and an increase in electric space heating.

Revenue

The increase in revenue for the quarter and year to date was primarily due to electricity sales growth and an increase in base electricity rates, effective July 1, 2013, as reflected in the 2013/2014 General Rate Application ("GRA") decision received in April 2013. As part of the GRA, customer electricity rates were rebased, allowing revenue recognition to more closely reflect the seasonality of electricity sales.

Earnings

The decrease in earnings for the quarter was mainly due to an approximate \$13 million income tax recovery in the second quarter of 2013, due to the enactment of higher deductions associated with Part VI.1 tax. The impact of electricity sales growth was offset by higher operating expenses, depreciation and finance charges.

The decrease in earnings year to date was mainly due to the \$13 million income tax recovery in the second quarter of 2013, as discussed above. Excluding the \$13 million tax recovery, earnings increased by \$3 million year to date compared to the same period last year. The increase in earnings was mainly due to electricity sales growth and the rebasing of customer electricity rates, effective July 1, 2013, as discussed above. As a result, earnings were higher in the first quarter of 2014 and are expected to be lower in the third quarter of 2014. The increase was partially offset by higher operating expenses, primarily associated with restoration efforts following the loss of energy supply from Newfoundland and Labrador Hydro and related power interruptions in January 2014, and higher depreciation and finance charges.

OTHER CANADIAN ELECTRIC UTILITIES ⁽¹⁾

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Electricity Sales (GWh)	582	558	24	1,298	1,229	69
Revenue (\$ millions)	87	87	-	190	183	7
Earnings (\$ millions)	5	9	(4)	12	15	(3)

⁽¹⁾ Comprised of Maritime Electric and FortisOntario. FortisOntario mainly includes Canadian Niagara Power, Cornwall Electric and Algoma Power.

Electricity Sales

The increase in electricity sales for the quarter and year to date was driven by higher average consumption by residential and commercial customers in Ontario and Prince Edward Island ("PEI"), due to colder temperatures. An increase in the number of customers using electricity for home heating on PEI also had a favourable impact on electricity sales for both periods.

Revenue

Revenue for the quarter was favourably impacted by electricity sales growth and an increase in the base component of customer rates at Maritime Electric, effective March 1, 2014. The increase was largely offset by the flow through in customer electricity rates of lower energy supply costs at FortisOntario, and a higher regulatory rate of return adjustment at Maritime Electric in the second quarter of 2014 compared to the same period last year.

The increase in revenue year to date was primarily due to electricity sales growth and an increase in the base component of customer rates at Maritime Electric, as discussed above. The increase was partially offset by a higher regulatory rate of return adjustment at Maritime Electric in the first half of 2014 compared to the same period last year.

Earnings

The decrease in earnings for the quarter and year to date was mainly due to an approximate \$4 million income tax recovery at Maritime Electric in the second quarter of 2013, due to the enactment of higher deductions associated with Part VI.1 tax, and a higher regulatory rate of return adjustment at Maritime Electric. The decrease was partially offset by higher earnings at FortisOntario due to electricity sales growth, the timing of depreciation and lower income taxes.

REGULATED ELECTRIC UTILITIES - CARIBBEAN ⁽¹⁾

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Average US:CDN Exchange Rate ⁽²⁾	1.09	1.02	0.07	1.10	1.01	0.09
Electricity Sales (GWh)	197	193	4	377	363	14
Revenue (\$ millions)	78	70	8	152	136	16
Earnings (\$ millions)	8	6	2	13	9	4

⁽¹⁾ Comprised of Caribbean Utilities on Grand Cayman, Cayman Islands, in which Fortis holds an approximate 60% controlling interest and two wholly owned utilities in the Turks and Caicos Islands, FortisTCL Limited ("FortisTCL") and Turks and Caicos Utilities Limited ("TCU") (collectively "Fortis Turks and Caicos")

⁽²⁾ The reporting currency of Caribbean Utilities and Fortis Turks and Caicos is the US dollar.

Electricity Sales

The increase in electricity sales for the quarter and year to date was primarily due to growth in the number of customers and increases in tourism on the Turks and Caicos Islands. Warmer temperatures on Grand Cayman, which increased air conditioning load, also contributed to the year-to-date increase in electricity sales.

Revenue

The increase in revenue for the quarter and year to date was mainly due to approximately \$5 million and \$11 million, respectively, of favourable foreign exchange associated with the translation of US dollar-denominated revenue, electricity sales growth, and an increase in base customer electricity rates at Caribbean Utilities.

Earnings

The increase in earnings for the quarter and year to date was primarily due to electricity sales growth and favourable foreign exchange associated with the translation of US dollar-denominated earnings. The increase was partially offset by higher overall operating expenses, net of higher capitalized overhead costs at Fortis Turks and Caicos.

NON-REGULATED - FORTIS GENERATION ⁽¹⁾

Financial Highlights (Unaudited) Periods Ended June 30	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Energy Sales (GWh)	122	83	39	221	138	83
Revenue (\$ millions)	11	7	4	22	12	10
Earnings (\$ millions)	6	4	2	12	27	(15)

⁽¹⁾ Comprised of the financial results of non-regulated generation assets in Belize, Ontario, British Columbia and Upstate New York, with a combined generating capacity of 103 MW, mainly hydroelectric

Energy Sales

The increase in energy sales for the quarter and year to date was primarily due to increased production in Belize due to higher rainfall and in Upstate New York due to a generating unit being returned to service in October 2013.

Revenue

The increase in revenue for the quarter and year to date was driven by increased production in Belize. Revenue was also impacted by increased production in Upstate New York and favourable foreign exchange associated with the translation of US dollar-denominated revenue.

Earnings

The increase in earnings for the quarter was driven by increased production, mainly in Belize, partially offset by approximately \$1 million in business development costs associated with investigating a potential hydroelectric generating facility in British Columbia.

The decrease in earnings year to date was primarily due to the recognition of an approximate \$22 million after-tax extraordinary gain on the settlement of expropriation matters associated with the Exploits Partnership in the first quarter of 2013. Excluding the \$22 million extraordinary gain, earnings increased by \$7 million year to date compared to the same period last year. The increase in earnings was driven by increased production, mainly in Belize, and favourable foreign exchange associated with the translation of US-dollar-denominated earnings. The increase was partially offset by approximately \$2 million in business development costs, as discussed above.

NON-REGULATED - NON-UTILITY ⁽¹⁾

Financial Highlights (Unaudited)						
Periods Ended June 30						
(\$ millions)	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Revenue	65	65	-	119	118	1
Earnings	7	8	(1)	12	9	3

⁽¹⁾ Comprised of Fortis Properties and Griffith. Fortis Properties owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces, and owns and operates approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Griffith was acquired in June 2013 as part of the acquisition of CH Energy Group and was sold in March 2014. As such, the results of operations of Griffith have been presented as discontinued operations on the consolidated statements of earnings and, accordingly, revenue excludes amounts associated with Griffith. Earnings, however, reflect the financial results of Griffith to the date of sale in March 2014.

Revenue

Revenue at Fortis Properties for the quarter and year to date was comparable to the same periods last year.

Earnings

Fortis Properties contributed earnings of \$7 million for the second quarter of 2014 compared to \$8 million for the same period last year. The decrease was primarily due to lower performance at the Hospitality Division and higher depreciation due to capital asset additions and improvements, partially offset by lower finance charges.

Year-to-date 2014, earnings included \$5 million associated with Griffith from normal operations to the date of sale in March 2014. Excluding the impact of Griffith, Fortis Properties contributed earnings of \$7 million year-to-date 2014 compared to \$9 million for the same period last year. The decrease in earnings at Fortis Properties was due to the same factors discussed above for the quarter.

CORPORATE AND OTHER ⁽¹⁾

Financial Highlights (Unaudited)						
Periods Ended June 30						
(\$ millions)	Quarter			Year-to-Date		
	2014	2013	Variance	2014	2013	Variance
Revenue	8	7	1	15	13	2
Operating Expenses	9	3	6	14	6	8
Depreciation and Amortization	1	-	1	1	1	-
Other Income (Expenses), Net	(3)	(46)	43	(1)	(44)	43
Finance Charges	35	11	24	68	21	47
Income Tax Recovery	(11)	(31)	20	(24)	(33)	9
	(29)	(22)	(7)	(45)	(26)	(19)
Preference Share Dividends	13	14	(1)	27	28	(1)
Net Corporate and Other Expenses	(42)	(36)	(6)	(72)	(54)	(18)

⁽¹⁾ Includes Fortis net Corporate expenses; net expenses of non-regulated FortisBC Holdings Inc. ("FHI") and CH Energy Group's corporate-related activities; and the financial results of FHI's wholly owned subsidiary FortisBC Alternative Energy Services Inc.

Net Corporate and Other expenses were significantly impacted by the following items:

- (i) finance charges of \$18 million (\$13 million after tax) for the second quarter and \$34 million (\$24 million after tax) year-to-date 2014 associated with the convertible debentures issued in January 2014 to finance a portion of the pending acquisition of UNS Energy;
- (ii) other expenses of approximately \$41 million (US\$40 million), or \$26 million (US\$26 million) after tax, associated with customer and community benefits offered by the Corporation to close the acquisition of CH Energy Group, recognized in the second quarter of 2013;
- (iii) other expenses of \$2 million (\$1 million after tax) and \$4 million (\$3 million after tax) for the second quarter and year-to-date 2014 related to the pending acquisition of UNS Energy, compared to approximately \$8 million (\$6 million after tax) in the second quarter of 2013 related to the acquisition of CH Energy Group;
- (iv) an \$8 million income tax recovery in the second quarter of 2013, due to the enactment of higher deductions associated with Part VI.1 tax. In the first quarter of 2013, income tax expense included \$2 million associated with Part VI.1 tax;
- (v) a foreign exchange loss of approximately \$4 million for the second quarter of 2014, with no net foreign exchange impact year-to-date 2014, compared to foreign exchange gains of approximately \$3 million and \$5 million for the second quarter and year-to-date 2013, respectively, associated with the Corporation's US dollar-denominated long-term other asset, representing the book value of the Corporation's expropriated investment in Belize Electricity; and
- (vi) the release of income tax provisions of approximately \$5 million in the second quarter of 2013.

Excluding the above-noted items, net Corporate and Other expenses were \$24 million for the quarter and \$45 million year to date, compared to \$20 million and \$38 million, respectively, for the same periods last year. The increase was primarily due to higher finance charges and operating expenses, partially offset by a higher income tax recovery and interest income.

The increase in finance charges was mainly due to: (i) the acquisition of Central Hudson in June 2013, including the US\$325 million notes offering in October 2013, and drawings under the Corporation's committed credit facility; (ii) unfavourable foreign exchange associated with the translation of US dollar-denominated interest expense; and (iii) higher credit facility fees, including amounts related to the Corporation's \$2 billion non-revolving term credit facilities secured as bridge financing for the pending acquisition of UNS Energy.

The increase in operating expenses was mainly due to approximately \$4 million (\$3 million after tax) of retirement expenses recognized in the second quarter of 2014, combined with higher legal and consulting fees and general inflationary increases.

REGULATORY HIGHLIGHTS

The nature of regulation and material regulatory decisions and applications associated with each of the Corporation's regulated gas and electric utilities for the first half of 2014 are summarized as follows.

NATURE OF REGULATION

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%)			Significant Features Future or Historical Test Year Used to Set Customer Rates
			2012	2013	2014	
FEI	British Columbia Utilities Commission ("BCUC")	38.5 ⁽¹⁾	9.50	8.75	8.75	COS/ROE FEI - PBR mechanism for 2014 through 2018
FEVI	BCUC	41.5 ⁽¹⁾	10.00	9.25	9.25	ROEs established by the BCUC
FEWI	BCUC	41.5 ⁽¹⁾	10.00	9.50	9.50	Future Test Year
FortisBC Electric	BCUC	40	9.90	9.15	9.15	COS/ROE PBR mechanism for 2014 through 2018 ROE established by the BCUC Future Test Year
Central Hudson	New York State Public Service Commission ("PSC")	48 ⁽²⁾	10.00	10.00	10.00 ⁽²⁾	COS/ROE Earnings sharing mechanism effective July 1, 2013: 50%/50% sharing of earnings above the allowed ROE up to 50 basis points above the allowed ROE; and 10%/90% sharing of earnings in excess of 50 basis points above the allowed ROE ROE established by the PSC Future Test Year
FortisAlberta	Alberta Utilities Commission ("AUC")	41 ⁽³⁾	8.75	8.75 ⁽³⁾	8.75 ⁽³⁾	COS/ROE PBR mechanism for 2013 through 2017 with capital tracker account and other supportive features ROE established by the AUC 2012 test year with 2013 through 2017 rates set using PBR mechanism
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB")	45	8.80 +/- 50 bps	8.80 +/- 50 bps	8.80 +/- 50 bps	COS/ROE ROE established by the PUB Future Test Year
Maritime Electric	Island Regulatory and Appeals Commission	40	9.75	9.75	9.75	COS/ROE ROE established by the Government of PEI under the <i>PEI Energy Accord</i> Future Test Year
FortisOntario	Ontario Energy Board					Canadian Niagara Power - COS/ROE
	Canadian Niagara Power	40	8.01	8.93	8.93	Algoma Power - COS/ROE and subject to Rural and Remote Rate Protection program
	Algoma Power	40	9.85	9.85	9.85	
	Franchise Agreement Cornwall Electric					Cornwall Electric - Price cap with commodity cost flow through Canadian Niagara Power - 2009 test year for 2009 through 2012; 2013 test year for 2013 through 2016 Algoma Power - 2011 test year for 2012 through 2014

NATURE OF REGULATION (cont'd)

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%)			Significant Features Future or Historical Test Year Used to Set Customer Rates
			2012	2013	2014	
Caribbean Utilities	Electricity Regulatory Authority	N/A	ROA			COS/ROA Rate-cap adjustment mechanism based on published consumer price indices The Company may apply for a special additional rate to customers in the event of a disaster, including a hurricane. <hr/> Historical Test Year
			7.25 - 9.25	6.50 - 8.50	7.00 - 9.00	
Fortis Turks and Caicos	Utilities make annual filings to the Government of the Turks and Caicos Islands	N/A	17.50 ⁽⁴⁾	17.50 ⁽⁴⁾	17.50 ⁽⁴⁾	COS/ROA If the actual ROA is lower than the allowed ROA, the utilities may apply for an increase in customer rates in the following year. <hr/> Historical Test Year

⁽¹⁾ Effective January 1, 2013. For 2012, the allowed deemed equity component of the capital structure was 40%.

⁽²⁾ Effective until June 30, 2015

⁽³⁾ Capital structure and allowed ROE for 2013 and 2014 are interim and are subject to change based on the outcome of a cost of capital proceeding.

⁽⁴⁾ Amount allowed under licences as it relates to FortisTCI. Amount allowed under licence for TCU is 15%. Achieved ROAs at the utilities were significantly lower than those allowed under licences as a result of the inability, due to economic and political factors, to increase base customer electricity rates.

MATERIAL REGULATORY DECISIONS AND APPLICATIONS

The following summarizes the significant regulatory decisions and applications for the Corporation's largest regulated utilities in the first half of 2014.

FortisBC Energy Companies and FortisBC Electric

In February 2014 the FortisBC Energy companies received regulatory approval for the amalgamation of its regulated utilities. The regulator approved the adoption of common rates for the majority of natural gas customers, to be phased in over a three-year period. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and is expected to be effective December 31, 2014.

In May 2013 the BCUC issued its decision on the first stage of the GCOC Proceeding in British Columbia. Effective January 1, 2013, the decision set the ROE of the benchmark utility, FEI, at 8.75% with a 38.5% common equity component of capital structure. The common equity component of capital structure will remain in effect until December 31, 2015. Effective January 1, 2014 through December 31, 2015, the BCUC has also introduced an Automatic Adjustment Mechanism ("AAM") to set the allowed ROE for the benchmark utility on an annual basis. The AAM will take effect when the long-term Government of Canada bond yield exceeds 3.8%. In January 2014 the BCUC confirmed that the necessary conditions for the AAM to be triggered for the 2014 allowed ROE have not been met; therefore, the benchmark allowed ROE remains at 8.75% for 2014. FEVI, FEWI and FortisBC Electric's allowed ROEs and common equity component of capital structures were determined in the second stage of the GCOC Proceeding. However, as a result of the decision on the first stage of the GCOC Proceeding, which reduced the allowed ROE of the benchmark utility by 75 basis points, the interim allowed ROEs for FEVI, FEWI and FortisBC Electric decreased to 9.25%, 9.25% and 9.15%, respectively, effective January 1, 2013, while the deemed common equity component of capital structures remained unchanged.

In March 2014 the BCUC issued its decision on the second stage of the GCOC Proceeding. Effective January 1, 2013, the decision set the common equity component of capital structure for FEVI and FEWI at 41.5%, and reaffirmed the common equity component of capital structure for FortisBC Electric at 40%. The BCUC reaffirmed for FEVI and FortisBC Electric a risk premium over the benchmark utility of 50 basis points and 40 basis points, respectively, and set FEWI's equity risk premium at 75 basis points, which represented an increase of 25 basis points. The resulting allowed ROEs, effective January 1, 2013, for FEVI, FortisBC Electric and FEWI are 9.25%, 9.15%, and 9.50%, respectively. The cumulative impact of the outcome of the second stage of the GCOC Proceeding was recognized in the first quarter of 2014 and did not have a material impact on earnings.

Once amalgamation of the FortisBC Energy companies is completed, the allowed ROE and common equity component of capital structure for the amalgamated entity will be set the same as the benchmark utility, FEI.

FortisAlberta

In May 2014 FortisAlberta filed a combined 2013, 2014 and 2015 Capital Tracker Application as required by the regulator. The application requested capital tracker revenue of approximately \$23 million for 2013, \$48 million for 2014 and \$69 million for 2015. A hearing related to the combined Capital Tracker Application is scheduled for October 2014. FortisAlberta continues to recognize capital tracker revenue based on the interim regulatory decision granting 60% of the applied for capital tracker amounts. Any adjustment by the regulator to the interim decision will result in an adjustment to FortisAlberta's revenue. Such an adjustment would be recognized in the consolidated financial statements when the regulatory decision is received, or when sufficient information is available to reasonably estimate the required adjustment in accordance with US GAAP.

Central Hudson

In July 2014 Central Hudson filed a General Rate Application seeking to increase electricity and natural gas delivery rates effective July 1, 2015. A delivery rate freeze was implemented for electricity and natural gas delivery rates through to June 30, 2015 as part of the regulatory approval of the acquisition of Central Hudson by Fortis. Central Hudson committed to invest US\$215 million in capital expenditures during the two-year delivery rate freeze period ending June 30, 2015. In its General Rate Application, the Company has requested an allowed ROE of 9.0% with a 48% common equity component of capital structure. The current rate order includes an allowed ROE of 10.0% with a 48% common equity component of capital structure.

Significant Regulatory Proceedings

The following table summarizes ongoing regulatory proceedings, including filing dates and expected timing of decisions for the Corporation's largest regulated utilities.

Regulated Utility	Application/Proceeding	Filing Date	Expected Decision
FEI	Multi-Year PBR Plan for 2014-2018	June 2013	Second half of 2014
FortisBC Electric	Multi-Year PBR Plan for 2014-2018	July 2013	Second half of 2014
FortisAlberta	GCOC 2013 and 2014	Not applicable	Fourth quarter of 2014
	Capital Tracker Applications - 2013, 2014 and 2015	May 2014	First quarter of 2015
Central Hudson	General Rate Application for mid-2015	July 2014	First half of 2015

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets between June 30, 2014 and December 31, 2013.

Significant Changes in the Consolidated Balance Sheets (Unaudited) between June 30, 2014 and December 31, 2013

Balance Sheet Account	Increase/ (Decrease) (\$ millions)	Explanation
Cash and cash equivalents	540	The increase was driven by cash on hand at the Corporation, due to net proceeds received from the first installment of the Debentures issued in January 2014 and the US\$213 million unsecured notes issued in June 2014, and at CH Energy Group, due to net proceeds received from the sale of Griffith in March 2014.
Accounts receivable	(104)	The decrease was primarily due to the impact of a seasonal decrease in sales at the FortisBC Energy companies, FortisBC Electric and Newfoundland Power, partially offset by an increase in the operation of equal payment plans for customers, mainly at the FortisBC Energy companies and Newfoundland Power. Lower transmission riders and the timing of Alberta Electric System Operator ("AESO") refunds at FortisAlberta also contributed to the decrease.
Regulatory assets – current and long-term	100	The increase was mainly due to an increase in the manufactured gas plant site remediation deferral at Central Hudson and an increase in regulatory deferred income taxes. The increase was partially offset by a decrease in the deferral for employee future benefits.
Assets held for sale	(112)	The decrease related to the sale of Griffith in March 2014.
Utility capital assets	234	The increase related to utility capital expenditures, partially offset by depreciation and customer contributions.
Short-term borrowings	(60)	The decrease was primarily due to a reduction in borrowings at the FortisBC Energy companies, due to the seasonality of operations and proceeds received from an intercompany loan advance from Fortis, financed by a portion of the proceeds from the Debentures.
Accounts payable and other current liabilities	(56)	The decrease was mainly due to lower amounts owing for purchased power at Newfoundland Power associated with seasonality of operations and the timing of payments at FortisAlberta. The decrease was partially offset by an increase in amounts associated with transmission-connected projects at FortisAlberta.
Regulatory liabilities – current and long-term	73	The increase was primarily due to a higher AESO charges deferral at FortisAlberta, an increase in the provision for non-asset retirement obligation removal costs, and an increase in rate stabilization accounts at Central Hudson.
Convertible debentures represented by installment receipts	599	The increase was due to the first installment of the Debentures issued in January 2014.
Long-term debt (including current portion)	(47)	The decrease was mainly due to the repayment of credit facility borrowings at the Corporation, FortisBC Electric, and FortisAlberta, and regularly scheduled debt repayments. The decrease was partially offset by the issuance of US\$213 million and US\$30 million unsecured notes at the Corporation and Central Hudson, respectively.
Other liabilities	51	The increase was mainly due to an increase in the manufactured gas plant site remediation provision at Central Hudson.
Shareholders' equity (before non-controlling interests)	122	The increase related to net earnings attributable to common equity shareholders for the six months ended June 30, 2014, less dividends declared on common shares, and the issuance of common shares under the Corporation's dividend reinvestment, employee share purchase and stock option plans.

LIQUIDITY AND CAPITAL RESOURCES

The table below outlines the Corporation's sources and uses of cash for the quarter and year-to-date periods ended June 30, 2014, as compared to the same periods in 2013, followed by a discussion of the nature of the variances in cash flows.

Summary of Consolidated Cash Flows (Unaudited)						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions)	2014	2013	Variance	2014	2013	Variance
Cash, Beginning of Period	528	168	360	72	154	(82)
Cash Provided by (Used in):						
Operating Activities	321	270	51	586	553	33
Investing Activities	(288)	(1,268)	980	(398)	(1,560)	1,162
Financing Activities	55	1,097	(1,042)	356	1,120	(764)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4)	-	(4)	(4)	-	(4)
Cash, End of Period	612	267	345	612	267	345

Operating Activities: Cash flow from operating activities was \$51 million higher quarter over quarter. The increase was primarily due to higher cash earnings and favourable changes in working capital. The favourable changes in working capital were mainly associated with current regulatory deferrals at the FortisBC Energy companies and FortisAlberta and accounts receivable at Central Hudson, partially offset by unfavourable changes associated with accounts payable and other current liabilities and long-term regulatory deferrals.

Cash flow from operating activities was \$33 million higher year to date compared to the same period last year. The increase was primarily due to higher cash earnings, partially offset by unfavourable changes in working capital, mainly associated with accounts receivable and current regulatory deferrals at the FortisBC Energy companies and Maritime Electric, respectively.

Investing Activities: Cash used in investing activities was \$980 million lower for the quarter and \$1,162 million lower year to date compared to the same periods last year. The decrease was primarily due to the acquisition of CH Energy Group in June 2013 for a net cash purchase price of \$1,019 million and FortisBC Electric's acquisition of the electrical utility assets from the City of Kelowna in March 2013 for approximately \$55 million. The sale of Griffith in March 2014 for proceeds of approximately \$105 million (US\$95 million) also contributed to the decrease in cash used. The decrease was partially offset by cash proceeds received in the second quarter of 2013 from the settlement of expropriation matters associated with the Exploits Partnership. Lower capital expenditures at FortisAlberta and at the non-regulated Waneta Expansion hydroelectric generating facility ("Waneta Expansion"), mainly in the first quarter of 2014, were largely offset by capital spending at Central Hudson and higher capital expenditures at the FortisBC Energy companies.

Financing Activities: Cash provided by financing activities was \$1,042 million lower for the quarter and \$764 million lower year to date compared to the same periods last year. The decrease was primarily due to financing associated with the acquisition of CH Energy Group in June 2013, including borrowings under the Corporation's committed credit facility and the issuance of common shares, and lower advances from non-controlling interests. The decrease was partially offset by net proceeds from the first installment of the Corporation's Debentures in January 2014, higher net proceeds from long-term debt and favourable changes in short-term borrowings.

In January 2014 approximately \$599 million, or \$561 million net of issue costs, was received from the first installment of the Corporation's Debentures, to be used to finance a portion of the pending acquisition of UNS Energy. A significant portion of the net proceeds is cash on hand, while a portion was used to repay borrowings under the Corporation's existing revolving credit facility and for other general corporate purposes, including intercompany loan advances to subsidiaries.

In March 2014 Central Hudson issued 10-year US\$30 million in long-term debt with a floating interest rate of 3-month LIBOR plus 1%. The net proceeds were used to repay maturing long-term debt and for other general corporate purposes.

In June 2014 the Corporation issued US\$213 million unsecured notes with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 4.88%. The weighted average term

to maturity is approximately 9 years and the weighted average coupon rate is 3.51%. Net proceeds were used to repay US-dollar denominated borrowings on the Corporation's committed credit facility and for general corporate purposes.

In May 2013 Caribbean Utilities issued 15-year US\$10 million 3.34% and 20-year US\$40 million 3.54% senior unsecured notes. The net proceeds were used to repay short-term borrowings and to finance capital expenditures.

Repayments of long-term debt and capital lease and finance obligations and net (repayments) borrowings under committed credit facilities for the quarter and year to date compared to the same periods last year are summarized in the following tables.

Repayments of Long-Term Debt and Capital Lease and Finance Obligations (Unaudited)						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions)	2014	2013	Variance	2014	2013	Variance
FortisBC Energy Companies	(2)	(5)	3	(3)	(26)	23
Central Hudson	(8)	-	(8)	(16)	-	(16)
Caribbean Utilities	(15)	(17)	2	(15)	(17)	2
Fortis Properties	(7)	(2)	(5)	(8)	(20)	12
Other	(1)	(1)	-	(2)	(2)	-
Total	(33)	(25)	(8)	(44)	(65)	21

Net (Repayments) Borrowings Under Committed Credit Facilities (Unaudited)						
Periods Ended June 30	Quarter			Year-to-Date		
(\$ millions)	2014	2013	Variance	2014	2013	Variance
FortisAlberta	-	46	(46)	(20)	94	(114)
FortisBC Electric	-	1	(1)	(79)	33	(112)
Newfoundland Power	-	1	(1)	-	22	(22)
Corporate	(128)	514	(642)	(174)	549	(723)
Total	(128)	562	(690)	(273)	698	(971)

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.

Advances from non-controlling interests in the Waneta Expansion Limited Partnership ("Waneta Partnership") of \$4 million and \$17 million were received in the second quarter and year-to-date 2014, respectively, to finance capital spending related to the Waneta Expansion, compared to \$20 million received during the second quarter of 2013 and \$42 million year-to-date 2013.

Proceeds from the issuance of common shares were \$567 million lower for the quarter and \$566 million lower year to date compared to the same periods in 2013. The decreases were due to the issuance of 18.5 million common shares, as a result of the conversion of the Subscription Receipts on closing of the CH Energy Group acquisition, for proceeds of approximately \$567 million, net of after-tax expenses.

Common share dividends paid in the second quarter of 2014 were \$48 million, net of \$20 million of dividends reinvested, compared to \$44 million, net of \$15 million of dividends reinvested, paid in the same quarter of 2013. Common share dividends paid year-to-date 2014 were \$95 million net of \$42 million in dividends reinvested, compared to \$85 million, net of \$34 million in dividends reinvested, paid year-to-date 2013. The dividend paid per common share for the first and second quarters of 2014 was \$0.32 compared to \$0.31 for the first and second quarters of 2013. The weighted average number of common shares outstanding for the second quarter and year-to-date 2014 was 214.8 million and 214.2 million, respectively, compared to 193.4 million and 192.7 million for the same periods in 2013.

CONTRACTUAL OBLIGATIONS

The Corporation's consolidated contractual obligations with external third parties in each of the next five years and for periods thereafter, as at June 30, 2014, are outlined in the following table. A detailed description of the nature of the obligations is provided in the 2013 Annual MD&A and below, where applicable.

Contractual Obligations (Unaudited) As at June 30, 2014 (\$ millions)	Total	Due	Due in	Due in	Due in	Due in	Due
		within 1 year	year 2	year 3	year 4	year 5	after 5 years
Long-term debt	7,157	714	138	303	81	160	5,761
Interest obligations on long-term debt	7,187	391	365	344	327	325	5,435
Convertible debentures represented by installment receipts ⁽¹⁾	599	599	-	-	-	-	-
Interest obligations on convertible debentures represented by installment receipts ⁽¹⁾	44	44	-	-	-	-	-
Government loan obligations	5	-	5	-	-	-	-
Capital lease and finance obligations	2,346	45	46	47	48	76	2,084
Gas purchase contract obligations ⁽²⁾	481	255	170	17	13	11	15
Power purchase obligations:							
Central Hudson ⁽³⁾	102	35	27	25	4	3	8
FortisBC Electric ⁽⁴⁾	315	44	36	29	23	19	164
FortisOntario	281	46	50	51	53	54	27
Maritime Electric	83	41	27	1	1	1	12
Capital cost ⁽⁵⁾	563	19	22	20	22	20	460
Operating lease obligations	26	6	5	4	4	4	3
Waneta Partnership promissory note	72	-	-	-	-	-	72
Joint-use asset and shared service agreements	53	3	3	3	3	2	39
Defined benefit pension funding contributions ⁽⁶⁾	102	43	37	17	1	1	3
Performance Share Unit Plan obligations	16	2	5	9	-	-	-
Other	15	11	-	-	-	3	1
Total	19,447	2,298	936	870	580	679	14,084

⁽¹⁾ To finance a portion of the pending acquisition of UNS Energy, in January 2014 Fortis completed the sale of \$1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures of the Corporation represented by installment receipts. For further information on the Debentures, refer to the "Significant Items" section of this MD&A.

⁽²⁾ Gas purchase contract obligations at the FortisBC Energy companies are based on index prices as at June 30, 2014. Gas purchase contract obligations at Central Hudson are based on tariff rates as at June 30, 2014.

⁽³⁾ Includes Central Hudson's contract to purchase 200 MW of installed capacity from May 2014 through April 2017 totalling approximately US\$63 million. The New York Independent System Operator ("NYISO") has been authorized by FERC to create a new capacity zone in the Lower Hudson Valley to maintain system reliability and attract investments in new and existing generation, which was implemented in May 2014. The key terms of the contract provide that Central Hudson will pay the settlement price in the NYISO Capacity Spot Market auction for the relevant month of delivery minus US\$0.175 per kilowatt-month, times the contract quantity of the product delivered during the month.

⁽⁴⁾ In May 2014 the BCUC approved FortisBC Electric's new power purchase agreement with BC Hydro to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20-year term, effective July 1, 2014.

⁽⁵⁾ Maritime Electric has entitlement to approximately 4.7% of the output from the New Brunswick Power Point Lepreau nuclear generating station for the life of the unit. As part of its entitlement, Maritime Electric is required to pay its share of the capital and operating costs of the unit. The total estimated capital cost obligation has increased by \$21 million from that disclosed in the 2013 Annual MD&A. The increase reflects revised cost forecasts from New Brunswick Power and changes in the entitlement agreement.

⁽⁶⁾ Defined benefit pension funding contributions are based on estimates provided under the latest completed actuarial valuations, which generally provide funding estimates for a period of three to five years from the date of the valuations. The increase in contributions from that disclosed in the 2013 Annual MD&A reflects estimates from the actuarial valuations completed as at December 31, 2013.

Other contractual obligations, which are not reflected in the above table, did not materially change from those disclosed in the 2013 Annual MD&A.

In March 2014 Fortis priced a private placement of US\$500 million in senior unsecured notes to US-based institutional investors. In June 2014 Fortis issued US\$213 million in senior unsecured notes. Debt and interest obligations in the Contractual Obligations table include the US\$213 million in senior unsecured notes issued in June 2014. For further information on the notes, refer to the "Significant Items" section of this MD&A.

For a discussion of the nature and amount of the Corporation's consolidated capital expenditure program not included in the preceding Contractual Obligations table, refer to the "Capital Expenditure Program" section of this MD&A.

CAPITAL STRUCTURE

The Corporation's principal businesses of regulated gas and electricity distribution require 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. Fortis generally finances a significant portion of acquisitions at the corporate level with proceeds from common share, preference share and long-term debt offerings. To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt, as well as 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 each of the utility's customer rates.

The consolidated capital structure of Fortis is presented in the following table.

Capital Structure (Unaudited)	As at			
	June 30, 2014		December 31, 2013	
	(\$ millions)	(%)	(\$ millions)	(%)
Total debt and capital lease and finance obligations (net of cash) ⁽¹⁾	7,666	55.6	7,716	56.2
Preference shares	1,229	8.9	1,229	9.0
Common shareholders' equity	4,894	35.5	4,772	34.8
Total ⁽²⁾	13,789	100.0	13,717	100.0

⁽¹⁾ Includes long-term debt, capital lease and finance obligations, including current portion, convertible debentures represented by installment receipts and short-term borrowings, net of cash

⁽²⁾ Excludes amounts related to non-controlling interests

The improvement in the capital structure was primarily due to an increase in common shareholders' equity as a result of net earnings attributable to common equity shareholders for the six months ended June 30, 2014, less dividends declared on common shares, and the issuance of common shares under the Corporation's dividend reinvestment, employee share purchase and stock option plans. A decrease in total debt also contributed to the improvement in the capital structure. An increase in cash and a decrease in short-term borrowings and long-term debt more than offset the increase in debt associated with the convertible debentures represented by installment receipts.

Excluding capital lease and finance obligations, the Corporation's capital structure as at June 30, 2014 was 54.2% debt, 9.2% preference shares and 36.6% common shareholders' equity (December 31, 2013 - 54.9% debt, 9.2% preference shares and 35.9% common shareholders' equity).

CREDIT RATINGS

The Corporation's credit ratings are as follows:

Standard & Poor's ("S&P")	A- / Negative (long-term corporate and unsecured debt credit rating)
DBRS	A(low) / Under Review - Developing Implications (unsecured debt credit rating)

The above-noted credit ratings reflect the Corporation's business-risk profile and diversity of its operations, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, and management's commitment to maintaining low levels of debt at the holding company level. In December 2013, after the announcement by Fortis that it had entered into an agreement to acquire UNS Energy, DBRS placed the Corporation's credit rating under review with developing implications. Similarly, S&P revised its outlook on the Corporation to negative from stable. S&P indicated that an outlook revision to stable would likely occur when the Corporation's Debentures are converted to equity.

CAPITAL EXPENDITURE PROGRAM

A breakdown of the \$535 million in gross consolidated capital expenditures by segment for the first half of 2014 is provided in the following table.

Gross Consolidated Capital Expenditures (Unaudited) ⁽¹⁾										
Year-to-Date June 30, 2014										
<i>(\$ millions)</i>										
FortisBC Energy Companies	Central Hudson	Fortis Alberta	FortisBC Electric	Newfoundland Power	Other Regulated Electric Utilities - Canadian	Regulated Electric Utilities - Caribbean	Total Regulated Utilities	Non-Regulated - Fortis Generation	Non-Regulated - Non-Utility	Total
127	49	162	35	44	19	28	464	55	16	535

⁽¹⁾ Relates to cash payments to acquire or construct utility capital assets, non-utility capital assets and intangible assets, as reflected on the consolidated statement of cash flows. Excludes the non-cash equity component of allowance for funds used during construction.

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

Gross consolidated capital expenditures for 2014 are forecast to be approximately \$1.4 billion. 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 2013 Annual MD&A.

FortisBC has begun preliminary work related to an expansion of its Tilbury liquefied natural gas ("LNG") facility in British Columbia. The Tilbury expansion is estimated to cost approximately \$400 million and will include a second LNG tank and a new liquefier, both to be in service in the second half of 2016. FortisBC is pursuing additional LNG investment opportunities, including a further expansion of Tilbury and a pipeline expansion for the proposed Woodfibre LNG site in British Columbia. These additional opportunities are not included in the Corporation's capital expenditure forecast.

Construction of the \$900 million Waneta Expansion is ongoing, with an additional \$54 million invested in the first half of 2014. Approximately \$633 million has been invested in the Waneta Expansion since construction began late in 2010. Key construction activities during the first half of 2014 were focused on civil construction and equipment installation, assembly and testing. Civil construction included forming and casting on concrete at the intake structure, forming of the power tunnel transition and excavation of the tailrace channel. Equipment installation and assembly continued with the turbine and generator components and powerhouse mechanical and electrical auxiliary systems. Testing was performed on various components and systems. In addition, construction of the 230-kilovolt

transmission line was completed and is available for energization, which is scheduled for September 2014.

Over the five-year period 2014 through 2018, gross consolidated capital expenditures, excluding capital spending at UNS Energy, are expected to exceed \$6.5 billion. The approximate breakdown of the capital spending expected to be incurred is as follows: 50% at Canadian Regulated Electric Utilities, driven by FortisAlberta; 26% at Canadian Regulated Gas Utilities; 12% at Central Hudson; 5% at Caribbean Regulated Electric Utilities; and the remaining 7% at non-regulated operations. Capital expenditures at the regulated utilities are subject to regulatory approval. Over the five-year period, on average annually, the approximate breakdown of the total capital spending to be incurred is as follows: 46% for sustaining capital expenditures, 37% to meet customer growth, and 17% for facilities, equipment, vehicles, information technology and other assets.

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, equity injections from Fortis and long-term debt offerings.

The Corporation's ability to service its debt obligations and pay dividends on its common shares and preference shares is dependent on the financial results of the operating subsidiaries and the related cash payments from these subsidiaries. Certain regulated subsidiaries may be subject to restrictions that may limit their ability to distribute cash to Fortis.

Cash required of Fortis to support subsidiary capital expenditure programs and finance acquisitions 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. 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 subsidiaries expect to be able to source the cash required to fund their 2014 capital expenditure programs.

As at June 30, 2014, management expects consolidated long-term debt maturities and repayments to average approximately \$280 million annually over the next five years. The combination of available credit facilities and relatively low annual debt maturities and repayments beyond 2014 will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets.

Fortis and its subsidiaries were compliant with debt covenants as at June 30, 2014 and are expected to remain compliant throughout 2014.

CREDIT FACILITIES

As at June 30, 2014, the Corporation and its subsidiaries had consolidated credit facilities of approximately \$2.7 billion, of which \$2.5 billion was unused, including \$958 million unused under the Corporation's \$1 billion committed revolving corporate credit facility. The credit facilities are syndicated mostly with the seven largest Canadian banks, with no one bank holding more than 20% of these facilities. Approximately \$2.6 billion of the total credit facilities are committed facilities with maturities ranging from 2015 through 2019.

The following table outlines the credit facilities of the Corporation and its subsidiaries.

Credit Facilities (Unaudited) (\$ millions)	Regulated Utilities	Non- Regulated	Corporate and Other	As at	
				June 30, 2014	December 31, 2013
Total credit facilities	1,547	13	1,137	2,697	2,695
Credit facilities utilized:					
Short-term borrowings	(98)	(2)	-	(100)	(160)
Long-term debt (including current portion)	-	-	(41)	(41)	(313)
Letters of credit outstanding	(65)	-	(1)	(66)	(66)
Credit facilities unused	1,384	11	1,095	2,490	2,156

As at June 30, 2014 and December 31, 2013, certain borrowings under the Corporation's and subsidiaries' credit facilities were classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In February 2014 Maritime Electric's \$50 million unsecured revolving credit facility matured and the Company negotiated a new \$50 million unsecured committed revolving credit facility, maturing in February 2019.

In April 2014 FortisBC Electric extended the maturity of its \$150 million unsecured committed revolving credit facility, with \$100 million now maturing in May 2017 and \$50 million now maturing in April 2015.

In April 2014 FHI extended its \$30 million unsecured committed revolving credit facility to mature in April 2015.

In June 2014 FortisOntario extended its \$30 million unsecured committed revolving credit facility to mature in June 2015 from June 2014.

In July 2014 FEI, FortisAlberta and Newfoundland Power amended their \$500 million, \$250 million and \$100 million, respectively, committed revolving credit facilities, resulting in extensions to their maturity dates to August 2016, August 2019 and August 2019, respectively, from August 2015, August 2018 and August 2017, respectively.

For the purpose of bridge financing for the pending acquisition of UNS Energy, in March 2014 the Corporation secured an aggregate of \$2 billion non-revolving term credit facilities from a syndicate of banks. The non-revolving term credit facilities are comprised of a \$1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a \$300 million medium-term bridge facility, repayable in full on the second anniversary of its advance. The credit facilities table does not include the \$2 billion credit facilities.

As a result of closing the Debentures related to the pending acquisition of UNS Energy, the Corporation agreed to maintain availability under its committed revolving corporate credit facility of not less than \$600 million to cover the principal amount of the first installment of the Debentures in the event of a mandatory redemption.

FINANCIAL INSTRUMENTS

The carrying values of the Corporation's consolidated financial instruments approximate their fair values, reflecting the short-term maturity, normal trade credit terms and/or nature of these instruments, except as follows.

Financial Instruments (Unaudited)	As at			
	June 30, 2014		December 31, 2013	
(\$ millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Waneta Partnership promissory note	51	53	50	50
Long-term debt, including current portion	7,157	8,453	7,204	8,084

The fair value of long-term debt is calculated using quoted market prices when available. When quoted market prices are not available, as is the case with the Waneta Partnership promissory note and certain long-term debt, the fair value is determined 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. Since the Corporation does not intend to settle the long-term debt or promissory note prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.

The Financial Instruments table above excludes the long-term other asset associated with the Corporation's expropriated investment in Belize Electricity. Due to uncertainty in the ultimate amount and ability of the Government of Belize ("GOB") to pay appropriate fair value compensation owing to Fortis for the expropriation of Belize Electricity, the Corporation has recorded the book value of the expropriated investment, including foreign exchange impacts, in long-term other assets, which totalled approximately \$108 million as at June 30, 2014 (December 31, 2013 - \$108 million).

Risk Management: The Corporation's earnings from, and net investment in, foreign subsidiaries are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The Corporation has effectively decreased the above-noted exposure through the use of US dollar-denominated borrowings at the corporate level. The foreign exchange gain or loss on the translation of US dollar-denominated interest expense partially offsets the foreign exchange loss or gain on the translation of the Corporation's foreign subsidiaries' earnings, which are denominated in US dollars. The reporting currency of Central Hudson, Caribbean Utilities, Fortis Turks and Caicos, Belize Electric Company Limited and FortisUS Energy Corporation is the US dollar.

As at June 30, 2014, the Corporation's corporately issued US\$1,126 million (December 31, 2013 – US\$1,033 million) long-term debt had been designated as an effective hedge of the Corporation's foreign net investments. As at June 30, 2014, the Corporation had approximately US\$490 million (December 31, 2013 – US\$560 million) in foreign net investments remaining to be hedged. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's corporately issued US dollar-denominated borrowings designated as effective hedges are recorded in other comprehensive income and serve to help offset unrealized foreign currency exchange gains and losses on the net investments in foreign subsidiaries, which gains and losses are also recorded in other comprehensive income.

Effective June 20, 2011, the Corporation's asset associated with its expropriated investment in Belize Electricity does not qualify for hedge accounting as Belize Electricity is no longer a foreign subsidiary of Fortis. As a result, foreign exchange gains and losses on the translation of the long-term other asset associated with Belize Electricity are recognized in earnings. The Corporation recognized in earnings a foreign exchange loss of approximately \$4 million for the three months ended June 30, 2014, with no net foreign exchange impact for the first half of 2014 (foreign exchange gain of \$3 million and \$5 million for the three and six months ended June 30, 2013, respectively).

From time to time, the Corporation and its subsidiaries hedge exposures to fluctuations in interest rates, foreign exchange rates and fuel, electricity and natural gas prices through the use of derivative instruments. The Corporation does not hold or issue derivative instruments for trading purposes and generally limits the use of derivative instruments to those that qualify as accounting or economic hedges. As at June 30, 2014, the Corporation's derivative instruments primarily consisted of electricity swap contracts, gas swap and option contracts, and gas purchase contract premiums. Electricity swap contracts are held by Central Hudson. Gas swap and option contracts, and gas purchase contract premiums are held by the FortisBC Energy companies and Central Hudson.

The following table summarizes the Corporation's derivative instruments.

Derivative Instruments (Unaudited)	As at			
		June 30, 2014	December 31, 2013	
Asset (Liability)	Maturity	Number of Contracts	Volume ⁽¹⁾	Carrying Value ⁽²⁾
				(\$ millions)
Electricity swap contracts	2017	11	2,766	25
Natural gas derivatives:				
Gas swaps and option contracts	2015	11	3	(4)
Gas purchase contract premiums	2015	55	91	(6)

⁽¹⁾ The electricity swap contracts are in GWh and natural gas derivatives are in PJ.

⁽²⁾ Carrying value is estimated fair value. The asset (liability) represents the gross derivatives balance.

The electricity swap contracts and natural gas derivatives are used by Central Hudson to minimize commodity price volatility for electricity and natural gas purchases by fixing the effective purchase price for the defined commodities. The fair values of the electricity swap contracts and natural gas derivatives were calculated using forward pricing provided by independent third parties.

The natural gas derivatives are used by the FortisBC Energy companies to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. The fair value of the natural gas derivatives was calculated using the present value of cash flows based on market prices and forward curves for the cost of natural gas.

The price risk-management strategy of the FortisBC Energy companies aims to improve the likelihood that natural gas prices remain competitive, mitigate gas price volatility on customer rates and reduce the risk of regional price discrepancies. As directed by the regulator, the FortisBC Energy companies have suspended their commodity hedging activities, with the exception of certain limited swaps as permitted by the regulator. The existing hedging contracts will continue in effect through to their maturities and the FortisBC Energy companies' ability to fully recover the cost of gas in customer rates remains unchanged. Any differences between the cost of natural gas purchased and the price of natural gas included in customer rates are recorded as regulatory deferrals and are recovered from, or refunded to, customers in future rates, subject to regulatory approval.

The fair values of the electricity swap contracts and natural gas derivatives are estimates of the amounts that the utilities would receive or have to pay to terminate the outstanding contracts as at the balance sheet dates. As at June 30, 2014, none of the electricity swap contracts and natural gas derivatives were designated as hedges of electricity and natural gas supply contracts.

The changes in the fair values of the electricity swap contracts and natural gas derivatives are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulators. The fair value of the electricity swap contracts is recorded in accounts receivable and other long-term assets and the fair value of the natural gas derivatives is recorded in accounts payable and other current liabilities as at June 30, 2014 and December 31, 2013.

The fair values of the Corporation's financial instruments, including derivatives, reflect point-in-time estimates based on current and relevant 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.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of \$66 million as at June 30, 2014 (December 31, 2013 - \$66 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

Year-to-date 2014, the business risks of the Corporation were generally consistent with those disclosed in the Corporation's 2013 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 "Material Regulatory Decisions and Applications" section of this MD&A.

Completion of the Acquisition of UNS Energy: The closing of the acquisition of UNS Energy is subject to normal commercial risks that the acquisition will not close on the terms negotiated, or at all. The pending acquisition remains subject to receipt of regulatory approval by the ACC, and the satisfaction of customary closing conditions. The failure to obtain the required approval or satisfy or waive the conditions may result in the termination of the agreement and plan of merger and the failure to materialize some, or all, of the expected benefits of the acquisition within the time periods anticipated by the Corporation. The realization of such benefits may also be impacted by other factors beyond the control of Fortis. If the closing of the acquisition of UNS Energy does not take place as contemplated, the Corporation could suffer adverse consequences, including the loss of investor confidence.

A substantial delay in obtaining regulatory approval or the imposition of unfavourable terms and/or conditions in such approval could have a material adverse effect on the Corporation's ability to complete the acquisition and on the Corporation's or UNS Energy's business, financial condition or results of operations. Fortis intends to complete the acquisition as soon as practicable after obtaining the required regulatory approval, and satisfying the other required closing conditions. Failure to realize the anticipated benefits of the acquisition of UNS Energy may impact the financial performance of the Corporation.

For the purpose of financing the acquisition, the Corporation completed the \$1.8 billion Debenture Offering in January 2014 and obtained an aggregate of \$2 billion non-revolving term credit facilities. For further information, refer to the "Significant Items" section of this MD&A.

Failure to obtain sufficient long-term financing at acceptable terms could result in additional financing costs and the failure to materialize some, or all, of the expected benefits of the acquisition.

If a material amount of the final installment is not paid by holders of Debentures, Fortis may be required to draw down additional funds under the \$2 billion non-revolving term credit facilities and it may take Fortis longer than anticipated to repay these credit facilities.

Fortis is exposed to foreign exchange risk associated with the acquisition of UNS Energy as the cash consideration for the acquisition is required to be paid in US dollars, while funds raised in the Debenture Offering, which will constitute a significant portion of the funds used to finance the acquisition, are denominated in Canadian dollars. As a result, a strengthening US dollar prior to payment of the Final Installment will increase the purchase price translated in Canadian dollars. In addition, the operations of UNS Energy are conducted in US dollars and, following the acquisition, the consolidated earnings and cash flows of Fortis will be impacted to a greater extent by fluctuations in the US dollar-to-Canadian dollar exchange rate.

Fortis also expects to incur a number of costs associated with completing the acquisition. The majority of these costs will be non-recurring expenses and will consist of transaction costs related to the

acquisition, including costs related to financing and obtaining regulatory approval. Additional unanticipated costs may be incurred in 2014 related to the acquisition.

Expropriation of Shares in Belize Electricity: On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. Consequent to the deprivation of control over the operations of the utility, the Corporation discontinued the consolidation method of accounting for Belize Electricity, as of June 20, 2011, and classified the book value, including foreign exchange impacts, of the expropriated investment as a long-term other asset on the consolidated balance sheet.

In October 2011 Fortis commenced an action in the Belize Supreme Court with respect to challenging the constitutionality of the expropriation of the Corporation's investment in Belize Electricity. Fortis commissioned an independent valuation of its expropriated investment and submitted its claim for compensation to the GOB in November 2011. The book value of the long-term other asset is below fair value as at the date of expropriation as determined by independent valuers. The GOB also commissioned a valuation of Belize Electricity, which is significantly lower than both the fair value determined under the Corporation's valuation and the book value of the long-term other asset.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision was rendered by the Belize Court of Appeal on May 15, 2014. The two Belizean judges found in favour of the GOB; however, the third judge delivered a strong dissenting opinion concluding that the expropriation was contrary to the Belize Constitution. An appeal of the decision to the Caribbean Court of Justice, the final court for appeals arising in Belize, was filed in June 2014 and a hearing is expected in the fourth quarter of 2014.

Fortis believes it has a strong, well-positioned case supporting the unconstitutionality of the expropriation. There exists, however, a possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation to be paid to Fortis could be lower than the book value of the Corporation's expropriated investment in Belize Electricity. The book value was \$108 million, including foreign exchange impacts, as at June 30, 2014 (December 31, 2013 - \$108 million). If the expropriation is held to be unconstitutional, it is not determinable at this time as to the nature of the relief that would be awarded to Fortis; for example: (i) ordering return of the shares to Fortis and/or award of damages; or (ii) ordering compensation to be paid to Fortis for the unconstitutional expropriation of the shares and/or award of damages. Based on presently available information, the \$108 million long-term other asset is not deemed impaired as at June 30, 2014. Fortis will continue to assess for impairment each reporting period based on evaluating the outcomes of court proceedings and/or compensation settlement negotiations. As well as continuing the constitutional challenge of the expropriation, Fortis is also pursuing alternative options for obtaining fair compensation, including compensation under the Belize/United Kingdom Bilateral Investment Treaty.

Capital Resources and Liquidity Risk - Credit Ratings: The Corporation's credit ratings were affirmed by S&P in April 2014 and DBRS in February 2014. Year-to-date 2014, the following changes were made to the credit ratings of the Corporation's utilities: (i) Moody's Investor Service ("Moody's") upgraded Central Hudson to 'A2' from 'A3' with a stable outlook in January 2014; (ii) DBRS confirmed FortisAlberta's credit rating at 'A(low)' and changed the trend to positive from stable in February 2014; (iii) S&P confirmed Maritime Electric's and Caribbean Utilities' credit ratings at 'A' and 'A-', respectively, both with a negative outlook in May 2014; (iv) in June 2014 Moody's affirmed the long-term credit ratings of FHI, FEI, FEVI and FortisBC Electric and changed the ratings outlook to stable from negative; and (v) Fitch Ratings confirmed Central Hudson's credit rating at 'A' and revised the outlook to negative from stable in July 2014.

Defined Benefit Pension and Other Post-Employment Benefit Plan Assets: As at June 30, 2014, the fair value of the Corporation's consolidated defined benefit pension and other post-employment benefit plan assets was \$1,835 million, up \$173 million or 10%, from \$1,662 million as at December 31, 2013.

Labour Relations: The collective agreements between the FortisBC Energy companies and Canadian Office and Professional Employees Union (“COPE”) and FortisBC Electric and COPE representing customer service employees expired on March 31, 2014. The collective agreements have been renewed for a three-year period expiring on March 31, 2017.

The collective agreement between FortisBC Electric and International Brotherhood of Electrical Workers (“IBEW”) expired on January 31, 2013. In December 2013, following a labour disruption, the IBEW and FortisBC Electric agreed to binding interest arbitration. The arbitration process was completed in June 2014 and the arbitrator’s decision is expected in the second half of 2014.

Power Supply Contracts: In May 2014 the BCUC approved FortisBC Electric’s new power purchase agreement with BC Hydro to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20-year term, effective July 1, 2014.

FortisBC Electric has a power-supply sale agreement with BC Hydro for the sale of electricity generated from its non-regulated Walden Power Partnership hydroelectric generating facility, which has a net book value of approximately \$10 million as at June 30, 2014. Subject to a five-month notice of termination by BC Hydro, which has not yet been issued, this agreement could expire. Accordingly, the Company is exposed to the risk that it will not be able to sell the power from this facility beyond the expiry of the current contract on similar terms.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, as applied for in its Multi-Year PBR Plan for 2014 through 2018, FEI began depreciating utility capital assets and amortizing intangible assets the year after the assets are available for use. Prior to January 1, 2014, depreciation and amortization commenced the month after the assets were available for use.

The new US GAAP accounting pronouncements that are applicable to, and were adopted by, Fortis, effective January 1, 2014, are described as follows.

Obligations Resulting from Joint and Several Liability Arrangements

The Corporation adopted Accounting Standards Update (“ASU”) No. 2013-04 *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. The above-noted ASU was applied retrospectively and did not materially impact the Corporation’s interim consolidated financial statements for the three and six months ended June 30, 2014.

Parent’s Accounting for the Cumulative Translation Adjustment

The Corporation adopted the amendments to Accounting Standards Codification (“ASC”) Topic 830, *Foreign Currency Matters - Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*, as outlined in ASU No. 2013-05. The amendments were applied by the Corporation prospectively and did not materially impact the Corporation’s interim consolidated financial statements for the three and six months ended June 30, 2014.

Presentation of an Unrecognized Tax Benefit

The Corporation adopted the amendments to ASC Topic 740, *Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, as outlined in ASU No. 2013-11. The amendments were applied by the Corporation prospectively and did not materially impact the Corporation’s interim consolidated financial statements for the three and six months ended June 30, 2014.

FUTURE ACCOUNTING PRONOUNCEMENTS

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014 the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this update change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. This update is effective for annual and interim periods beginning on or after December 15, 2014 and is to be applied prospectively. Fortis does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014 FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. Fortis is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014 FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this update are intended to resolve diversity in practice for employee share-based payments with performance targets that can entitle an employee to benefit from an award regardless of if they are rendering services at the date of the performance target is achieved. This update is effective for annual and interim periods beginning on or after December 15, 2015 and may be applied prospectively or retrospectively. Fortis does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's interim unaudited consolidated financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are necessary since the regulatory environments in which the Corporation's regulated utilities operate often require amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in earnings in the period in which they become known. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the six months ended June 30, 2014 from those disclosed in the 2013 Annual MD&A.

Contingencies: The Corporation and its subsidiaries are subject to various legal proceedings and claims associated with the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The following describes the nature of the Corporation's contingencies.

Fortis

In May 2012 CH Energy Group and Fortis entered into a proposed settlement agreement with counsel to plaintiff shareholders pertaining to several complaints, which named Fortis and other defendants, which were filed in, or transferred to, the Supreme Court of the State of New York, County of New York, relating to the acquisition of CH Energy Group by Fortis. The complaints generally alleged that the directors of CH Energy Group breached their fiduciary duties in connection with the acquisition and that CH Energy Group, Fortis, FortisUS Inc. and Cascade Acquisition Sub Inc. aided and abetted that breach. The settlement agreement was subject to court approval. On June 19, 2014 the Supreme Court of the State of New York, County of New York issued an Order and Final Judgment approving the settlement agreement thereby concluding the proceedings.

Following the announcement of the proposed acquisition of UNS Energy on December 11, 2013, four complaints which named Fortis and other defendants were filed in the Superior Court of the State of Arizona ("Superior Court") in and for the County of Pima and one claim in the United States District Court in and for the District of Arizona, challenging the proposed acquisition. The complaints generally allege that the directors of UNS Energy breached their fiduciary duties in connection with the proposed transaction and that UNS Energy, Fortis, FortisUS Inc., and Color Acquisition Sub Inc. aided and abetted that breach. On March 13, 2014, two of the four complaints filed in the Superior Court were dismissed by the plaintiffs. On March 18, 2014, counsel for the parties in the two actions remaining in the Superior Court executed a Memorandum of Understanding recording an agreement-in-principle on the structure of a settlement to be proposed to the Superior Court for approval following closing of the acquisition. On April 15, 2014, the complaint filed in the United States District Court was dismissed by the plaintiff. The outcome of these lawsuits cannot be predicted with any certainty and, accordingly, no amount has been accrued in the consolidated financial statements.

FHI

In April 2013 FHI and Fortis were named as defendants in an action in the British Columbia Supreme Court ("B.C. Supreme Court") by the Coldwater Indian Band ("Band"). The claim is in regard to interests in a pipeline right of way on reserve lands. The pipeline on the right of way was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in April 2007. The Band seeks orders cancelling the right of way and claims damages for wrongful interference with the Band's use and enjoyment of reserve lands. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FortisBC Energy Companies

FEI was the plaintiff in a B.C. Supreme Court action against the City of Surrey ("Surrey") in which FEI sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between the Company and Surrey. The relocation was required due to the development and expansion of Surrey's transportation infrastructure. FEI claimed that the parties had an agreement that dealt with the allocation of costs. Surrey advanced counterclaims, including an allegation that FEI breached the agreement and that Surrey suffered damages as a result. In December 2013 the court issued a decision ordering FEI and Surrey to share equally the cost of the pipeline relocation. The court also decided that Surrey was successful in its counterclaim that FEI breached the agreement. The amount of damages that may be awarded to Surrey at a subsequent hearing cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FortisBC Electric

The Government of British Columbia has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake in 2003, prior to the acquisition of FortisBC Electric by Fortis, and has filed and served a writ and statement of claim against FortisBC Electric dated August 2, 2005. The Government of British Columbia has disclosed that its claim includes approximately \$15 million in damages as well as pre-judgment interest, but that it has not fully quantified its damages.

FortisBC Electric and its insurers continue to defend the claim by the Government of British Columbia. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

The Government of British Columbia filed a claim in the B.C. Supreme Court in June 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, British Columbia in 2010. The Government of British Columbia alleges in its claim that the dam failure was caused by the defendants', which include FortisBC Electric, use of a road on top of the dam. The Government of British Columbia estimates its damages and the damages of the homeowners, on whose behalf it is claiming, to be approximately \$15 million. While FortisBC Electric has not been served, the Company has retained counsel and has notified its insurers. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Central Hudson

Former Manufactured Gas Plant ("MGP") Facilities

Central Hudson and its predecessors owned and operated MGPs to serve their customers' heating and lighting needs. These plants manufactured gas from coal and oil beginning in the mid- to late 1800s with all sites ceasing operations by the 1950s. This process produced certain by-products that may pose risks to human health and the environment.

The New York State Department of Environmental Conservation ("DEC"), which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes the Company or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson's franchise territory. The DEC has further requested that the Company investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Clean-up Agreement or Brownfield Clean-up Agreement. Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated. As at June 30, 2014, an obligation of US\$105 million was recognized in respect of MGP remediation and, based upon cost model analysis completed in 2012, it is estimated, with a 90% confidence level, that total costs to remediate these sites over the next 30 years will not exceed US\$152 million.

Central Hudson has notified its insurers and intends to seek reimbursement from insurers for remediation, where coverage exists. Further, as authorized by the PSC, Central Hudson is currently permitted to defer, for future recovery from customers, differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return.

Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility. In the course of Central Hudson's hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. Based on the investigation work completed by Central Hudson, the DEC and Central Hudson agreed in late 2013 that no additional investigation efforts are necessary. As requested by the DEC, Central Hudson submitted a draft Corrective Measures Study scoping document for review by the DEC. The extent of the contamination has been established and approximately US\$3 million has been accrued in the consolidated financial statements.

Asbestos Litigation

Prior to and after the acquisition of CH Energy Group, various asbestos lawsuits have been brought against Central Hudson. While a total of 3,344 asbestos cases have been raised, 1,169 remained pending as at June 30, 2014. Of the cases no longer pending against Central Hudson, 2,020 have been dismissed or discontinued without payment by the Company, and Central Hudson has settled the remaining 155 cases. The Company is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including the Company's experience in the settlement and/or dismissal of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material effect on its financial position, results of operations or cash flows and, accordingly, no amount has been accrued in the consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2012 through June 30, 2014. The quarterly information has been obtained from the Corporation's interim unaudited consolidated financial statements. 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 (Unaudited)	Net Earnings Attributable to Common Equity		Earnings per Common Share	
	Revenue (\$ millions)	Shareholders (\$ millions)	Basic (\$)	Diluted (\$)
Quarter Ended				
June 30, 2014	1,056	47	0.22	0.22
March 31, 2014	1,455	143	0.67	0.66
December 31, 2013	1,229	100	0.47	0.47
September 30, 2013	915	48	0.23	0.23
June 30, 2013	790	54	0.28	0.28
March 31, 2013	1,113	151	0.79	0.76
December 31, 2012	999	87	0.46	0.45
September 30, 2012	714	45	0.24	0.24

The summary of the past eight quarters reflects the Corporation's continued organic growth, growth from acquisitions and associated acquisition-related expenses, as well as the seasonality associated with its businesses. Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. Revenue is also affected by the cost of fuel and purchased power and the commodity cost of 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 FortisBC Energy companies are realized in the first and fourth quarters.

June 2014/June 2013: Net earnings attributable to common equity shareholders were \$47 million, or \$0.22 per common share, for the second quarter of 2014 compared to earnings of \$54 million, or \$0.28 per common share, for the second quarter of 2013. A discussion of the quarter over quarter variance in financial results is provided in the "Financial Highlights" section of this MD&A.

March 2014/March 2013: Net earnings attributable to common equity shareholders were \$143 million, or \$0.67 per common share, for the first quarter of 2014 compared to earnings of \$151 million, or \$0.79 per common share, for the first quarter of 2013. Earnings for the first quarter of 2014 included \$5 million from discontinued operations associated with Griffith and were reduced by \$11 million in after-tax interest expense associated with the convertible debentures. Earnings for the first quarter of 2013 included an approximate \$22 million extraordinary gain associated with the Exploits Partnership. Excluding the above-noted items, earnings for the first quarter of 2014 were favourably impacted by: (i) contribution of \$18 million from Central Hudson; (ii) increased non-regulated hydroelectric generation in Belize; (iii) regulator-approved adjustments at Newfoundland Power, which impacted the timing of quarterly earnings; and (iv) electricity sales growth at the Caribbean Regulated Electric Utilities. The increases were partially offset by lower earnings at the FortisBC Energy companies and higher Corporate and Other expenses. The first stage of the GCOC Proceeding in British Columbia reduced the allowed ROE and common equity component of capital structure for the benchmark utility, FEI, effective January 1, 2013; however, the impact of this regulatory decision was not recognized until the second quarter of 2013, when the decision was received.

December 2013/December 2012: Net earnings attributable to common equity shareholders were \$100 million, or \$0.47 per common share, for the fourth quarter of 2013 compared to earnings of \$87 million, or \$0.46 per common share, for the fourth quarter of 2012. Results for the fourth quarter of 2013 were impacted by the acquisition of CH Energy Group, including contribution of \$11 million from Central Hudson and a net loss of approximately \$2 million at the non-regulated operations. Earnings for the fourth quarter of 2013 were also favourably impacted by: (i) increased non-regulated hydroelectric generation in Belize, partially offset by income tax expenses associated with the Exploits Partnership; (ii) higher earnings at Caribbean Regulated Electric Utilities, driven by the capitalization of overhead costs at Fortis Turks and Caicos; (iii) higher earnings at the FortisBC Energy companies and FortisBC Electric, mainly due to lower-than-expected finance charges and rate base growth, partially offset by decreases in the allowed ROEs for each of the utilities and the common equity component of capital structure at FEI; and (iv) a gain on the sale of land at Newfoundland Power. The increase was partially offset by lower earnings at FortisAlberta and Other Canadian Electric Utilities. The timing of depreciation and certain operating expenses, and lower net transmission revenue at FortisAlberta were partially offset by rate base growth and growth in the number of customers. At Other Canadian Electric Utilities, the decrease was primarily due to the impact of the cumulative return adjustment on smart meter investments at FortisOntario in 2012. Corporate and Other expenses were comparable quarter over quarter.

September 2013/September 2012: Net earnings attributable to common equity shareholders were \$48 million, or \$0.23 per common share, for the third quarter of 2013 compared to earnings of \$45 million, or \$0.24 per common share, for the third quarter of 2012. Results for the third quarter of 2013 were impacted by the acquisition of CH Energy Group. Central Hudson contributed \$12 million to earnings for the third quarter of 2013 and Griffith incurred a net loss of approximately \$2.5 million. Due to the common share offering and financing costs associated with the acquisition, earnings per common share for the third quarter of 2013 were not materially impacted by the acquisition of CH Energy Group. Earnings for the third quarter of 2013 were favourably impacted by increased non-regulated hydroelectric generation in Belize, due to higher rainfall, and lower Corporate expenses. Lower Corporate expenses were primarily due to a higher income tax recovery, resulting from the release of income tax provisions in the third quarter of 2013 and the recognition of income tax expense associated with Part VI.1 tax in the third quarter of 2012, and a lower foreign exchange loss, partially offset by higher preference share dividends and redemption costs. The increase in earnings was partially offset by lower contribution from the FortisBC Energy companies, FortisBC Electric, FortisAlberta and Newfoundland Power. At the FortisBC Energy companies, lower earnings were primarily due to higher operating and maintenance expenses, and decreases in the allowed ROE and the common equity component of the capital structure as a result of the regulatory decision related to the first stage of the GCOC Proceeding in British Columbia, partially offset by rate base growth. Decreased earnings at FortisBC Electric were mainly due to a decrease in the interim allowed ROE as a result of the regulatory decision related to the first stage of the GCOC Proceeding in British Columbia, lower pole-attachment revenue and higher effective income taxes, partially offset by rate base growth and lower-than-expected finance charges. At FortisAlberta, lower net transmission revenue and \$1 million of costs related to flooding in southern Alberta in June 2013 were largely offset by rate base growth, customer growth and timing of operating expenses. Decreased earnings at Newfoundland Power due to the reversal of statute-barred Part VI.1 tax in the third quarter of 2012 were partially offset by rate base growth and lower storm-related costs.

OUTLOOK

Fortis is focused on closing the UNS Energy acquisition by the end of August 2014. The acquisition is consistent with the Corporation's strategy of investing in high-quality regulated utility assets in Canada and the United States and is expected to be accretive to earnings per common share of Fortis in the first full year after closing, excluding one-time acquisition-related costs. The acquisition lessens the business risk for Fortis by enhancing the geographic diversification of the Corporation's regulated assets, resulting in no more than one-third of total assets being located in any one regulatory jurisdiction.

At the time of closing the acquisition of UNS Energy, the Corporation's consolidated rate base is expected to increase by approximately US\$3 billion, and Fortis utilities will serve more than 3,000,000 electricity and gas customers.

Following the closing of the acquisition of UNS Energy, total assets of Fortis will increase by approximately one-third to approach \$25 billion. Regulated utilities in the United States will represent approximately one-third of total assets, and regulated utilities and non-regulated hydroelectric generation assets will comprise approximately 97% of the Corporation's total assets.

Over the five-year period 2014 through 2018, the Corporation's capital program is expected to exceed \$6.5 billion. Additionally, UNS Energy has forecast that its capital program for 2015 through 2018 will be approximately \$1.5 billion (US\$1.4 billion).

The investment in energy infrastructure to serve the Corporation's customers is expected to grow by an average annual rate of 7% over the next five years. Earnings contributions from the UNS Energy and Central Hudson acquisitions, combined with our capital program, including the completion of the Waneta Expansion in 2015 and the Tilbury LNG facility expansion in 2016, should support earnings per common share growth in 2015 and beyond.

OUTSTANDING SHARE DATA

As at July 31, 2014, the Corporation had issued and outstanding approximately 215.4 million common shares; 8.0 million First Preference Shares, Series E; 5.0 million First Preference Shares, Series F; 9.2 million First Preference Shares, Series G; 10.0 million First Preference Shares, Series H; 8.0 million First Preference Shares, Series J; 10.0 million First Preference Shares, Series K; and 1.8 million Installment Receipts. 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 or not such dividends have been declared.

The number of common shares of Fortis that would be issued if all outstanding stock options, First Preference Shares, Series E and convertible debentures represented by installment receipts were converted as at July 31, 2014 is as follows.

Conversion of Securities into Common Shares (Unaudited)	
As at July 31, 2014	
Security	Number of Common Shares (millions)
Stock Options	5.5
First Preference Shares, Series E	6.3
Convertible Debentures Represented by Installment Receipts	58.6
Total	70.4

Additional information, including the Fortis 2013 Annual Information Form, Management Information Circular and Annual Report, is available on SEDAR at www.sedar.com and on the Corporation's website at www.fortisinc.com.

FORTIS INC.

Interim Consolidated Financial Statements
For the three and six months ended June 30, 2014 and 2013
(Unaudited)

Prepared in accordance with accounting principles generally accepted in the United States

Fortis Inc.
Consolidated Balance Sheets (Unaudited)
As at
(in millions of Canadian dollars)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 612	\$ 72
Accounts receivable	628	732
Prepaid expenses	32	45
Inventories	127	143
Regulatory assets (Note 4)	147	150
Assets held for sale (Note 12)	-	112
Deferred income taxes	30	42
	<u>1,576</u>	<u>1,296</u>
Other assets		
Regulatory assets (Note 4)	290	246
Deferred income taxes	1,775	1,672
Utility capital assets	23	7
Non-utility capital assets	11,852	11,618
Intangible assets	656	649
Goodwill	340	345
	<u>2,074</u>	<u>2,075</u>
	\$ 18,586	\$ 17,908
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 19)	\$ 100	\$ 160
Accounts payable and other current liabilities	901	957
Regulatory liabilities (Note 4)	155	140
Convertible debentures represented by installment receipts (Note 5)	599	-
Current installments of long-term debt	714	780
Current installments of capital lease and finance obligations	7	7
Liabilities associated with assets held for sale (Note 12)	-	32
Deferred income taxes	8	8
	<u>2,484</u>	<u>2,084</u>
Other liabilities		
Regulatory liabilities (Note 4)	678	627
Deferred income taxes	960	902
Long-term debt	1,088	1,078
Capital lease and finance obligations	6,443	6,424
	<u>415</u>	<u>417</u>
	<u>12,068</u>	<u>11,532</u>
Shareholders' equity		
Common shares ⁽¹⁾ (Note 6)	3,849	3,783
Preference shares	1,229	1,229
Additional paid-in capital	17	17
Accumulated other comprehensive loss	(69)	(72)
Retained earnings	1,097	1,044
	<u>6,123</u>	<u>6,001</u>
Non-controlling interests	395	375
	<u>6,518</u>	<u>6,376</u>
	\$ 18,586	\$ 17,908

⁽¹⁾ No par value. Unlimited authorized shares; 215.3 million and 213.2 million issued and outstanding as at June 30, 2014 and December 31, 2013, respectively

Commitments and Contingencies (Notes 20 and 22, respectively)
See accompanying Notes to Interim Consolidated Financial Statements

Fortis Inc.

Consolidated Statements of Earnings (Unaudited) For the periods ended June 30 (in millions of Canadian dollars, except per share amounts)

	Quarter Ended		Six Months Ended	
	2014	2013	2014	2013
Revenue	\$ 1,056	\$ 790	\$ 2,511	\$ 1,903
Expenses				
Energy supply costs	403	282	1,082	787
Operating	307	206	626	427
Depreciation and amortization	149	130	297	259
	859	618	2,005	1,473
Operating income	197	172	506	430
Other income (expenses), net (Note 9)	(1)	(44)	6	(38)
Finance charges (Note 10)	124	92	247	181
Earnings before income taxes, discontinued operations and extraordinary item	72	36	265	211
Income tax expense (recovery) (Note 11)	9	(34)	48	(4)
Earnings from continuing operations	63	70	217	215
Earnings from discontinued operations net of tax (Note 12)	-	-	5	-
Earnings before extraordinary item	63	70	222	215
Extraordinary gain, net of tax (Note 13)	-	-	-	22
Net earnings	\$ 63	\$ 70	\$ 222	\$ 237
Net earnings attributable to:				
Non-controlling interests	\$ 3	\$ 2	\$ 5	\$ 4
Preference equity shareholders	13	14	27	28
Common equity shareholders	47	54	190	205
	\$ 63	\$ 70	\$ 222	\$ 237
Earnings per common share from continuing operations (Note 14)				
Basic	\$ 0.22	\$ 0.28	\$ 0.87	\$ 0.95
Diluted	\$ 0.22	\$ 0.28	\$ 0.86	\$ 0.94
Earnings per common share (Note 14)				
Basic	\$ 0.22	\$ 0.28	\$ 0.89	\$ 1.06
Diluted	\$ 0.22	\$ 0.28	\$ 0.88	\$ 1.05

See accompanying Notes to Interim Consolidated Financial Statements

Fortis Inc.

Consolidated Statements of Comprehensive Income (Unaudited) For the periods ended June 30 (in millions of Canadian dollars)

	Quarter Ended		Six Months Ended	
	2014	2013	2014	2013
Net earnings	\$ 63	\$ 70	\$ 222	\$ 237
Other comprehensive (loss) income				
Unrealized foreign currency translation (losses) gains, net of hedging activities and tax	(28)	5	2	7
Unrealized employee future benefits gains, net of tax	-	-	1	1
	(28)	5	3	8
Comprehensive income	\$ 35	\$ 75	\$ 225	\$ 245
Comprehensive income attributable to:				
Non-controlling interests	\$ 3	\$ 2	\$ 5	\$ 4
Preference equity shareholders	13	14	27	28
Common equity shareholders	19	59	193	213
	\$ 35	\$ 75	\$ 225	\$ 245

See accompanying Notes to Interim Consolidated Financial Statements

Fortis Inc.
Consolidated Statements of Cash Flows (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars)

	Quarter Ended		Six Months Ended	
	2014	2013	2014	2013
Operating activities				
Net earnings	\$ 63	\$ 70	\$ 222	\$ 237
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation - capital assets	130	115	260	228
Amortization - intangible assets	13	11	26	23
Amortization - other	6	4	11	8
Deferred income tax recovery	(9)	(15)	(16)	(26)
Accrued employee future benefits	8	(4)	(1)	(5)
Equity component of allowance for funds used during construction (Note 9)	(1)	(1)	(3)	(4)
Other	6	(34)	7	(44)
Change in long-term regulatory assets and liabilities	(37)	4	(7)	(2)
Change in non-cash operating working capital (Note 16)	142	120	87	138
	321	270	586	553
Investing activities				
Change in other assets and other liabilities	1	(4)	4	1
Capital expenditures - utility capital assets	(278)	(282)	(499)	(515)
Capital expenditures - non-utility capital assets	(7)	(11)	(16)	(24)
Capital expenditures - intangible assets	(13)	(9)	(20)	(16)
Contributions in aid of construction	8	20	26	30
Proceeds on disposal and settlement of assets (Notes 12 and 13)	1	18	107	19
Business acquisitions, net of cash acquired	-	(1,000)	-	(1,055)
	(288)	(1,268)	(398)	(1,560)
Financing activities				
Change in short-term borrowings	37	(30)	(61)	(78)
Proceeds from convertible debentures represented by installment receipts, net of issue costs (Note 5)	-	-	561	-
Proceeds from long-term debt, net of issue costs	227	51	260	51
Repayments of long-term debt and capital lease and finance obligations	(33)	(25)	(44)	(65)
Net (repayments) borrowings under committed credit facilities	(128)	562	(273)	698
Advances from non-controlling interests	4	21	17	43
Issue of common shares, net of costs and dividends reinvested (Note 6)	12	579	23	589
Dividends				
Common shares, net of dividends reinvested	(48)	(44)	(95)	(85)
Preference shares	(13)	(14)	(27)	(28)
Subsidiary dividends paid to non-controlling interests	(3)	(3)	(5)	(5)
	55	1,097	356	1,120
Effect of exchange rate changes on cash and cash equivalents	(4)	-	(4)	-
Change in cash and cash equivalents	84	99	540	113
Cash and cash equivalents, beginning of period	528	168	72	154
Cash and cash equivalents, end of period	\$ 612	\$ 267	\$ 612	\$ 267

Supplementary Information to Consolidated Statements of Cash Flows (Note 16)
See accompanying Notes to Interim Consolidated Financial Statements

Fortis Inc.
Consolidated Statements of Changes in Equity (Unaudited)
For the periods ended June 30
(in millions of Canadian dollars)

	Common Shares	Preference Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non- Controlling Interests	Total Equity
	<i>(Note 6)</i>						
As at January 1, 2014	\$ 3,783	\$ 1,229	\$ 17	\$ (72)	\$ 1,044	\$ 375	\$ 6,376
Net earnings	-	-	-	-	217	5	222
Other comprehensive income	-	-	-	3	-	-	3
Common share issues	66	-	(2)	-	-	-	64
Stock-based compensation	-	-	2	-	-	-	2
Advances from non-controlling interests	-	-	-	-	-	17	17
Foreign currency translation impacts	-	-	-	-	-	3	3
Subsidiary dividends paid to non-controlling interests	-	-	-	-	-	(5)	(5)
Dividends declared on common shares (\$0.64 per share)	-	-	-	-	(137)	-	(137)
Dividends declared on preference shares	-	-	-	-	(27)	-	(27)
As at June 30, 2014	\$ 3,849	\$ 1,229	\$ 17	\$ (69)	\$ 1,097	\$ 395	\$ 6,518
As at January 1, 2013	\$ 3,121	\$ 1,108	\$ 15	\$ (96)	\$ 952	\$ 310	\$ 5,410
Net earnings	-	-	-	-	233	4	237
Other comprehensive income	-	-	-	8	-	-	8
Common share issues	618	-	(1)	-	-	-	617
Stock-based compensation	-	-	2	-	-	-	2
Advances from non-controlling interests	-	-	-	-	-	43	43
Foreign currency translation impacts	-	-	-	-	-	4	4
Subsidiary dividends paid to non-controlling interests	-	-	-	-	-	(5)	(5)
Dividends declared on common shares (\$0.62 per share)	-	-	-	-	(125)	-	(125)
Dividends declared on preference shares	-	-	-	-	(28)	-	(28)
As at June 30, 2013	\$ 3,739	\$ 1,108	\$ 16	\$ (88)	\$ 1,032	\$ 356	\$ 6,163

See accompanying Notes to Interim Consolidated Financial Statements

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS

NATURE OF OPERATIONS

Fortis Inc. ("Fortis" or the "Corporation") is principally an international electric and gas distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and non-utility assets, which are treated as two separate segments. The Corporation's reporting segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the long-term objectives of Fortis. Each entity within the reporting segments operates with substantial autonomy, assumes profit and loss responsibility and is accountable for its own resource allocation.

The following outlines each of the Corporation's reportable segments and is consistent with the basis of segmentation as disclosed in the Corporation's 2013 annual audited consolidated financial statements.

REGULATED UTILITIES

The Corporation's interests in regulated gas and electric utilities are as follows:

- a. *Regulated Gas Utilities - Canadian:* Includes the FortisBC Energy companies, primarily comprised of FortisBC Energy Inc. ("FEI"), FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.
- b. *Regulated Gas & Electric Utility - United States:* Includes Central Hudson Gas & Electric Corporation ("Central Hudson"), which was acquired by Fortis as part of the acquisition of CH Energy Group, Inc. ("CH Energy Group") in June 2013.
- c. *Regulated Electric Utilities - Canadian:* Comprised of FortisAlberta, FortisBC Electric, Newfoundland Power, and Other Canadian Electric Utilities (Maritime Electric and FortisOntario). FortisOntario mainly includes Canadian Niagara Power Inc., Cornwall Street Railway, Light and Power Company, Limited and Algoma Power Inc.
- d. *Regulated Electric Utilities - Caribbean:* Comprised of Caribbean Utilities, in which Fortis holds an approximate 60% controlling interest, and two wholly owned utilities in the Turks and Caicos Islands, FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "Fortis Turks and Caicos").

NON-REGULATED - FORTIS GENERATION

Fortis Generation includes the financial results of non-regulated generation assets in Belize, Ontario, British Columbia and Upstate New York.

NON-REGULATED - NON-UTILITY

- a. *Fortis Properties:* Fortis Properties owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces, and owns and operates approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada.
- b. *Griffith:* Comprised primarily of Griffith Energy Services, Inc. ("Griffith"), which supplies petroleum products and related services in the Mid-Atlantic Region of the United States. Griffith was acquired by Fortis as part of the acquisition of CH Energy Group in June 2013 and was sold in March 2014 (Note 12).

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS (cont'd)

CORPORATE AND OTHER

The Corporate and Other segment captures expense and revenue items not specifically related to any reportable segment and those business operations that are below the required threshold for reporting as separate segments.

The Corporate and Other segment includes net corporate expenses of Fortis, and non-regulated FortisBC Holdings Inc. ("FHI") and CH Energy Group. Also included in the Corporate and Other segment are the financial results of FortisBC Alternative Energy Services Inc. ("FAES"). FAES is a wholly owned subsidiary of FHI that provides alternative energy solutions, including thermal-energy and geo-exchange systems.

PENDING ACQUISITION

In December 2013 Fortis entered into an agreement and plan of merger to acquire UNS Energy Corporation ("UNS Energy") (NYSE:UNS) for US\$60.25 per common share in cash, representing an aggregate purchase price of approximately US\$4.3 billion, including the assumption of approximately US\$1.8 billion of debt on closing. UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona, serving approximately 657,000 electricity and gas customers.

The closing of the acquisition remains subject to approval by the Arizona Corporation Commission and the satisfaction of customary closing conditions (Notes 5 and 22). In March 2014 UNS Energy common shareholders approved the acquisition of UNS Energy by Fortis and in April 2014 the U.S. Federal Energy Regulatory Commission ("FERC") approved the transaction. The transaction review by the Committee on Foreign Investment in the United States was completed in May 2014 and in June 2014 early termination of the waiting period under Hart-Scott-Rodino Act was received.

In May 2014 the Corporation, UNS Energy, ACC Staff, the Residential Utility Consumer Office and other parties entered into a settlement agreement in which the parties agree that the merger is in the public interest and recommend approval by the ACC, subject to certain conditions. The settlement agreement is subject to review and approval by the ACC, which could approve, reject or require modifications to the settlement agreement as a condition of approval of the merger. In June 2014 a hearing was held before an ACC Administrative Law Judge ("ALJ"). On July 29, 2014, the ALJ issued an opinion and order recommending approval of the acquisition, as conditioned by the settlement agreement. Consideration of this recommended order has tentatively been scheduled for the ACC's open meeting to be held on August 12-13, 2014. The recommended order will be considered by the ACC in determining whether to approve the acquisition. If the transaction is approved by the ACC at this meeting, the acquisition is expected to close by the end of August 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial statements. As a result, these interim consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Corporation's 2013 annual audited consolidated financial statements. In management's opinion, the interim consolidated financial statements include all adjustments that are of a recurring nature and necessary to present fairly the consolidated financial position of the Corporation.

Interim results will fluctuate due to the seasonal nature of gas and electricity demand and water flows, as well as the timing and recognition of regulatory decisions. As a result of natural gas consumption patterns, most of the annual earnings of the FortisBC Energy companies are realized in the first and fourth quarters. Given the diversified group of companies, seasonality may vary.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The preparation of the consolidated financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Additionally, certain estimates and judgments are necessary since the regulatory environments in which the Corporation's regulated utilities operate often require amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in earnings in the period in which they become known. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

Interim financial statements may also employ a greater use of estimates than the annual financial statements. There were no material changes in the nature of the Corporation's critical accounting estimates during the three and six months ended June 30, 2014.

An evaluation of subsequent events through to July 31, 2014, the date these interim consolidated financial statements were approved by the Audit Committee of the Board of Directors, was completed to determine whether circumstances warranted recognition and disclosure of events or transactions in the interim consolidated financial statements as at June 30, 2014.

All amounts are presented in Canadian dollars unless otherwise stated.

These interim consolidated financial statements are comprised of the accounts of Fortis and its wholly owned subsidiaries and controlling ownership interests. All significant intercompany balances and transactions have been eliminated on consolidation.

These interim consolidated financial statements have been prepared following the same accounting policies and methods as those used to prepare the Corporation's 2013 annual audited consolidated financial statements, except as described below.

Effective January 1, 2014, as applied for in its Multi-Year Performance-Based Ratemaking Plan for 2014 through 2018, FEI began depreciating utility capital assets and amortizing intangible assets the year after the assets are available for use. Prior to January 1, 2014, depreciation and amortization commenced the month after the assets were available for use.

New Accounting Policies

Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Corporation adopted Accounting Standards Update ("ASU") No. 2013-04 *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. The above-noted ASU was applied retrospectively and did not materially impact the Corporation's interim consolidated financial statements for the three and six months ended June 30, 2014.

Parent's Accounting for the Cumulative Translation Adjustment

Effective January 1, 2014, the Corporation adopted the amendments to Accounting Standards Codification ("ASC") Topic 830, *Foreign Currency Matters - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*, as outlined in ASU No. 2013-05. The amendments were applied by the Corporation prospectively and did not materially impact the Corporation's interim consolidated financial statements for the three and six months ended June 30, 2014.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Presentation of an Unrecognized Tax Benefit

Effective January 1, 2014, the Corporation adopted the amendments to ASC Topic 740, *Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, as outlined in ASU No. 2013-11. The amendments were applied by the Corporation prospectively and did not materially impact the Corporation's interim consolidated financial statements for the three and six months ended June 30, 2014.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014 the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this update change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. This update is effective for annual and interim periods beginning on or after December 15, 2014 and is to be applied prospectively. Fortis does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014 FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. Fortis is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014 FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendments in this update are intended to resolve diversity in practice for employee share-based payments with performance targets that can entitle an employee to benefit from an award regardless of if they are rendering services at the date of the performance target is achieved. This update is effective for annual and interim periods beginning on or after December 15, 2015 and may be applied prospectively or retrospectively. Fortis does not expect that the adoption of this update will have a material impact on its consolidated financial statements.

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4. REGULATORY ASSETS AND LIABILITIES

A summary of the Corporation's regulatory assets and liabilities is provided below. For a detailed description of the nature of the Corporation's regulatory assets and liabilities, refer to Note 7 to the Corporation's 2013 annual audited consolidated financial statements.

<i>(\$ millions)</i>	As at	
	June 30, 2014	December 31, 2013
Regulatory assets		
Deferred income taxes	869	833
Employee future benefits	407	440
Manufactured gas plant ("MGP") site remediation deferral ⁽¹⁾	117	47
Rate stabilization accounts	90	85
Deferred energy management costs	82	76
Deferred lease costs	80	76
Deferred operating overhead costs	48	43
Deferred net losses on disposal of utility capital assets and intangible assets	41	35
Income taxes recoverable on other post-employment benefit ("OPEB") plans	24	24
Customer Care Enhancement Project cost deferral	19	21
Carrying charges - employee future benefits	16	14
Natural gas for transportation incentives	15	8
Whistler pipeline contribution deferral	13	13
Alternative energy projects cost deferral	13	11
Other regulatory assets	88	96
Total regulatory assets	1,922	1,822
Less: current portion	(147)	(150)
Long-term regulatory assets	1,775	1,672

⁽¹⁾ In May 2014 remediation investigation was completed at one of Central Hudson's seven MGP sites, resulting in the recognition of an approximate \$62 million (US\$58 million) remediation liability. As authorized by the regulator, Central Hudson is currently permitted to defer, for future recovery from customers, differences between actual costs for MGP site investigation and remediation and the associated rate allowances, which resulted in a corresponding increase in the MGP site remediation deferral (Note 22).

<i>(\$ millions)</i>	As at	
	June 30, 2014	December 31, 2013
Regulatory liabilities		
Non-asset retirement obligation removal cost provision	580	563
Rate stabilization accounts	185	177
Alberta Electric System Operator charges deferral	98	73
Employee future benefits	57	55
Deferred income taxes	51	45
Customer and community benefits obligation	24	23
Carrying charges - employee future benefits	19	16
Meter reading and customer service variance deferral	16	17
Rate base impact of tax repair project	14	13
Other regulatory liabilities	71	60
Total regulatory liabilities	1,115	1,042
Less: current portion	(155)	(140)
Long-term regulatory liabilities	960	902

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5. CONVERTIBLE DEBENTURES REPRESENTED BY INSTALLMENT RECEIPTS

To finance a portion of the pending acquisition of UNS Energy, in January 2014, Fortis, through a direct wholly owned subsidiary, completed the sale of \$1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures, represented by Installment Receipts (the "Debentures").

The offering of the Debentures consisted of a bought deal placement of \$1.594 billion aggregate principal amount of Debentures underwritten by a syndicate of underwriters and the sale of \$206 million aggregate principal amount of Debentures to certain institutional investors on a private placement basis (the "Offerings").

The Debentures were sold on an installment basis at a price of \$1,000 per Debenture, of which \$333 was paid on closing of the Offerings and the remaining \$667 is payable on a date ("Final Installment Date") to be fixed not less than 15 days nor more than 90 days following satisfaction of conditions precedent to the closing of the acquisition of UNS Energy. Prior to the Final Installment Date, the Debentures are represented by Installment Receipts. The Installment Receipts began trading on the Toronto Stock Exchange ("TSX") on January 9, 2014 under the symbol "FTS.IR". The Debentures will not be listed. The Debentures will mature on January 9, 2024 and bear interest at an annual rate of 4% per \$1,000 principal amount of Debentures until and including the Final Installment Date, after which the interest rate will be zero.

If the Final Installment Date occurs prior to the first anniversary of the closing of the Offerings, holders of Debentures who have paid the final installment will be entitled to receive, in addition to the payment of accrued and unpaid interest, an amount equal to the interest that would have accrued from the day following the Final Installment Date to, but excluding, the first anniversary of the closing of the Offerings had the Debentures remained outstanding until such date. Approximately \$18 million (\$13 million after tax) and \$34 million (\$24 million after tax) in interest expense associated with the Debentures was recognized in the second quarter and first half of 2014, respectively. A total of approximately \$72 million (\$51 million after tax) in interest expense associated with the Debentures is expected to be incurred in 2014 (Notes 10 and 20).

At the option of the holders and provided that payment of the final installment has been made, each Debenture will be convertible into common shares of Fortis at any time after the Final Installment Date but prior to maturity or redemption by the Corporation at a conversion price of \$30.72 per common share, being a conversion rate of 32.5521 common shares per \$1,000 principal amount of Debentures (Note 14).

The Debentures will not be redeemable, except that Fortis will redeem the Debentures at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the conditions necessary to approve the acquisition of UNS Energy will not be satisfied; (ii) termination of the acquisition agreement; and (iii) July 2, 2015, if notice of the Final Installment Date has not been given to holders on or before June 30, 2015. In addition, after the Final Installment Date, any Debentures not converted may be redeemed by Fortis at a price equal to their principal amount plus unpaid interest accrued prior to the Final Installment Date. Under the terms of the Installment Receipt Agreement, Fortis agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Installment Date has occurred, the Corporation will at all times maintain availability under its committed revolving corporate credit facility of not less than \$600 million to cover the principal amount of the first installment of the Debentures in the event of a mandatory redemption.

At maturity, Fortis will have the right to pay the principal amount due in common shares, which will be valued at 95% of the weighted average trading price on the TSX for the 20 consecutive trading days ending five trading days preceding the maturity date.

The proceeds of the first installment of the Offerings were approximately \$599 million, or \$561 million net of issue costs. A significant portion of the net proceeds is cash on hand, while a portion was used to repay borrowings under the Corporation's existing revolving credit facility and for other general corporate purposes, including intercompany loan advances to subsidiaries. The net proceeds of the final installment payment of the Offerings are expected to be, in aggregate, approximately \$1.165 billion.

FORTIS INC.

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6. COMMON SHARES

Common shares issued during the period were as follows:

	Quarter Ended June 30, 2014		Year-to-Date June 30, 2014	
	Number of Shares <i>(in thousands)</i>	Amount (\$ millions)	Number of Shares <i>(in thousands)</i>	Amount (\$ millions)
Balance, beginning of period	214,279	3,816	213,165	3,783
Dividend Reinvestment Plan	660	21	1,391	43
Consumer Share Purchase Plan	8	-	19	-
Employee Share Purchase Plan	70	2	243	7
Stock Option Plans	318	10	517	16
Balance, end of period	215,335	3,849	215,335	3,849

7. STOCK-BASED COMPENSATION PLANS

Stock Options

In February and June 2014, the Corporation granted options to purchase common shares under the 2012 Stock Option Plan ("2012 Plan") at the five-day volume weighted average trading price immediately preceding the date of grant. The options granted under the 2012 Plan are exercisable for a period not to exceed ten years from the date of grant, expire no later than three years after the termination, death or retirement of the optionee and vest evenly over a four-year period on each anniversary of the date of grant. Directors are not eligible to receive grants of options under the 2012 Plan.

The following options were granted in 2014:

	June 2014	February 2014
Options granted (#)	23,584	925,172
Exercise price (\$)	32.23	30.73
Grant date fair value (\$)	2.69	3.53

The fair value was estimated at the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	June 2014	February 2014
Dividend yield (%)	3.8	3.8
Expected volatility (%)	15.9	20.3
Risk-free interest rate (%)	1.52	1.69
Weighted average expected life (years)	5.5	5.5

Directors' Deferred Share Unit Plan

In January 2014, 7,766 Deferred Share Units ("DSUs") were granted to the Corporation's Board of Directors, representing the first quarter equity component of the Directors' annual compensation and, where opted, their first quarter component of annual retainers in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of the Corporation and is entitled to accrue notional common share dividends equivalent to those declared by the Corporation's Board of Directors.

In April 2014, 7,520 DSUs were granted to the Corporation's Board of Directors, representing the second quarter equity component of the Directors' annual compensation and, where opted, their second quarter component of annual retainers in lieu of cash.

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7. STOCK-BASED COMPENSATION PLANS (cont'd)

Performance Share Unit Plans

The Corporation's Performance Share Unit ("PSU") Plans represent a component of long-term compensation awarded to senior management of the Corporation and its subsidiaries. Each PSU represents a unit with an underlying value equivalent to the value of one common share of the Corporation and is subject to a three-year vesting period, at which time a cash payment may be made, as determined by the Human Resources Committee of the Board of Directors. Each PSU is entitled to accrue notional common share dividends equivalent to those declared by the Corporation's Board of Directors.

In January and June 2014 155,133 and 23,791 PSUs, respectively, were granted to senior management of the Corporation and its subsidiaries under the 2013 PSU Plan.

In March 2014, 33,559 PSUs, representing two-thirds of the vested PSUs, were paid out to the Chief Executive Officer ("CEO") of the Corporation at \$30.67 per PSU, for a total of approximately \$1 million. The payout was made upon the three-year maturation period in respect of the PSU grant made in March 2011 and the CEO satisfying two of the three payment requirements, as determined by the Human Resources Committee of the Board of Directors of Fortis.

In April 2014, 78,536 share units were granted to senior management of a U.S. subsidiary of the Corporation under a 2014 Share Unit Plan. The 2014 Share Unit Plan was modelled after the Corporation's 2013 PSU Plan, with differences in the payment criteria at the end of the three-year vesting period.

For the three and six months ended June 30, 2014, stock-based compensation expense of approximately \$3 million and \$5 million, respectively, was recognized (\$3 million and \$4 million for the three and six months ended June 30, 2013, respectively).

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8. 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, for employees. The Corporation and certain subsidiaries also offer OPEB plans for qualifying employees. The net benefit cost of providing the defined benefit pension and OPEB plans is detailed in the following table.

<i>(\$ millions)</i>	Quarter Ended June 30			
	Defined Benefit Pension Plans		OPEB Plans	
	2014	2013	2014	2013
Components of net benefit cost:				
Service costs	9	8	2	2
Interest costs	20	11	6	3
Expected return on plan assets	(24)	(14)	(2)	-
Amortization of actuarial losses	8	7	-	1
Amortization of past service credits/plan amendments	-	-	(3)	(1)
Regulatory adjustments	3	(4)	1	1
Net benefit cost	16	8	4	6

<i>(\$ millions)</i>	Year-to-Date June 30			
	Defined Benefit Pension Plans		OPEB Plans	
	2014	2013	2014	2013
Components of net benefit cost:				
Service costs	19	16	5	4
Interest costs	41	23	10	6
Expected return on plan assets	(48)	(27)	(4)	-
Amortization of actuarial losses	15	14	2	3
Amortization of past service credits/plan amendments	-	-	(5)	(2)
Regulatory adjustments	5	(7)	3	1
Net benefit cost	32	19	11	12

For the three and six months ended June 30, 2014, the Corporation expensed \$5 million and \$10 million, respectively (\$3 million and \$7 million for the three and six months ended June 30, 2013 respectively), related to defined contribution pension plans.

9. OTHER INCOME (EXPENSES), NET

<i>(\$ millions)</i>	Quarter Ended June 30		Year-to-Date June 30	
	2014	2013	2014	2013
	Equity component of allowance for funds used during construction ("AFUDC")	1	1	3
Net foreign exchange (loss) gain	(4)	3	-	5
Interest income	3	1	7	2
Acquisition-related expenses	(2)	(8)	(4)	(8)
Acquisition-related customer and community benefits	-	(41)	-	(41)
Other	1	-	-	-
	(1)	(44)	6	(38)

The net foreign exchange loss and gain relates to the translation into Canadian dollars of the Corporation's US dollar-denominated long-term other asset representing the book value of the Corporation's expropriated investment in Belize Electricity (Notes 19 and 21).

The acquisition-related expenses in 2014 are associated with the pending acquisition of UNS Energy (Note 1) and the acquisition-related expenses in 2013 were associated with the acquisition of CH Energy Group.

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10. FINANCE CHARGES

<i>(\$ millions)</i>	Quarter Ended June 30		Year-to-Date June 30	
	2014	2013	2014	2013
Interest:				
Long-term debt and capital lease and finance obligations	109	94	220	188
Convertible debentures represented by installment receipts (Note 5)	18	-	34	-
Short-term borrowings	3	2	5	4
Debt component of AFUDC	(6)	(4)	(12)	(11)
	124	92	247	181

11. INCOME TAXES

Income taxes differ from the amount that would be expected to be generated by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. The following is a reconciliation of consolidated statutory income taxes to consolidated effective income taxes.

<i>(\$ millions, except as noted)</i>	Quarter Ended June 30		Year-to-Date June 30	
	2014	2013	2014	2013
Combined Canadian federal and provincial statutory income tax rate	29.0%	29.0%	29.0%	29.0%
Statutory income tax rate applied to earnings before income taxes and extraordinary item	21	10	77	61
Difference between Canadian statutory income tax rate and rates applicable to foreign subsidiaries	(3)	(5)	(5)	(7)
Difference in Canadian provincial statutory income tax rates applicable to subsidiaries in different Canadian jurisdictions	(2)	(2)	(7)	(8)
Items capitalized for accounting purposes but expensed for income tax purposes	(9)	(10)	(22)	(26)
Difference between capital cost allowance and amounts claimed for accounting purposes	(1)	-	-	(2)
Non-deductible expenses	1	1	2	2
Impacts associated with Part VI.1 tax	-	(25)	-	(23)
Release of income tax reserves	-	(5)	-	(5)
Difference between employee future benefits paid and amounts expensed for accounting purposes	1	-	3	1
Other	1	2	-	3
Income tax expense (recovery)	9	(34)	48	(4)
Effective income tax rate	12.5%	(94.4%)	18.1%	(1.9%)

In June 2013 the Government of Canada enacted changes associated with Part VI.1 tax on the Corporation's preference share dividends. In accordance with US GAAP, income taxes are required to be recognized based on enacted tax legislation. In the second quarter of 2013, the Corporation recognized an approximate \$25 million income tax recovery due to the enactment of higher deductions associated with Part VI.1 tax.

In June 2013 a settlement was reached with Canada Revenue Agency resulting in the release of income tax provisions of approximately \$5 million.

As at June 30, 2014, the Corporation had non-capital and capital loss carryforwards of approximately \$148 million (December 31, 2013 - \$133 million), of which \$16 million (December 31, 2013 - \$12 million) has not been recognized in the consolidated financial statements. The non-capital loss carryforwards expire between 2014 and 2034.

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12. SALE OF GRIFFITH

In March 2014 Griffith was sold for proceeds of approximately \$105 million (US\$95 million). The assets and liabilities of Griffith were classified as held for sale on the consolidated balance sheet as at December 31, 2013 and the results of operations to the date of sale are presented as discontinued operations on the consolidated statements of earnings for the three and six months ended June 30, 2014.

The table below details the results of discontinued operations.

<i>(\$ millions)</i>	Year-to-Date June 30 2014
Revenue	95
Earnings from discontinued operations before income taxes	8
Income tax expense	(3)
Earnings from discontinued operations, net of tax	5

13. EXTRAORDINARY GAIN, NET OF TAX

In March 2013 the Corporation and the Government of Newfoundland and Labrador settled all matters, including release from all debt obligations, pertaining to the Government's December 2008 expropriation of non-regulated hydroelectric generating assets and water rights in central Newfoundland, then owned by the Exploits River Hydro Partnership, in which Fortis held an indirect 51% interest. As a result of the settlement, an extraordinary gain of approximately \$25 million (\$22 million after tax) was recognized in the first quarter of 2013.

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14. EARNINGS PER COMMON SHARE

The Corporation calculates earnings per common share ("EPS") on the weighted average number of common shares outstanding. Diluted EPS is calculated using the treasury stock method for options and the "if-converted" method for convertible securities.

EPS was as follows:

	Quarter Ended June 30, 2014								
	Net Earnings to Common Shareholders				Weighted Average	EPS			
	Continuing Operations	Discontinued Operations	Extraordinary Item	Total	Number of Shares	Continuing Operations	Discontinued Operations	Extraordinary Item	Total
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(millions)	Operations	Operations	Item	Total
Basic EPS	47	-	-	47	214.8	\$ 0.22	\$ -	\$ -	\$ 0.22
Effect of potential dilutive securities:									
Stock Options	-	-	-	-	0.5				
Preference Shares	3	-	-	3	6.9				
	50	-	-	50	222.2				
Deduct anti-dilutive impacts									
Preference Shares	(3)	-	-	(3)	(6.9)				
Diluted EPS	47	-	-	47	215.3	\$ 0.22	\$ -	\$ -	\$ 0.22

	Quarter Ended June 30, 2013								
	Net Earnings to Common Shareholders				Weighted Average	EPS			
	Continuing Operations	Discontinued Operations	Extraordinary Item	Total	Number of Shares	Continuing Operations	Discontinued Operations	Extraordinary Item	Total
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(millions)	Operations	Operations	Item	Total
Basic EPS	54	-	-	54	193.4	\$ 0.28	\$ -	\$ -	\$ 0.28
Effect of potential dilutive securities:									
Stock Options	-	-	-	-	0.7				
Preference Shares	4	-	-	4	10.0				
	58	-	-	58	204.1				
Deduct anti-dilutive impacts									
Preference Shares	(4)	-	-	(4)	(10.0)				
Diluted EPS	54	-	-	54	194.1	\$ 0.28	\$ -	\$ -	\$ 0.28

	Year-to-Date June 30, 2014								
	Net Earnings to Common Shareholders				Weighted Average	EPS			
	Continuing Operations	Discontinued Operations	Extraordinary Item	Total	Number of Shares	Continuing Operations	Discontinued Operations	Extraordinary Item	Total
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(millions)	Operations	Operations	Item	Total
Basic EPS	185	5	-	190	214.2	\$ 0.87	\$ 0.02	\$ -	\$ 0.89
Effect of potential dilutive securities:									
Stock Options	-	-	-	-	0.5				
Preference Shares	5	-	-	5	6.9				
Diluted EPS	190	5	-	195	221.6	\$ 0.86	\$ 0.02	\$ -	\$ 0.88

	Year-to-Date June 30, 2013								
	Net Earnings to Common Shareholders				Weighted Average	EPS			
	Continuing Operations	Discontinued Operations	Extraordinary Item	Total	Number of Shares	Continuing Operations	Discontinued Operations	Extraordinary Item	Total
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(millions)	Operations	Operations	Item	Total
Basic EPS	183	-	22	205	192.7	\$ 0.95	\$ -	\$ 0.11	\$ 1.06
Effect of potential dilutive securities:									
Stock Options	-	-	-	-	0.7				
Preference Shares	8	-	-	8	10.0				
Diluted EPS	191	-	22	213	203.4	\$ 0.94	\$ -	\$ 0.11	\$ 1.05

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14. EARNINGS PER COMMON SHARE (cont'd)

Following the satisfaction of all conditions precedent to the closing of the acquisition of UNS Energy, at the option of holders and provided that payment of the final installment has been made, each Debenture will be convertible into common shares of Fortis at any time after the Final Installment Date but prior to maturity or redemption by the Corporation at a conversion price of \$30.72 per common share, being a conversion rate of 32.5521 common shares per \$1,000 principal amount of Debentures (Note 5). Accordingly, a total of approximately 58.6 million common shares could be issued and outstanding, which would have an impact on basic EPS. Alternatively, if holders do not opt to convert the Debentures into common shares, the Debentures would have an impact on diluted EPS.

FORTIS INC.
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15. SEGMENTED INFORMATION

Information by reportable segment is as follows:

Quarter Ended	REGULATED UTILITIES								NON-REGULATED				
	Gas	Gas & Electric	Electric					Fortis Generation	Non- Utility	Corporate and Other	Inter- segment eliminations	Total	
	FortisBC Energy Canadian	Central Hudson US	Fortis Alberta	FortisBC Electric	Newfoundland Power	Other Canadian	Total Electric Canadian						Electric Caribbean
June 30, 2014 (\$ millions)													
Revenue	282	190	129	71	145	87	432	78	11	65	8	(10)	1,056
Energy supply costs	119	79	-	17	87	56	160	46	-	-	-	(1)	403
Operating expenses	67	80	42	21	22	13	98	10	2	43	9	(2)	307
Depreciation and amortization	46	12	41	14	13	6	74	9	2	5	1	-	149
Operating income	50	19	46	19	23	12	100	13	7	17	(2)	(7)	197
Other income (expenses), net	1	1	-	-	1	-	1	1	(1)	-	(3)	(1)	(1)
Finance charges	35	8	20	9	10	5	44	4	-	6	35	(8)	124
Income tax expense (recovery)	3	5	-	3	3	2	8	-	-	4	(11)	-	9
Net earnings (loss)	13	7	26	7	11	5	49	10	6	7	(29)	-	63
Non-controlling interests	1	-	-	-	-	-	-	2	-	-	-	-	3
Preference share dividends	-	-	-	-	-	-	-	-	-	-	13	-	13
Net earnings (loss) attributable to common equity shareholders	12	7	26	7	11	5	49	8	6	7	(42)	-	47
Goodwill	913	481	227	235	-	67	529	151	-	-	-	-	2,074
Identifiable assets	4,600	1,910	3,135	1,761	1,396	696	6,988	707	903	684	1,356	(636)	16,512
Total assets	5,513	2,391	3,362	1,996	1,396	763	7,517	858	903	684	1,356	(636)	18,586
Gross capital expenditures	76	28	83	20	26	12	141	15	31	7	-	-	298
Quarter Ended June 30, 2013 (\$ millions)													
Revenue	246	-	117	68	132	87	404	70	7	65	7	(9)	790
Energy supply costs	90	-	-	14	80	56	150	43	-	-	-	(1)	282
Operating expenses	65	-	38	22	16	12	88	8	2	42	3	(2)	206
Depreciation and amortization	46	-	36	12	13	7	68	9	1	6	-	-	130
Operating income	45	-	43	20	23	12	98	10	4	17	4	(6)	172
Other income (expenses), net	-	-	-	1	-	-	1	1	-	-	(46)	-	(44)
Finance charges	36	-	18	10	9	5	42	3	-	6	11	(6)	92
Income tax expense (recovery)	3	-	-	3	(10)	(2)	(9)	-	-	3	(31)	-	(34)
Net earnings (loss)	6	-	25	8	24	9	66	8	4	8	(22)	-	70
Non-controlling interests	-	-	-	-	-	-	-	2	-	-	-	-	2
Preference share dividends	-	-	-	-	-	-	-	-	-	-	14	-	14
Net earnings (loss) attributable to common equity shareholders	6	-	25	8	24	9	66	6	4	8	(36)	-	54
Goodwill	913	486	227	235	-	67	529	149	-	-	-	-	2,077
Identifiable assets	4,528	1,763	2,927	1,748	1,394	691	6,760	680	832	808	643	(458)	15,556
Total assets	5,441	2,249	3,154	1,983	1,394	758	7,289	829	832	808	643	(458)	17,633
Gross capital expenditures	58	-	135	16	23	15	189	13	31	11	-	-	302

FORTIS INC.

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15. SEGMENTED INFORMATION (cont'd)

Year-to-Date June 30, 2014 (\$ millions)	REGULATED UTILITIES							NON-REGULATED					Inter- segment eliminations	Total
	Gas	Gas & Electric	Electric					Fortis Generation	Non- Utility	Corporate and Other				
	FortisBC Energy Canadian	Central Hudson US	Fortis Alberta	FortisBC Electric	Newfoundland Power	Other Canadian	Total Electric Canadian				Electric Caribbean			
Revenue	795	462	255	166	354	190	965	152	22	119	15	(19)	2,511	
Energy supply costs	370	216	-	44	236	125	405	91	1	-	-	(1)	1,082	
Operating expenses	138	169	85	43	47	26	201	19	4	85	14	(4)	626	
Depreciation and amortization	92	23	82	28	26	13	149	18	3	11	1	-	297	
Operating income	195	54	88	51	45	26	210	24	14	23	-	(14)	506	
Other income (expenses), net	2	3	2	-	1	-	3	1	(1)	-	(1)	(1)	6	
Finance charges	70	17	39	19	19	10	87	8	-	12	68	(15)	247	
Income tax expense (recovery)	35	15	-	7	6	4	17	-	1	4	(24)	-	48	
Net earnings (loss) from continuing operations	92	25	51	25	21	12	109	17	12	7	(45)	-	217	
Earnings from discontinued operations, net of tax	-	-	-	-	-	-	-	-	-	5	-	-	5	
Net earnings (loss)	92	25	51	25	21	12	109	17	12	12	(45)	-	222	
Non-controlling interests	1	-	-	-	-	-	-	4	-	-	-	-	5	
Preference share dividends	-	-	-	-	-	-	-	-	-	-	27	-	27	
Net earnings (loss) attributable to common equity shareholders	91	25	51	25	21	12	109	13	12	12	(72)	-	190	
Goodwill	913	481	227	235	-	67	529	151	-	-	-	-	2,074	
Identifiable assets	4,600	1,910	3,135	1,761	1,396	696	6,988	707	903	684	1,356	(636)	16,512	
Total assets	5,513	2,391	3,362	1,996	1,396	763	7,517	858	903	684	1,356	(636)	18,586	
Gross capital expenditures	127	49	162	35	44	19	260	28	55	16	-	-	535	
Year-to-Date June 30, 2013 (\$ millions)														
Revenue	738	-	235	156	329	183	903	136	12	118	13	(17)	1,903	
Energy supply costs	322	-	-	39	225	118	382	84	-	-	-	(1)	787	
Operating expenses	137	-	78	42	39	25	184	16	5	83	6	(4)	427	
Depreciation and amortization	92	-	72	25	25	14	136	17	2	11	1	-	259	
Operating income	187	-	85	50	40	26	201	19	5	24	6	(12)	430	
Other income (expenses), net	1	-	2	1	1	-	4	1	-	-	(44)	-	(38)	
Finance charges	71	-	35	19	18	10	82	7	-	12	21	(12)	181	
Income tax expense (recovery)	26	-	1	6	(8)	1	-	-	-	3	(33)	-	(4)	
Net earnings (loss) from continuing operations	91	-	51	26	31	15	123	13	5	9	(26)	-	215	
Extraordinary gain, net of tax	-	-	-	-	-	-	-	-	22	-	-	-	22	
Net earnings (loss)	91	-	51	26	31	15	123	13	27	9	(26)	-	237	
Non-controlling interests	-	-	-	-	-	-	-	4	-	-	-	-	4	
Preference share dividends	-	-	-	-	-	-	-	-	-	-	28	-	28	
Net earnings (loss) attributable to common equity shareholders	91	-	51	26	31	15	123	9	27	9	(54)	-	205	
Goodwill	913	486	227	235	-	67	529	149	-	-	-	-	2,077	
Identifiable assets	4,528	1,763	2,927	1,748	1,394	691	6,760	680	832	808	643	(458)	15,556	
Total assets	5,441	2,249	3,154	1,983	1,394	758	7,289	829	832	808	643	(458)	17,633	
Gross capital expenditures	99	-	230	33	38	28	329	24	79	24	-	-	555	

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15. SEGMENTED INFORMATION (cont'd)

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The significant related party inter-segment transactions for the three and six months ended June 30, 2014 and 2013 were as follows:

Significant Related Party Inter-Segment Transactions <i>(\$ millions)</i>	Quarter Ended June 30		Year-to-Date June 30	
	2014	2013	2014	2013
Sales from Fortis Generation to				
Other Canadian Electric Utilities	1	1	1	1
Sales from Newfoundland Power to Non-Utility	1	1	3	3
Inter-segment finance charges on lending from:				
Corporate to Regulated Electric Utilities - Canadian	1	-	1	-
Corporate to Regulated Electric Utilities - Caribbean	2	1	3	2
Corporate to Non-Utility	5	4	10	9

The significant related party inter-segment asset balances were as follows:

<i>(\$ millions)</i>	As at June 30	
	2014	2013
Inter-segment lending from:		
Fortis Generation to Other Canadian Electric Utilities	20	20
Corporate to Regulated Gas Utilities - Canadian	37	-
Corporate to Regulated Electric Utilities - Canadian	85	-
Corporate to Regulated Electric Utilities - Caribbean	96	85
Corporate to Fortis Generation	-	6
Corporate to Non-Utility	387	325
Other inter-segment assets	11	22
Total inter-segment eliminations	636	458

16. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(\$ millions)</i>	Quarter Ended June 30		Year-to-Date June 30	
	2014	2013	2014	2013
Change in non-cash operating working capital:				
Accounts receivable	233	205	88	126
Prepaid expenses	12	(1)	14	2
Inventories	(54)	(37)	16	18
Regulatory assets - current portion	29	6	(1)	40
Accounts payable and other current liabilities	(87)	(43)	(34)	(73)
Regulatory liabilities - current portion	9	(10)	4	25
	142	120	87	138
Non-cash investing and financing activities:				
Common share dividends reinvested	20	15	42	34
Additions to utility and non-utility capital assets, and intangible assets included in current liabilities	84	73	84	73
Contributions in aid of construction included in current assets	5	14	5	14
Exercise of stock options into common shares	1	-	2	1

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17. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation generally limits the use of derivative instruments to those that qualify as accounting or economic hedges. As at June 30, 2014, the Corporation's derivative instruments primarily consisted of electricity swap contracts, gas swap and option contracts, and gas purchase contract premiums. Electricity swap contracts are held by Central Hudson. Gas swap and option contracts, and gas purchase contract premiums are held by the FortisBC Energy companies and Central Hudson.

Volume of Derivative Activity

As at June 30, 2014, the following notional volumes related to electricity and natural gas derivatives that are expected to be settled are outlined below.

	2014	2015	2016	2017
Electricity swap contracts (<i>gigawatt hours</i>)	793	1,095	659	219
Gas swap and option contracts (<i>petajoules</i>)	2	1	-	-
Gas purchase contract premiums (<i>petajoules</i>)	54	37	-	-

Presentation of Derivative Instruments in the Consolidated Financial Statements

On the Corporation's consolidated balance sheet, derivative instruments are presented on a net basis by counterparty, where the right of offset exists.

The Corporation's outstanding derivative balances were as follows:

<i>(\$ millions)</i>	As at	
	June 30, 2014	December 31, 2013
Gross derivative asset ⁽¹⁾	25	10
Gross derivative liability ⁽¹⁾	(10)	(15)
Netting ⁽²⁾	15	(5)
Cash collateral	-	-
Total derivative balance ⁽³⁾	15	(5)

⁽¹⁾ Refer to Note 18 for a discussion of the valuation techniques used to calculate the fair value of the derivative instruments.

⁽²⁾ Positions, by counterparty, are netted where the intent and legal right to offset exists.

⁽³⁾ Unrealized losses of \$10 million on commodity risk-related derivative instruments were recognized in current regulatory assets as at June 30, 2014 (December 31, 2013 - \$15 million) and unrealized gains of \$25 million (December 31, 2013 - \$10 million) were recognized in current and long-term regulatory liabilities. These unrealized losses and gains would otherwise be recognized in earnings.

Cash flows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's consolidated statements of cash flows.

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18. FAIR VALUE MEASUREMENTS

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except for those that qualify for the normal purchase and normal sale exception.

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets;
- Level 2: Fair value determined using pricing inputs that are observable; and
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments, including derivatives, reflect point-in-time estimates based on current and relevant 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.

The following table details the estimated fair value measurements of the Corporation's financial instruments, all of which were measured using Level 2 pricing inputs, except for other investments, certain long-term debt and derivative instruments, as noted.

Asset (Liability)	As at			
	June 30, 2014		December 31, 2013	
(\$ millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term other asset - Belize Electricity ⁽¹⁾	108	n/a ⁽²⁾	108	n/a ⁽²⁾
Other investments ^{(1) (3)}	6	6	6	6
Long-term debt, including current portion ⁽⁴⁾	(7,157)	(8,453)	(7,204)	(8,084)
Waneta Expansion Limited Partnership ("Waneta Partnership") promissory note ⁽⁵⁾	(51)	(53)	(50)	(50)
Electricity swap contracts ⁽⁶⁾	25	25	10	10
Natural gas derivatives: ⁽⁷⁾				
Gas swap and option contracts	(4)	(4)	(13)	(13)
Gas purchase contract premiums	(6)	(6)	(2)	(2)

⁽¹⁾ Included in long-term other assets on the consolidated balance sheet

⁽²⁾ The Corporation's expropriated investment in Belize Electricity is recognized at book value, including foreign exchange impacts. The actual amount of compensation that the Government of Belize may pay to Fortis is indeterminable at this time (Notes 19 and 21).

⁽³⁾ Other investments were valued using Level 1 inputs.

⁽⁴⁾ The Corporation's \$200 million unsecured debentures due 2039 and consolidated borrowings under credit facilities classified as long-term debt of \$41 million (December 31, 2013 - \$313 million) are valued using Level 1 inputs. All other long-term debt is valued using Level 2 inputs.

⁽⁵⁾ Included in long-term other liabilities on the consolidated balance sheet

⁽⁶⁾ The fair value of the electricity swap contracts is recorded in accounts receivable and other long-term assets. The fair value of electricity swap contracts was determined using Level 3 inputs.

⁽⁷⁾ The fair value of the natural gas derivatives is recorded in accounts payable and other current liabilities.

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18. FAIR VALUE MEASUREMENTS (cont'd)

The fair value of long-term debt is calculated using quoted market prices when available. When quoted market prices are not available, as is the case with the Waneta Partnership promissory note and certain long-term debt, the fair value is determined 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. Since the Corporation does not intend to settle the long-term debt or promissory note prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.

The electricity swap contracts and natural gas derivatives are used by Central Hudson to minimize commodity price volatility for electricity and natural gas purchases by fixing the effective purchase price for the defined commodities. The fair values of the electricity swap contracts and natural gas derivatives were calculated using forward pricing provided by independent third parties.

The natural gas derivatives are used by the FortisBC Energy companies to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. The fair value of the natural gas derivatives was calculated using the present value of cash flows based on market prices and forward curves for the cost of natural gas.

The fair values of the electricity swap contracts and natural gas derivatives are estimates of the amounts that the utilities would receive or have to pay to terminate the outstanding contracts as at the balance sheet dates. As at June 30, 2014, none of the electricity swap contracts and natural gas derivatives were designated as hedges of electricity and natural gas supply contracts. However, any gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the regulators.

19. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit risk Risk that a counterparty to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

Liquidity risk Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Market risk Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Corporation is exposed to foreign exchange risk, interest rate risk and commodity price risk.

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19. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk

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

FortisAlberta has a concentration of credit risk as a result of its distribution service billings being to a relatively small group of retailers. As at June 30, 2014, FortisAlberta's gross credit risk exposure was approximately \$113 million, representing the projected value of retailer billings over a 37-day period. The Company has reduced its exposure to \$2 million by obtaining from the retailers either a cash deposit, bond, letter of credit or an investment-grade credit rating from a major rating agency, or by having the retailer obtain a financial guarantee from an entity with an investment-grade credit rating.

The FortisBC Energy companies and Central Hudson may be exposed to credit risk in the event of non-performance by counterparties to derivative instruments. The companies use netting arrangements to reduce credit risk and net settle payments with counterparties where net settlement provisions exist.

The Corporation is exposed to credit risk associated with the amount and timing of fair value compensation that Fortis is entitled to receive from the Government of Belize ("GOB") as a result of the expropriation of the Corporation's investment in Belize Electricity by the GOB on June 20, 2011. As at June 30, 2014, the Corporation had a long-term other asset of \$108 million (December 31, 2013 - \$108 million), including foreign exchange impacts, recognized on the consolidated balance sheet related to its expropriated investment in Belize Electricity (Notes 18 and 21).

Additionally, as at June 30, 2014, Belize Electricity owed Belize Electric Company Limited ("BECOL") approximately US\$3 million for energy purchases, of which less than US\$1 million was overdue (December 31, 2013 - US\$4 million, of which less than US\$1 million was overdue). In accordance with long-standing agreements, the GOB guarantees the payment of Belize Electricity's obligations to BECOL.

Liquidity Risk

The Corporation's consolidated financial position could be adversely affected if it, or one of its subsidiaries, fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the consolidated results of operations and financial position of the Corporation and its subsidiaries, conditions in capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To help mitigate liquidity risk, the Corporation and its larger regulated utilities have secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements.

The Corporation's committed corporate credit facility is available for interim financing of acquisitions and for general corporate purposes. 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. Over the next five years, average annual consolidated long-term debt maturities and repayments are expected to be approximately \$280 million. The combination of available credit facilities and relatively low annual debt maturities and repayments beyond 2014 provides the Corporation and its subsidiaries with flexibility in the timing of access to capital markets.

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19. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity Risk (cont'd)

As at June 30, 2014, the Corporation and its subsidiaries had consolidated credit facilities of approximately \$2.7 billion, of which \$2.5 billion was unused, including \$958 million unused under the Corporation's \$1 billion committed revolving corporate credit facility. The credit facilities are syndicated mostly with the seven largest Canadian banks, with no one bank holding more than 20% of these facilities. Approximately \$2.6 billion of the total credit facilities are committed facilities with maturities ranging from 2015 through 2019.

The following summary outlines the credit facilities of the Corporation and its subsidiaries.

<i>(\$ millions)</i>	Regulated Utilities	Non-Regulated	Corporate and Other	As at June 30, 2014	December 31, 2013
Total credit facilities	1,547	13	1,137	2,697	2,695
Credit facilities utilized:					
Short-term borrowings ⁽¹⁾	(98)	(2)	-	(100)	(160)
Long-term debt ⁽²⁾	-	-	(41)	(41)	(313)
Letters of credit outstanding	(65)	-	(1)	(66)	(66)
Credit facilities unused	1,384	11	1,095	2,490	2,156

⁽¹⁾ The weighted average interest rate on short-term borrowings was approximately 1.2% as at June 30, 2014 (December 31, 2013 - 1.3%)

⁽²⁾ As at June 30, 2014, credit facility borrowings classified as long term included \$nil in current installments of long-term debt on the consolidated balance sheet (December 31, 2013 - \$43 million). The weighted average interest rate on credit facility borrowings classified as long-term debt was approximately 1.2% as at June 30, 2014 (December 31, 2013 - 1.8%).

As at June 30, 2014 and December 31, 2013, certain borrowings under the Corporation's and subsidiaries' credit facilities were classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In February 2014 Maritime Electric's \$50 million unsecured revolving credit facility matured and the Company negotiated a new \$50 million unsecured committed revolving credit facility, maturing in February 2019.

In April 2014 FortisBC Electric extended the maturity of its \$150 million unsecured committed revolving credit facility, with \$100 million now maturing in May 2017 and \$50 million now maturing in April 2015.

In April 2014 FHI extended its \$30 million unsecured committed revolving credit facility to mature in April 2015.

In June 2014 FortisOntario extended its \$30 million unsecured committed revolving credit facility to mature in June 2015 from June 2014.

In July 2014 FEI, FortisAlberta and Newfoundland Power amended their \$500 million, \$250 million and \$100 million, respectively, committed revolving credit facilities, resulting in extensions to their maturity dates to August 2016, August 2019 and August 2019, respectively, from August 2015, August 2018 and August 2017, respectively.

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19. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity Risk (cont'd)

For the purpose of bridge financing for the pending acquisition of UNS Energy (Note 1), in March 2014 the Corporation secured an aggregate of \$2 billion non-revolving term credit facilities from a syndicate of banks. The non-revolving term credit facilities are comprised of a \$1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a \$300 million medium-term bridge facility, repayable in full on the second anniversary of its advance. The credit facilities table does not include the \$2 billion credit facilities.

As a result of closing the Debentures related to the pending acquisition of UNS Energy (Note 1), the Corporation agreed to maintain availability under its committed revolving corporate credit facility of not less than \$600 million to cover the principal amount of the first installment of the Debentures in the event of a mandatory redemption (Note 5).

The Corporation and its currently rated utilities target investment-grade credit ratings to maintain capital market access at reasonable interest rates. As at June 30, 2014, the Corporation's credit ratings were as follows:

Standard & Poor's ("S&P")	A- / Negative (long-term corporate and unsecured debt credit rating)
DBRS	A(low) / Under Review - Developing Implications (unsecured debt credit rating)

The above-noted credit ratings reflect the Corporation's business-risk profile and diversity of its operations, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, and management's commitment to maintaining low levels of debt at the holding company level. In December 2013, after the announcement by Fortis that it had entered into an agreement to acquire UNS Energy, DBRS placed the Corporation's credit rating under review with developing implications. Similarly, S&P revised its outlook on the Corporation to negative from stable. S&P indicated that an outlook revision to stable would likely occur when the Corporation's Debentures are converted to equity (Note 5).

Market Risk

Foreign Exchange Risk

The Corporation's earnings from, and net investment in, foreign subsidiaries are exposed to fluctuations in the US dollar-to-Canadian dollar exchange rate. The Corporation has effectively decreased the above-noted exposure through the use of US dollar-denominated borrowings at the corporate level. The foreign exchange gain or loss on the translation of US dollar-denominated interest expense partially offsets the foreign exchange loss or gain on the translation of the Corporation's foreign subsidiaries' earnings, which are denominated in US dollars. The reporting currency of Central Hudson, Caribbean Utilities, Fortis Turks and Caicos, BECOL and FortisUS Energy Corporation is the US dollar.

As at June 30, 2014, the Corporation's corporately issued US\$1,126 million (December 31, 2013 - US\$1,033 million) long-term debt had been designated as an effective hedge of the Corporation's foreign net investments. As at June 30, 2014, the Corporation had approximately US\$490 million (December 31, 2013 - US\$560 million) in foreign net investments remaining to be hedged. Foreign currency exchange rate fluctuations associated with the translation of the Corporation's corporately issued US dollar-denominated borrowings designated as effective hedges are recorded in other comprehensive income and serve to help offset unrealized foreign currency exchange gains and losses on the net investments in foreign subsidiaries, which gains and losses are also recorded in other comprehensive income.

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19. FINANCIAL RISK MANAGEMENT (cont'd)

Market Risk (cont'd)

Effective June 20, 2011, the Corporation's asset associated with its expropriated investment in Belize Electricity (Notes 18 and 21) does not qualify for hedge accounting as Belize Electricity is no longer a foreign subsidiary of Fortis. As a result, foreign exchange gains and losses on the translation of the long-term other asset associated with Belize Electricity are recognized in earnings. The Corporation recognized in earnings a foreign exchange loss of approximately \$4 million for the three months ended June 30 2014, with no net foreign exchange impact for the first half of 2014 (foreign exchange gain of \$3 million and \$5 million for the three and six months ended June 30 2013, respectively) (Note 9).

Interest Rate Risk

The Corporation and most of its subsidiaries are exposed to interest rate risk associated with borrowings under variable-rate credit facilities and the refinancing of long-term debt. The Corporation and its subsidiaries may enter into interest rate swap agreements to help reduce this risk.

Commodity Price Risk

The FortisBC Energy companies are exposed to commodity price risk associated with changes in the market price of natural gas and Central Hudson is exposed to commodity price risk associated with changes in the market price of electricity and natural gas (Notes 17 and 18). The risks have been reduced by entering derivative contracts that effectively fix the price of natural gas purchases and electricity purchases, respectively. The natural gas and electricity derivatives are recorded on the consolidated balance sheet at fair value and any change in the fair value is deferred as a regulatory asset or liability, as permitted by the regulators, for recovery from, or refund to, customers in future rates.

The price risk-management strategy of the FortisBC Energy companies aims to improve the likelihood that natural gas prices remain competitive, mitigate gas price volatility on customer rates and reduce the risk of regional price discrepancies. As directed by the regulator, the FortisBC Energy companies have suspended their commodity hedging activities, with the exception of certain limited swaps as permitted by the regulator. The existing hedging contracts will continue in effect through to their maturities and the FortisBC Energy companies' ability to fully recover the cost of gas in customer rates remains unchanged. Any differences between the cost of natural gas purchased and the price of natural gas included in customer rates are recorded as regulatory deferrals and are recovered from, or refunded to, customers in future rates, subject to regulatory approval.

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20. COMMITMENTS

There were no material changes in the nature and amount of the Corporation's commitments from the commitments disclosed in the Corporation's 2013 annual audited consolidated financial statements, except as follows.

Commitments as at June 30, 2014 include Central Hudson's contract to purchase 200 megawatts of installed capacity from May 2014 through April 2017 totalling approximately US\$63 million. The New York Independent System Operator ("NYISO") has been authorized by FERC to create a new capacity zone in the Lower Hudson Valley to maintain system reliability and attract investments in new and existing generation, which was implemented in May 2014. The key terms of the contract provide that Central Hudson will pay the settlement price in the NYISO Capacity Spot Market auction for the relevant month of delivery minus US\$0.175 per kilowatt-month, times the contract quantity of the product delivered during the month.

In May 2014 the BCUC approved FortisBC Electric's new power purchase agreement with BC Hydro to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20-year term, effective July 1, 2014.

To finance a portion of the pending acquisition of UNS Energy, in January 2014, Fortis completed the sale of \$1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures of the Corporation represented by installment receipts (Note 5).

In March 2014 Fortis priced a private placement to US-based institutional investors of US\$500 million in senior unsecured notes. The notes will be issued in multiple tranches with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 5.03%. The weighted average term to maturity is approximately 11 years and the weighted average coupon rate is 3.85%. On June 30, 2014, Fortis issued US\$213 million of the senior unsecured notes with a weighted average term to maturity of approximately 9 years and a weighted average coupon rate of 3.51%. Debt and interest obligations for the Corporation as at June 30, 2014 reflect the US\$213 million senior unsecured notes issued in June 2014. The remaining US\$287 million of the senior unsecured notes will be issued on September 15, 2014, subject to the satisfaction of customary closing conditions.

Maritime Electric has entitlement to approximately 4.7% of the output from the New Brunswick Power Point Lepreau nuclear generating station for the life of the unit. As part of its entitlement, Maritime Electric is required to pay its share of the capital and operating costs of the unit. The total estimated capital cost obligation has increased by \$21 million from that disclosed in the Corporation's 2013 annual audited consolidated financial statements. The increase reflects revised cost forecasts from New Brunswick Power and changes in the entitlement agreement.

Defined benefit pension funding contributions are based on estimates provided under the latest completed actuarial valuations, which generally provide funding estimates for a period of three to five years from the date of the valuations. Contributions have increased from that disclosed in the Corporation's 2013 annual audited consolidated financial statements and reflect estimates from the actuarial valuations completed as at December 31, 2013.

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(Unaudited)

21. EXPROPRIATED ASSETS

On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. Consequent to the deprivation of control over the operations of the utility, the Corporation discontinued the consolidation method of accounting for Belize Electricity, as of June 20, 2011, and classified the book value, including foreign exchange impacts, of the expropriated investment as a long-term other asset on the consolidated balance sheet.

In October 2011 Fortis commenced an action in the Belize Supreme Court with respect to challenging the constitutionality of the expropriation of the Corporation's investment in Belize Electricity. Fortis commissioned an independent valuation of its expropriated investment and submitted its claim for compensation to the GOB in November 2011. The book value of the long-term other asset is below fair value as at the date of expropriation as determined by independent valuers. The GOB also commissioned a valuation of Belize Electricity, which is significantly lower than both the fair value determined under the Corporation's valuation and the book value of the long-term other asset.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision was rendered by the Belize Court of Appeal on May 15, 2014. The two Belizean judges found in favour of the GOB; however, the third judge delivered a strong dissenting opinion concluding that the expropriation was contrary to the Belize Constitution. An appeal of the decision to the Caribbean Court of Justice, the final court for appeals arising in Belize, was filed in June 2014 and a hearing is expected in the fourth quarter of 2014.

Fortis believes it has a strong, well-positioned case supporting the unconstitutionality of the expropriation. There exists, however, a possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation to be paid to Fortis could be lower than the book value of the Corporation's expropriated investment in Belize Electricity. The book value was \$108 million, including foreign exchange impacts, as at June 30, 2014 (December 31, 2013 - \$108 million). If the expropriation is held to be unconstitutional, it is not determinable at this time as to the nature of the relief that would be awarded to Fortis; for example: (i) ordering return of the shares to Fortis and/or award of damages; or (ii) ordering compensation to be paid to Fortis for the unconstitutional expropriation of the shares and/or award of damages. Based on presently available information, the \$108 million long-term other asset is not deemed impaired as at June 30, 2014. Fortis will continue to assess for impairment each reporting period based on evaluating the outcomes of court proceedings and/or compensation settlement negotiations. As well as continuing the constitutional challenge of the expropriation, Fortis is also pursuing alternative options for obtaining fair compensation, including compensation under the Belize/United Kingdom Bilateral Investment Treaty.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

22. CONTINGENCIES

The Corporation and its subsidiaries are subject to various legal proceedings and claims associated with the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

The following describes the nature of the Corporation's contingencies.

Fortis

In May 2012 CH Energy Group and Fortis entered into a proposed settlement agreement with counsel to plaintiff shareholders pertaining to several complaints, which named Fortis and other defendants, which were filed in, or transferred to, the Supreme Court of the State of New York, County of New York, relating to the acquisition of CH Energy Group by Fortis. The complaints generally alleged that the directors of CH Energy Group breached their fiduciary duties in connection with the acquisition and that CH Energy Group, Fortis, FortisUS Inc. and Cascade Acquisition Sub Inc. aided and abetted that breach. The settlement agreement was subject to court approval. On June 19, 2014 the Supreme Court of the State of New York, County of New York issued an Order and Final Judgment approving the settlement agreement thereby concluding the proceedings.

Following the announcement of the proposed acquisition of UNS Energy on December 11, 2013, four complaints which named Fortis and other defendants were filed in the Superior Court of the State of Arizona ("Superior Court") in and for the County of Pima and one claim in the United States District Court in and for the District of Arizona, challenging the proposed acquisition. The complaints generally allege that the directors of UNS Energy breached their fiduciary duties in connection with the proposed transaction and that UNS Energy, Fortis, FortisUS Inc., and Color Acquisition Sub Inc. aided and abetted that breach. On March 13, 2014, two of the four complaints filed in the Superior Court were dismissed by the plaintiffs. On March 18, 2014, counsel for the parties in the two actions remaining in the Superior Court executed a Memorandum of Understanding recording an agreement-in-principle on the structure of a settlement to be proposed to the Superior Court for approval following closing of the acquisition. On April 15, 2014, the complaint filed in the United States District Court was dismissed by the plaintiff. The outcome of these lawsuits cannot be predicted with any certainty and, accordingly, no amount has been accrued in the consolidated financial statements.

FHI

In April 2013 FHI and Fortis were named as defendants in an action in the British Columbia Supreme Court ("B.C. Supreme Court") by the Coldwater Indian Band ("Band"). The claim is in regard to interests in a pipeline right of way on reserve lands. The pipeline on the right of way was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in April 2007. The Band seeks orders cancelling the right of way and claims damages for wrongful interference with the Band's use and enjoyment of reserve lands. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FortisBC Energy Companies

FEI was the plaintiff in a B.C. Supreme Court action against the City of Surrey ("Surrey") in which FEI sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between the Company and Surrey. The relocation was required due to the development and expansion of Surrey's transportation infrastructure. FEI claimed that the parties had an agreement that dealt with the allocation of costs. Surrey advanced counterclaims, including an allegation that FEI breached the agreement and that Surrey suffered damages as a result. In December 2013 the court issued a decision ordering FEI and Surrey to share equally the cost of the pipeline relocation. The court also decided that Surrey was successful in its counterclaim that FEI breached the agreement. The amount of damages that may be awarded to Surrey at a subsequent hearing cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

22. CONTINGENCIES (cont'd)

FortisBC Electric

The Government of British Columbia has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake in 2003, prior to the acquisition of FortisBC Electric by Fortis, and has filed and served a writ and statement of claim against FortisBC Electric dated August 2, 2005. The Government of British Columbia has disclosed that its claim includes approximately \$15 million in damages as well as pre-judgment interest, but that it has not fully quantified its damages. FortisBC Electric and its insurers continue to defend the claim by the Government of British Columbia. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

The Government of British Columbia filed a claim in the B.C. Supreme Court in June 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, British Columbia in 2010. The Government of British Columbia alleges in its claim that the dam failure was caused by the defendants', which include FortisBC Electric, use of a road on top of the dam. The Government of British Columbia estimates its damages and the damages of the homeowners, on whose behalf it is claiming, to be approximately \$15 million. While FortisBC Electric has not been served, the Company has retained counsel and has notified its insurers. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the consolidated financial statements.

Central Hudson

Former MGP Facilities

Central Hudson and its predecessors owned and operated MGPs to serve their customers' heating and lighting needs. These plants manufactured gas from coal and oil beginning in the mid- to late 1800s with all sites ceasing operations by the 1950s. This process produced certain by-products that may pose risks to human health and the environment.

The New York State Department of Environmental Conservation ("DEC"), which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes the Company or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson's franchise territory. The DEC has further requested that the Company investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Clean-up Agreement or Brownfield Clean-up Agreement. Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated. As at June 30, 2014, an obligation of US\$105 million was recognized in respect of MGP remediation and, based upon cost model analysis completed in 2012, it is estimated, with a 90% confidence level, that total costs to remediate these sites over the next 30 years will not exceed US\$152 million.

Central Hudson has notified its insurers and intends to seek reimbursement from insurers for remediation, where coverage exists. Further, as authorized by the New York State Public Service Commission, Central Hudson is currently permitted to defer, for future recovery from customers, differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return (Note 4).

Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility. In the course of Central Hudson's hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. Based on the investigation work completed by Central Hudson, the DEC and Central Hudson agreed in late 2013 that no additional investigation efforts are necessary. As requested by the DEC, Central Hudson submitted a draft Corrective Measures Study scoping document for review by the DEC. The extent of the contamination has been established and approximately US\$3 million has been accrued in the consolidated financial statements.

FORTIS INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2014 and 2013 (unless otherwise stated)
(Unaudited)

22. CONTINGENCIES (cont'd)

Central Hudson (cont'd)

Asbestos Litigation

Prior to and after the acquisition of CH Energy Group, various asbestos lawsuits have been brought against Central Hudson. While a total of 3,344 asbestos cases have been raised, 1,169 remained pending as at June 30, 2014. Of the cases no longer pending against Central Hudson, 2,020 have been dismissed or discontinued without payment by the Company, and Central Hudson has settled the remaining 155 cases. The Company is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including the Company's experience in the settlement and/or dismissal of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material effect on its financial position, results of operations or cash flows and, accordingly, no amount has been accrued in the consolidated financial statements.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with current period presentation.

Expected Dividend* and Earnings Dates

Earnings Release Dates

November 7, 2014 February 19, 2015
May 6, 2015 July 31, 2015

Dividend Record Dates (Common Shares)

October 24, 2014 February 17, 2015
May 19, 2015 August 19, 2015

Dividend Record Dates (Preference Shares)

November 18, 2014 February 17, 2015
May 19, 2015 August 19, 2015

Dividend Payment Dates

December 1, 2014 March 1, 2015
June 1, 2015 September 1, 2015

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

Registrar and Transfer Agent

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Share Listings

The Common Shares; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; First Preference Shares, Series K; and Installment Receipts of Fortis are traded on the Toronto Stock Exchange under the symbols FTS, FTS.PR.E, FTS.PR.F, FTS.PR.G, FTS.PR.H, FTS.PR.J, FTS.PR.K and FTS.IR, respectively.

Fortis Common Shares (\$)		
Quarter Ended June 30		
	2014	2013
High	32.86	35.14
Low	31.26	30.70
Close	32.47	32.19



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