FIRSTENERGY CORP
Form 10-Q
July 31, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ___________________ to ___________________

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
333-21011	FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-1843785

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer þ

Accelerated Filer o

Non-accelerated Filer (Do not check
if a smaller reporting company) o

Smaller Reporting Company o

Emerging Growth Company o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

CLASS	OUTSTANDING AS OF JULY 27, 2018
FirstEnergy Corp., $0.10 par value	486,021,499

FirstEnergy Web Site and Other Social Media Sites and Applications

FirstEnergy's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and all other documents filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge on or through the "Investors" page of FirstEnergy's web site at www.firstenergycorp.com. The public may also read and copy any reports or other information that FirstEnergy files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services and the website maintained by the SEC at www.sec.gov.

These SEC filings are posted on the web site as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Additionally, FirstEnergy routinely posts additional important information, including press releases, investor presentations and notices of upcoming events under the "Investors" section of FirstEnergy's web site and recognizes FirstEnergy's web site as a channel of distribution to reach public investors and as a means of disclosing material non-public information for complying with disclosure obligations under Regulation FD. Investors may be notified of postings to the web site by signing up for email alerts and RSS feeds on the "Investors" page of FirstEnergy's web site. FirstEnergy also uses Twitter® and Facebook® as additional channels of distribution to reach public investors and as a supplemental means of disclosing material non-public information for complying with its disclosure obligations under Regulation FD. Information contained on FirstEnergy's web site, Twitter® handle or Facebook® page, and any corresponding applications of those sites, shall not be deemed incorporated into, or to be part of, this report.

Forward-Looking Statements: This Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 based on information currently available to management. Such statements are subject to certain risks and uncertainties and readers are cautioned not to place undue reliance on these forward-looking statements. These statements include declarations regarding management's intents, beliefs and current expectations. These statements typically contain, but are not limited to, the terms “anticipate,” “potential,” “expect,” "forecast," "target," "will," "intend," “believe,” "project," “estimate," "plan" and similar words. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, which may include the following (see Glossary of Terms for definitions of capitalized terms):

- The ability to successfully execute an exit of commodity-based generation that minimizes cash outflows and associated liabilities, including, without limitation, the losses, guarantees, claims and other obligations of FirstEnergy as such relate to the entities previously consolidated into FirstEnergy, including FES and FENOC, which have filed for bankruptcy protection.
- The potential for litigation and payment demands against FirstEnergy by FES, FENOC or their creditors, and the ability to successfully execute a definitive settlement agreement and obtain approvals from the Bankruptcy Court and others necessary for the comprehensive settlement as agreed to in principle.
- The risks associated with the bankruptcy cases of FES and FENOC, including, but not limited to, third-party motions in the cases that could adversely affect FirstEnergy, its liquidity or results of operations.
- The ability to experience growth in the Regulated Distribution and Regulated Transmission segments and the effectiveness of our strategy to operate as a fully regulated business.
- The accomplishment of our regulatory and operational goals in connection with our transmission and distribution investment plans.
- Changes in assumptions regarding economic conditions within our territories, assessment of the reliability of our transmission and distribution system, or the availability of capital or other resources supporting identified transmission and distribution investment opportunities.
- The ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, the ability to grow earnings in our regulated businesses, continue to reduce costs through FE Tomorrow and other initiatives and to successfully execute our financial plans designed to improve our credit metrics and strengthen our balance sheet.
- The risks and uncertainties associated with litigation, arbitration, mediation and like proceedings.
- The uncertainties associated with the deactivation of our remaining commodity-based generating units, including the impact on vendor commitments, and as it relates to the reliability of the transmission grid, the timing thereof.
- Costs being higher than anticipated and the success of our policies to control costs.
- The uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including NSR litigation, or potential regulatory initiatives or rulemakings.
- Changes in customers' demand for power, including, but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates.
- Economic and weather conditions affecting future sales, margins and operations, such as significant weather events, and all associated regulatory events or actions.
- Changes in national and regional economic conditions affecting FirstEnergy and/or our major industrial and commercial customers, and other counterparties with which we do business.
- The impact of labor disruptions by our unionized workforce.
- The risks associated with cyber-attacks and other disruptions to our information technology system that may compromise our generation, transmission and/or distribution services and data security breaches of sensitive data, intellectual property and proprietary or personally identifiable information regarding our business, employees, shareholders, customers, suppliers, business partners and other individuals in our data centers and on our networks.
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The impact of the regulatory process and resulting outcomes on the matters at the federal level and in the various states in which we do business, including, but not limited to, matters related to rates.

- The impact of the federal regulatory process on FERC-regulated entities and transactions, in particular FERC regulation of PJM wholesale energy and capacity markets and cost-of-service rates, as well as FERC's compliance and enforcement activity, including compliance and enforcement activity related to NERC's mandatory reliability standards.
- The uncertainties of various cost recovery and cost allocation issues resulting from ATSI's realignment into PJM.
- The ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates.
- Other legislative and regulatory changes, including the federal administration's required review and potential revision of environmental requirements, including, but not limited to, the effects of the EPA's CPP, CCR, and CSAPR programs, including our estimated costs of compliance, CWA waste water effluent limitations for power plants, and CWA 316(b) water intake regulation.
- Changing market conditions that could affect the measurement of certain liabilities and the value of assets held in our pension trusts and other trust funds, and cause us and/or our subsidiaries to make additional contributions sooner, or in amounts that are larger, than currently anticipated.
- The impact of changes to significant accounting policies.

- The impact of any changes in tax laws or regulations, including the Tax Act, or adverse tax audit results or rulings.
- The ability to access the public securities and other capital and credit markets in accordance with our financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries.
- Further actions that may be taken by credit rating agencies that could negatively affect us and/or our subsidiaries' access to financing, increase the costs thereof, LOCs and other financial guarantees, and the impact of these events on the financial condition and liquidity of FE and/or its subsidiaries.
- Issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business.
- The risks and other factors discussed from time to time in our SEC filings, and other similar factors.

Dividends declared from time to time on FE's common stock, and thereby on FE's preferred stock, during any period may in the aggregate vary from prior periods due to circumstances considered by FE's Board of Directors at the time of the actual declarations. A security rating is not a recommendation to buy or hold securities and is subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

These forward-looking statements are also qualified by, and should be read together with, the risk factors included in FirstEnergy's filings with the SEC, including but not limited to this Quarterly Report on Form 10-Q, which risk factors supersede and replace the risk factors contained in the Annual Report on Form 10-K and previous Quarterly Report on Form 10-Q, and any subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K. The foregoing review of factors also should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on FirstEnergy's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. FirstEnergy expressly disclaims any obligation to update or revise, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.

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GLOSSARY OF TERMS

The following abbreviations and acronyms are used in this report to identify FirstEnergy Corp. and its current and former subsidiaries:

AE	Allegheny Energy, Inc., a Maryland utility holding company that merged with a subsidiary of FirstEnergy on February 25, 2011, which subsequently merged with and into FE on January 1, 2014
AESC	Allegheny Energy Service Corporation, a subsidiary of FirstEnergy Corp.
AE Supply	Allegheny Energy Supply Company, LLC, an unregulated generation subsidiary of FE
AGC	Allegheny Generating Company, formerly a generation subsidiary of AE Supply that became a subsidiary of MP in May 2018.
ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities
BSPC	Bay Shore Power Company
BU Energy	Buchanan Energy Company of Virginia, LLC, a subsidiary of AE Supply, and formerly a 50% owner in a joint venture that owns the Buchanan Generating Facility
Buchanan Energy	Buchanan Generation, LLC, formerly a joint venture between AE Supply and CNX Gas Corporation
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating subsidiary
CES	Competitive Energy Services, formerly a reportable operating segment of FirstEnergy
FE	FirstEnergy Corp., a public utility holding company
FENOC	FirstEnergy Nuclear Operating Company, a subsidiary of FE, which operates NG's nuclear generating facilities
FES	FirstEnergy Solutions Corp., together with its consolidated subsidiaries, FG, NG, FE Aircraft Leasing Corp., Norton Energy Storage L.L.C. and FGMUC, which provides unregulated energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, TrAIL and MAIT, and has a joint venture in PATH
FEV	FirstEnergy Ventures Corp., which invests in certain unregulated enterprises and business ventures
FG	FirstEnergy Generation, LLC, a wholly owned subsidiary of FES, which owns and operates non-nuclear generating facilities
FGMUC	FirstEnergy Generation Mansfield Unit 1 Corp., a wholly owned subsidiary of FG, which has certain leasehold interests in a portion of Unit 1 at the Bruce Mansfield plant
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
Global Holding	Global Mining Holding Company, LLC, a joint venture between FEV, WMB Marketing Ventures, LLC and Pinesdale LLC
Global Rail	Global Rail Group, LLC, a subsidiary of Global Holding that owns coal transportation operations near Roundup, Montana
GPU	GPU, Inc., former parent of JCP&L, ME and PN, that merged with FE on November 7, 2001
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating subsidiary
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating subsidiary
MP	Monongahela Power Company, a West Virginia electric utility operating subsidiary
NG	

	FirstEnergy Nuclear Generation, LLC, a wholly owned subsidiary of FES, which owns nuclear generating facilities
OE	Ohio Edison Company, an Ohio electric utility operating subsidiary
Ohio Companies	CEI, OE and TE
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PATH-Allegheny	PATH Allegheny Transmission Company, LLC
PATH-WV	PATH West Virginia Transmission Company, LLC
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating subsidiary
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
Pennsylvania Companies	ME, PN, Penn and WP
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating subsidiary
Signal Peak	Signal Peak Energy, LLC, an indirect subsidiary of Global Holding that owns mining operations near Roundup, Montana
TE	The Toledo Edison Company, an Ohio electric utility operating subsidiary
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating subsidiary

GLOSSARY OF TERMS, Continued

The following abbreviations and acronyms are used to identify frequently used terms in this report:

AAA	American Arbitration Association
ADIT	Accumulated Deferred Income Taxes
AEP	American Electric Power Company, Inc.
AFS	Available-for-sale
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program
ARR	Auction Revenue Right
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
Bankruptcy Court	U.S. Bankruptcy Court in the Northern District of Ohio in Akron
BGS	Basic Generation Service
BNSF	BNSF Railway Company
BRA	PJM RPM Base Residual Auction
CAA	Clean Air Act
CCR	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFR	Code of Federal Regulations
CO_2	Carbon Dioxide
CPP	EPA's Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CSX	CSX Transportation, Inc.
CTA	Consolidated Tax Adjustment
CWA	Clean Water Act
DCR	Delivery Capital Recovery
DMR	Distribution Modernization Rider
DOE	United States Department of Energy
DPM	Distribution Platform Modernization
DR	Demand Response
DSIC	Distribution System Improvement Charge
DSP	Default Service Plan
EDC	Electric Distribution Company
EDCP	Executive Deferred Compensation Plan
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
EKPC	East Kentucky Power Cooperative, Inc.
ELPC	Environmental Law & Policy Center
EmPOWER Maryland	EmPOWER Maryland Energy Efficiency Act
ENEC	Expanded Net Energy Cost
EPA	United States Environmental Protection Agency
EPS	Earnings per Share
ERO	Electric Reliability Organization

ESP IV	Electric Security Plan IV
ESP IV PPA	Unit Power Agreement entered into on April 1, 2016 by and between the Ohio Companies and FES
Facebook®	Facebook is a registered trademark of Facebook, Inc.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FE Tomorrow	FirstEnergy's initiative launched in late 2016 to identify its optimal organization structure and properly align corporate costs and systems to efficiently support a fully regulated company going forward

GLOSSARY OF TERMS, Continued

Fitch	Fitch Ratings
FMB	First Mortgage Bond
FPA	Federal Power Act
FRR	Fixed Resource Requirement
FTR	Financial Transmission Right
GAAP	Accounting Principles Generally Accepted in the United States of America
GHG	Greenhouse Gases
HCl	Hydrochloric Acid
ICE	Intercontinental Exchange, Inc.
IIP	Infrastructure Investment Program
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
JCP&L Reliability Plus	JCP&L Reliability Plus Infrastructure Investment Program
kV	Kilovolt
KWH	Kilowatt-hour
LBR	Little Blue Run
LOC	Letter of Credit
LS Power	LS Power Equity Partners III, LP
LSE	Load Serving Entity
LTIIPs	Long-Term Infrastructure Improvement Plans
MATS	Mercury and Air Toxics Standards
MDPSC	Maryland Public Service Commission
MISO	Midcontinent Independent System Operator, Inc.
MLP	Master Limited Partnership
mmBTU	Million British Thermal Units
Moody’s	Moody’s Investors Service, Inc.
MOPR	Minimum Offer Price Rule
MVP	Multi-Value Project
MW	Megawatt
MWH	Megawatt-hour
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trust
NERC	North American Electric Reliability Corporation
NJAPA	New Jersey Administrative Procedure Act
NJBPU	New Jersey Board of Public Utilities
NOAC	Northwest Ohio Aggregation Coalition
NOL	Net Operating Loss
NOPR	Notice of Proposed Rulemaking
NOV	Notice of Violation
NOx	Nitrogen Oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NUG	Non-Utility Generation
NYPSC	New York State Public Service Commission
OCA	Office of Consumer Advocate
OCC	Ohio Consumers' Counsel

OMAEG	Ohio Manufacturers' Association Energy Group
OPEB	Other Post-Employment Benefits
OPIC	Other Paid-in Capital
ORC	Ohio Revised Code
OTTI	Other Than Temporary Impairments

GLOSSARY OF TERMS, Continued

OVEC	Ohio Valley Electric Corporation
PA DEP	Pennsylvania Department of Environmental Protection
PCB	Polychlorinated Biphenyl
PCRB	Pollution Control Revenue Bond
PJM	PJM Interconnection, L.L.C.
PJM Region	The aggregate of the zones within PJM
PJM Tariff	PJM Open Access Transmission Tariff
PM	Particulate Matter
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Purchase Power Agreement
PPB	Parts Per Billion
PPUC	Pennsylvania Public Utility Commission
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act
REC	Renewable Energy Credit
Regulation FD	Regulation Fair Disclosure promulgated by the SEC
REIT	Real Estate Investment Trust
RFC	ReliabilityFirst Corporation
RFP	Request for Proposal
RGGI	Regional Greenhouse Gas Initiative
ROE	Return on Equity
RRS	Retail Rate Stability
RSS	Rich Site Summary
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
RWG	Restructuring Working Group
S&P	Standard & Poor’s Ratings Service
SB310	Substitute Ohio Senate Bill No. 310
SBC	Societal Benefits Charge
SEC	United States Securities and Exchange Commission
Seventh Circuit	United States Court of Appeals for the Seventh Circuit
SIP	State Implementation Plan(s) Under the Clean Air Act
SO_2	Sulfur Dioxide
Sixth Circuit	United States Court of Appeals for the Sixth Circuit
SOS	Standard Offer Service
SPE	Special Purpose Entity
SREC	Solar Renewable Energy Credit
SSO	Standard Service Offer
Tax Act	Tax Cuts and Jobs Act, adopted December 22, 2017
TDS	Total Dissolved Solid
TMI-2	Three Mile Island Unit 2
TO	Transmission Owner
Twitter®	Twitter is a registered trademark of Twitter, Inc.

UCC	Official committee of unsecured creditors appointed in connection with the FES Bankruptcy
U.S. Court of Appeals for the D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
VEPCO	Virginia Electric and Power Company
VIE	Variable Interest Entity

GLOSSARY OF TERMS, Continued

VMP	Vegetation Management Plan
VMS	Vegetation Management Surcharge
VSCC	Virginia State Corporation Commission
WVDEP	West Virginia Department of Environmental Protection
WVPSC	Public Service Commission of West Virginia

PART I. FINANCIAL INFORMATION

ITEM I. Financial Statements

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In millions, except per share amounts)	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
REVENUES:				
Regulated Distribution	$2,352	$2,271	$4,928	$4,771
Regulated Transmission	341	327	664	640
Other	11	26	88	68
Total revenues[1]	2,704	2,624	5,680	5,479
OPERATING EXPENSES:				
Fuel	177	163	364	367
Purchased power	698	650	1,523	1,441
Other operating expenses	705	675	1,667	1,332
Provision for depreciation	299	254	593	504
Amortization (deferral) of regulatory assets, net	(107)	78	(255)	161
General taxes	245	230	504	472
Total operating expenses	2,017	2,050	4,396	4,277
OPERATING INCOME	687	574	1,284	1,202
OTHER INCOME (EXPENSE):				
Miscellaneous income, net	48	11	115	25
Interest expense	(369)	(248)	(619)	(493)
Capitalized financing costs	16	14	31	26
Total other expense	(305)	(223)	(473)	(442)
INCOME BEFORE INCOME TAXES	382	351	811	760
INCOME TAXES	115	132	367	284
INCOME FROM CONTINUING OPERATIONS	267	219	444	476
Discontinued operations (Note 3)[2]	32	(45)	1,224	(97)
NET INCOME	$299	$174	$1,668	$379
INCOME ALLOCATED TO PREFERRED STOCKHOLDERS (Note 4)	165	—	304	—
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$134	$174	$1,364	$379

EARNINGS PER SHARE OF COMMON STOCK (Note 4):				
Basic - Continuing Operations	$0.22	$0.49	$0.29	$1.07
Basic - Discontinued Operations	0.06	(0.10)	2.57	(0.21)
Basic - Net Income Attributable to Common Stockholders	$0.28	$0.39	$2.86	$0.86
Diluted - Continuing Operations	$0.22	$0.49	$0.29	$1.07
Diluted - Discontinued Operations	0.06	(0.10)	2.56	(0.22)
Diluted - Net Income Attributable to Common Stockholders	$0.28	$0.39	$2.85	$0.85
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	477	444	477	443
Diluted	479	445	478	444
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$—	$—	$0.72	$0.72

(1) Includes excise tax collections of $87 million and $91 million in the three months ended June 30, 2018 and 2017, respectively, and $189 million and $191 million in the six months ended June 30, 2018 and 2017, respectively.

(2) Net of income tax benefits of $30 million and $15 million for the three months ended June 30, 2018 and 2017, respectively, and income tax benefits of $920 million and $41 million for the six months ended June 30, 2018 and 2017, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	2018	2017	2018	2017
NET INCOME	$299	$174	$1,668	$379
OTHER COMPREHENSIVE INCOME (LOSS):				
Pension and OPEB prior service costs	(19)	(18)	(37)	(36)
Amortized losses on derivative hedges	2	1	17	4
Change in unrealized gains on available-for-sale securities	—	(2)	(106)	14
Other comprehensive loss	(17)	(19)	(126)	(18)
Income tax benefits on other comprehensive loss	(4)	(7)	(57)	(7)
Other comprehensive loss, net of tax	(13)	(12)	(69)	(11)
COMPREHENSIVE INCOME	$286	$162	$1,599	$368

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

FIRSTENERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$256	$ 588
Restricted cash	68	51
Receivables-		
Customers, net of allowance for uncollectible accounts of $49 in 2018 and 2017	1,231	1,282
Affiliated companies, net of allowance for uncollectible accounts of $632	87	—
Other, net of allowance for uncollectible accounts of $2 in 2018 and $1 in 2017	177	170
Materials and supplies, at average cost	281	262
Prepaid taxes and other	263	151
Current assets - discontinued operations	—	606
	2,363	3,110
PROPERTY, PLANT AND EQUIPMENT:		
In service	38,334	37,270
Less — Accumulated provision for depreciation	10,463	10,098
	27,871	27,172
Construction work in progress	1,150	1,004
	29,021	28,176
PROPERTY, PLANT AND EQUIPMENT, NET - DISCONTINUED OPERATIONS	—	1,057
INVESTMENTS:		
Nuclear plant decommissioning trusts	806	822
Nuclear fuel disposal trust	252	251
Other	255	255
Investments - discontinued operations	—	1,875
	1,313	3,203
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	5,618	5,618
Regulatory assets	84	40
Other	572	697
Deferred charges and other assets - discontinued operations	—	356
	6,274	6,711
	$38,971	$ 42,257
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Currently payable long-term debt	$1,132	$ 558
Short-term borrowings	1,664	300
Accounts payable	909	827
Accrued taxes	508	533
Accrued compensation and benefits	264	257
Collateral	34	39
Other	557	626
Current liabilities - discontinued operations	—	973

	5,068	4,113
CAPITALIZATION:		
Stockholders' equity-		
Common stock, $0.10 par value, authorized 700,000,000 shares - 477,513,738 and 445,334,111 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	48	44
Mandatorily convertible preferred stock, $100 par value, authorized 5,000,000 shares - 1,616,000 shares issued and outstanding as of June 30, 2018	162	—
Other paid-in capital	11,975	10,001
Accumulated other comprehensive income	73	142
Accumulated deficit	(4,559)	(6,262)
Total stockholders' equity	7,699	3,925
Long-term debt and other long-term obligations	16,461	18,816
	24,160	22,741
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	2,622	3,171
Retirement benefits	2,717	3,975
Regulatory liabilities	2,537	2,720
Asset retirement obligations	589	570
Adverse power contract liability	113	130
Other	1,165	1,438
Noncurrent liabilities - discontinued operations	—	3,399
	9,743	15,403
COMMITMENTS, GUARANTEES AND CONTINGENCIES (Note 14)		
	$38,971	$ 42,257

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

FIRSTENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
(In millions)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,668	$379
Adjustments to reconcile net income to net cash from operating activities-		
Gain on deconsolidation, net of tax (Note 3)	(1,239)	—
Depreciation and amortization, including nuclear fuel, regulatory assets, net, intangible assets and deferred debt-related costs	604	829
Deferred income taxes and investment tax credits, net	327	224
Impairment of assets and related charges	—	131
Retirement benefits, net of payments	(97)	17
Pension trust contributions	(1,250)	—
Unrealized (gain) loss on derivative transactions	(10)	53
Changes in current assets and liabilities-		
Receivables	20	83
Materials and supplies	28	(10)
Prepaid taxes and other	(143)	(127)
Accounts payable	50	—
Accrued taxes	(58)	(62)
Accrued compensation and benefits	(76)	(125)
Other current liabilities	(152)	(55)
Collateral, net	(15)	32
Other	55	113
Net cash provided from (used for) operating activities	(288)	1,482
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Financing-		
Long-term debt	450	3,500
Short-term borrowings, net	1,364	—
Preferred stock issuance	1,616	—
Common stock issuance	850	—
Redemptions and Repayments-		
Long-term debt	(2,251)	(735)
Short-term borrowings, net	—	(2,450)
Make-whole premiums paid on debt redemptions	(89)	—
Preferred stock dividend payments	(42)	—
Common stock dividend payments	(343)	(319)
Other	(21)	(52)
Net cash provided from (used for) financing activities	1,534	(56)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,307)	(1,254)
Nuclear fuel	—	(134)
Proceeds from asset sales	390	—

Sales of investment securities held in trusts	475	1,257
Purchases of investment securities held in trusts	(508)	(1,305)
Notes receivable from affiliated companies	(500)	—
Asset removal costs	(118)	(79)
Other	3	—
Net cash used for investing activities	(1,565)	(1,515)
Net change in cash and cash equivalents and restricted cash	(319)	(89)
Cash, cash equivalents and restricted cash at beginning of period	643	260
Cash, cash equivalents and restricted cash at end of period	$324	$171
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash transaction, beneficial conversion feature (Note 4)	$296	$—
Non-cash transaction, deemed dividend preferred stock (Note 4)	$(261)	$—

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

FIRSTENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Unless otherwise indicated, defined terms and abbreviations used herein have the meanings set forth in the accompanying Glossary of Terms.

FE was incorporated under Ohio law in 1996. FE’s principal business is the holding, directly or indirectly, of all of the outstanding equity of its principal subsidiaries: OE, CEI, TE, Penn (a wholly owned subsidiary of OE), JCP&L, ME, PN, FESC, AE Supply, MP, PE, WP, FET and its principal subsidiaries (ATSI, MAIT and TrAIL), and AESC. In addition, FE holds all of the outstanding equity of other direct subsidiaries including: FirstEnergy Properties, Inc., FEV, FELHC, Inc., GPU Nuclear, Inc., and Allegheny Ventures, Inc.

FE and its subsidiaries are principally involved in the transmission, distribution and generation of electricity. FirstEnergy’s ten utility operating companies comprise one of the nation’s largest investor-owned electric systems, based on serving over six million customers in the Midwest and Mid-Atlantic regions. FirstEnergy’s transmission operations include approximately 24,500 miles of lines and two regional transmission operation centers. Additionally, its regulated generation subsidiaries control 3,790 MWs of capacity and AE Supply controls 1,367 MWs of capacity. These interim financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and disclosures normally included in financial statements and notes prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2017.

FE and its subsidiaries follow GAAP and comply with the related regulations, orders, policies and practices prescribed by the SEC, FERC, and, as applicable, the NRC, the PUCO, the PPUC, the MDPSC, the NYPSC, the WVPSC, the VSCC and the NJBPU. The accompanying interim financial statements are unaudited, but reflect all adjustments, consisting of normal recurring adjustments, that, in the opinion of management, are necessary for a fair statement of the financial statements. The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. FE and its subsidiaries have evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

FE and its subsidiaries consolidate all majority-owned subsidiaries over which they exercise control and, when applicable, entities for which they have a controlling financial interest. Intercompany transactions and balances are eliminated in consolidation as appropriate. FE and its subsidiaries consolidate a VIE when it is determined that it is the primary beneficiary (see Note 8, "Variable Interest Entities"). Investments in affiliates over which FE and its subsidiaries have the ability to exercise significant influence, but do not have a controlling financial interest, follow the equity method of accounting. Under the equity method, the interest in the entity is reported as an investment in the Consolidated Balance Sheets and the percentage of FE's ownership share of the entity’s earnings is reported in the Consolidated Statements of Income and Comprehensive Income.

Certain prior year amounts have been reclassified to conform to the current year presentation, as discussed in "New Accounting Pronouncements" and Note 3, "Discontinued Operations."

FES and FENOC Chapter 11 Filing

On March 31, 2018, FES and FENOC announced that, in order to facilitate an orderly financial restructuring, they filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code with the Bankruptcy Court (which is referred to throughout as the FES Bankruptcy). As a result of the bankruptcy filings, FirstEnergy has concluded that it no longer has a controlling interest in FES or FENOC as the entities are subject to the jurisdiction of the Bankruptcy Court and, accordingly, as of March 31, 2018, FES and FENOC were deconsolidated from FirstEnergy’s consolidated financial statements. FE will account for its investments in FES and FENOC with fair values of zero. FE concluded that in connection with the disposal, FES and FENOC became discontinued operations. In connection with the disposal, FE has recorded a gain on deconsolidation (net of taxes) of approximately $1.2 billion for the six months ended June 30, 2018. See Note 3, "Discontinued Operations," for additional information.

On April 20, 2018, FirstEnergy reached an agreement in principle with two groups of key FES creditors in the FES Bankruptcy. The first is an ad hoc group, which includes a majority of the pollution control revenue bonds supported by notes issued by FG and NG and the holders of senior notes issued by FES, while the second group includes the majority of Bruce Mansfield Unit 1 sale and leaseback transaction certificate holders. On May 7, 2018, FE, FES, the FES ad hoc creditor groups and the UCC entered into a Standstill Agreement, which was previously approved by the Bankruptcy Court, agreeing to keep the terms of the settlement open through August 1, 2018, and to other matters to enable an efficient settlement process, including expedited discovery protocols and transfer restrictions on the FES creditor groups. On July 31, 2018, FirstEnergy reached an updated agreement in principle with the same two groups of key FES creditors in the FES Bankruptcy and added FES, FENOC, and the UCC to such agreement in principle.

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In connection with the agreement in principle, the parties also extended the Standstill Agreement until the earlier of the effective date of a plan of reorganization for FES and FENOC or termination of the definitive settlement agreement. The updated agreement in principle includes the following terms, among others:

- FE will pay certain pre-petition FES and FENOC employee-related obligations, which include unfunded pension obligations and other employee benefits, and provides for the waiver of all pre-petition claims against FES and FENOC, including the full borrowings by FES under the $500 million secured credit facility, the $200 million credit agreement being used to support surety bonds, the BNSF/CSX rail settlement guarantee, and FES’ and FENOC’s unfunded pension obligations.
- The full release of all claims against FirstEnergy by FES, FENOC and their creditors.
- A $225 million cash payment from FirstEnergy.
- Up to a $628 million note from FirstEnergy, which is intended to represent the initial estimated value of the worthless stock deduction associated with the FES Bankruptcy and was designed to trade at par value when issued.
- Transfer of the Pleasants Power Station to FES for the benefit of FES’ creditors. Prior to transfer and beginning no later than January 1, 2019, FES to have an economic lease in Pleasants; AE Supply will operate Pleasants until transfer.
- FirstEnergy agrees to credit nine-months of FES’ and FENOC’s shared service costs beginning as of April 1, 2018, in an amount not to exceed $112.5 million, and FirstEnergy agrees to extend the availability of shared services until no later than June 30, 2020.
- FirstEnergy agrees to fund through its pension plan a pension enhancement should FES offer a voluntary enhanced retirement package in 2019, which is estimated to cost $15 million, and approximately $3 million for other employee benefits.

The timing of and the conditions to FirstEnergy's performance of the terms above are set forth in the agreement in principle. This agreement will be subject to approval by the FE, FES, FENOC and AE Supply Boards of Directors, the execution of definitive agreements and the approval of the Bankruptcy Court. Additionally, the Bruce Mansfield certificate holders’ support for the agreement is subject to and conditioned upon the ultimate implementation of the agreed upon treatment of certain claims of the Bruce Mansfield certificate holders. There can be no assurance that a definitive settlement agreement will be finalized and approved and, even if approved, whether the conditions to such settlement will be satisfied, and the actual outcome of this matter may differ materially from the terms of the agreement in principle described herein.

Capitalized Financing Costs

For each of the three months ended June 30, 2018 and 2017, capitalized financing costs on FirstEnergy's Consolidated Statements of Income include $12 million and $9 million, respectively, of allowance for equity funds used during construction and $4 million and $5 million, respectively, of capitalized interest. For each of the six months ended June 30, 2018 and 2017, capitalized financing costs on FirstEnergy's Consolidated Statements of Income include $23 million and $17 million, respectively, of allowance for equity funds used during construction and $8 million and $9 million, respectively, of capitalized interest.

Restricted Cash

Restricted cash primarily relates to the consolidated VIE's discussed in Note 8, "Variable Interest Entities." The cash collected from JCP&L, MP, PE and the Ohio Companies' customers is used to service debt of their respective funding companies.

New Accounting Pronouncements

Recently Adopted Pronouncements

ASU 2014-09, "Revenue from Contracts with Customers" (Issued May 2014 and subsequently updated to address implementation questions): The new revenue recognition guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. FirstEnergy evaluated its revenues and the new guidance had immaterial impacts to recognition practices upon adoption on January 1, 2018. As part of the adoption, FirstEnergy elected to apply the new guidance on a modified retrospective basis. FirstEnergy did not record a cumulative effect adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. In addition, upon adoption, certain immaterial financial statement presentation changes were implemented. See Note 2, " Revenue," for additional information on FirstEnergy revenues.

ASU 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (Issued January 2016 and subsequently updated in 2018): ASU 2016-01 primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. FirstEnergy adopted this standard on January 1, 2018, and recognizes all gains and losses for equity securities in income with the exception of those that are accounted for under the equity method of accounting. The NDT equity portfolios of JCP&L, ME and PN will not be impacted as unrealized gains and losses will continue to be offset against regulatory assets or liabilities. As a result of adopting this standard, FirstEnergy recorded a cumulative effect adjustment to retained earnings of $115 million (pre-tax) on January 1, 2018, representing unrealized gains on equity securities with FES NDTs that were previously recorded to AOCI. Following deconsolidation of FES and FENOC, the adoption of this standard is not expected to have a material impact on FirstEnergy's financial statements as the majority of its equity securities are offset against a regulatory asset or liability.

ASU 2016-18, "Restricted Cash" (Issued November 2016): ASU 2016-18 addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is required to be applied retrospectively. As a result of adopting this standard, FirstEnergy's statement of cash flows reports changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. Prior periods have been recast to conform to the current year presentation.

ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business" (Issued January 2017): ASU 2017-01 assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. FirstEnergy adopted ASU 2017-01 on January 1, 2018. The ASU will be applied prospectively to future transactions.

ASU 2017-04, "Goodwill Impairment" (Issued January 2017): ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two-step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. FirstEnergy has elected to early adopt ASU 2017-04 as of January 1, 2018, and will apply this standard on a prospective basis.

ASU 2017-07, "Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (Issued March 2017): ASU 2017-07 requires entities to retrospectively (1) disaggregate the current-service-cost component from the other components of net benefit cost (the other components) and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. In addition, only service costs are eligible for capitalization on a prospective basis. FirstEnergy adopted ASU 2017-07 on January 1, 2018. Because the non-service cost components of net benefit cost are no longer eligible for capitalization after December 31, 2017, FirstEnergy has recognized these components in income as a result of adopting this standard. FirstEnergy reclassified approximately $8 million and $16 million of non-service costs from Other operating expense to Miscellaneous income for the three and six months ended June 30, 2017, respectively.

ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (Issued February 2018): ASU 2018-02 allows entities to reclassify from AOCI to retained earnings stranded tax effects resulting from the Tax Act. FirstEnergy early adopted this standard during the first quarter of 2018 and has elected to present the change in the period of adoption. Upon adoption, FirstEnergy recorded a $22 million cumulative effect adjustment for stranded tax effects, such as pension and OPEB prior service costs and losses on derivative hedges, to retained earnings on January 1, 2018, of which $8 million was related to FES and FENOC.

ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" (Issued March 2018): ASU 2018-05, effective 2018, expands income tax accounting and disclosure guidance to include SAB 118 issued by the SEC in December 2017. SAB 118 provides guidance on accounting for the income tax effects of the Tax Act and among other things allows for a measurement period not to exceed one year for companies to finalize the provisional amounts recorded as of December 31, 2017. See Note 7, "Income taxes," for additional information on FirstEnergy's accounting for the Tax Act.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, FirstEnergy is currently assessing the impact such guidance may have on its financial statements and disclosures, as well as the potential to early adopt where applicable. FirstEnergy has assessed other FASB issuances of new standards not described below or in the 2017 Annual Report on Form 10-K based upon the current expectation that such new standards will not significantly impact FirstEnergy's financial reporting. Below is an update to the discussion of pronouncements contained in the 2017 Annual Report on Form

10-K.

ASU 2016-02, "Leases (Topic 842)" (Issued February 2016 and subsequently updated to address implementation questions): The new guidance will require organizations that lease assets with lease terms of more than 12 months to recognize assets and liabilities for the rights and obligations created by those leases on their balance sheets. There is an optional transition practical expedient that, if elected, would not require an entity to reconsider its accounting for existing land easements that are not currently accounted for as leases under the current leases guidance. In addition, new qualitative and quantitative disclosures of the amounts, timing, and uncertainty of cash flows arising from leases will be required. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Lessors and lessees will be required to apply a modified retrospective transition approach, which requires lessors and lessees to recognize and measure leases at the beginning of the earliest period presented (January 1, 2017) or initially apply the requirements of the standard in the period of adoption (January 1, 2019). Any leases that expire before the initial application date will not require any accounting adjustment. FirstEnergy does not plan to adopt these standards early. FirstEnergy expects an increase in assets and liabilities; however, it is currently assessing the impact, including monitoring utility industry implementation guidance, but expects no impact to results of operations or cash flows. FirstEnergy continues to develop its complete lease inventory, as well as identify, assess and document technical accounting issues, policy considerations, financial reporting implications and changes to internal controls and processes. In addition, FirstEnergy is in the process of implementing a third-party software tool that will assist with the initial adoption and ongoing compliance.

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2. REVENUE

FirstEnergy accounts for revenues from contracts with customers under ASC 606, Revenue from Contracts with Customers, which became effective January 1, 2018. As part of the adoption of ASC 606, FirstEnergy applied the new standard on a modified retrospective basis analyzing open contracts as of January 1, 2018. However, no cumulative effect adjustment to retained earnings was necessary as no revenue recognition differences were identified when comparing the revenue recognition criteria under ASC 606 to previous requirements.

Revenue from leases, financial instruments, other contractual rights or obligations and other revenues that are not from contracts with customers are outside the scope of the new standard and accounted for under other existing GAAP. FirstEnergy has elected to exclude sales taxes and other similar taxes collected on behalf of third parties from revenue as prescribed in the new standard. As a result, tax collections and remittances within the scope of this election are excluded from recognition in the income statement and instead recorded through the balance sheet, consistent with FirstEnergy’s accounting process prior to the adoption of ASC 606. Excise and gross receipts taxes that are assessed on FirstEnergy are not subject to the election and are included in revenue. FirstEnergy has elected the optional invoice practical expedient for most of its revenues and, with the exception of JCP&L transmission, utilizes the optional short-term contract exemption for transmission revenues due to the annual establishment of revenue requirements, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations. For a qualitative overview of FirstEnergy's performance obligations, see below.

FirstEnergy’s revenues are primarily derived from electric service provided by its Utilities and transmission (ATSI, TrAIL and MAIT) subsidiaries.

The following tables represent a disaggregation of revenue from contracts with customers for the three and six months ended June 30, 2018, by type of service from each reportable segment:

	For the Three Months Ended June 30, 2018			
Revenues by Type of Service	Regulated Distribution	Regulated Transmission	Corporate/Other and Reconciling Adjustments [(1)]	Total
	(In millions)			
Distribution services[(2)]	$1,228	$ —	$ (43)	$1,185
Retail generation	882	—	(14)	868
Wholesale sales[(2)]	121	—	84	205
Transmission[(2)]	—	336	—	336
Other	35	—	—	35
Total revenues from contracts with customers	$2,266	$ 336	$ 27	$2,629
ARP	60	—	—	60
Other non-customer revenue	26	5	(16)	15
Total revenues	$2,352	$ 341	$ 11	$2,704

(1) Includes eliminations and reconciling adjustments of inter-segment revenues.
(2) Includes $8 million in net reductions to revenue related to amounts subject to refund resulting from the Tax Act ($10 million subject to refund at Regulated Distribution, partially offset by $2 million subject to recovery at Regulated Transmission).

Revenues by Type of Service	For the Six Months Ended June 30, 2018			
	Regulated Distribution	Regulated Transmission	Corporate/Other and Reconciling Adjustments [1]	Total
	(In millions)			
Distribution services[2]	$2,509	$ —	$ (55)	$2,454
Retail generation	1,922	—	(28)	1,894
Wholesale sales[2]	244	—	204	448
Transmission[2]	—	655	—	655
Other	70	—		70
Total revenues from contracts with customers	$4,745	$ 655	$ 121	$5,521
ARP	124	—	—	124
Other non-customer revenue	59	9	(33)	35
Total revenues	$4,928	$ 664	$ 88	$5,680

[1] Includes eliminations and reconciling adjustments of inter-segment revenues.
[2] Includes $84 million in reductions to revenue related to amounts subject to refund resulting from the Tax Act ($82 million at Regulated Distribution and $2 million at Regulated Transmission).

Other non-customer revenue includes revenue from derivatives of $4 million and $14 million for the three and six months ended June 30, 2018, respectively.

Regulated Distribution

The Regulated Distribution segment distributes electricity through FirstEnergy’s ten utility operating companies and also controls 3,790 MWs of regulated electric generation capacity located primarily in West Virginia, Virginia and New Jersey. Each of the Utilities earn revenue from state-regulated rate tariffs under which it provides distribution services to residential, commercial and industrial customers in its service territory. The Utilities are obligated under the regulated construct to deliver power to customers reliably, as it is needed, which creates an implied monthly contract with the end-use customer. See Note 13, "Regulatory Matters," for additional information on rate recovery mechanisms. Distribution and electric revenues are recognized over time as electricity is distributed and delivered to the customer and the customers consume the electricity immediately as delivery occurs.

Retail generation sales relate to POLR, SOS, SSO and default service requirements in Ohio, Pennsylvania, New Jersey and Maryland, as well as generation sales in West Virginia that are regulated by the WVPSC. Certain of the Utilities have default service obligations to provide power to non-shopping customers who have elected to continue to receive service under regulated retail tariffs. The volume of these sales varies depending on the level of shopping that occurs. Supply plans vary by state and by service territory. Default service for the Ohio Companies, Pennsylvania Companies, JCP&L and PE's Maryland jurisdiction are provided through a competitive procurement process approved by each state's respective commission.

The following table represents a disaggregation of the Regulated Distribution segment revenue from contracts with distribution service and retail generation customers for the three and six months ended June 30, 2018, by class:

Revenues by Customer Class	For the Three Months Ended June 30,	For the Six Months Ended June 30, 2018

	2018	
	(In millions)	
Residential	$1,255	$2,718
Commercial	570	1,150
Industrial	262	516
Other	23	47
Total Revenues	$2,110	$4,431

Wholesale sales primarily consist of generation and capacity sales into the PJM market from FirstEnergy's regulated electric generation capacity and NUGs. Certain of the Utilities may also purchase power from PJM to supply power to their customers. Generally, these power sales from generation and purchases to serve load are netted hourly and reported gross as either revenues or purchased power on the statements of income based on whether the entity was a net seller or buyer each hour. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Consolidated Statements of Income. Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

The Utilities' distribution customers are metered on a cycle basis. An estimate of unbilled revenues is calculated to recognize electric service provided from the last meter reading through the end of the month. This estimate includes many factors, among which are historical customer usage, load profiles, estimated weather impacts, customer shopping activity and prices in effect for each class of customer. In each accounting period, the Utilities accrue the estimated unbilled amount as revenue and reverses the related prior period estimate. Customer payments vary by state but are generally due within 30 days.

ASC 606 excludes industry-specific accounting guidance for recognizing revenue from ARPs as these programs represent contracts between the utility and its regulators, as opposed to customers. Therefore, revenue from these programs are not within the scope of ASC 606 and regulated utilities are permitted to continue to recognize such revenues in accordance with existing practice but are presented separately from revenue arising from contracts with customers. FirstEnergy currently has ARPs in Ohio, primarily under rider DMR, and in New Jersey.

Regulated Transmission

The Regulated Transmission segment provides transmission infrastructure owned and operated by ATSI, TrAIL, MAIT and certain of FirstEnergy's utilities (JCP&L, MP, PE and WP) to transmit electricity from generation sources to distribution facilities. The segment's revenues are primarily derived from forward-looking formula rates at ATSI, TrAIL and MAIT, as well as stated transmission rates at JCP&L, MP, PE and WP. Both the forward-looking formula and stated rates recover costs that the regulatory agencies determine are permitted to be recovered and provide a return on transmission capital investment. Under forward-looking formula rates, the revenue requirement is updated annually based on a projected rate base and projected costs, which is subject to an annual true-up based on actual costs. Revenue requirements under stated rates are calculated annually by multiplying the highest one-hour peak load in each respective transmission zone by the approved, stated rate in that zone. Revenues and cash receipts for the stand-ready obligation of providing transmission service are recognized ratably over time.

Effective January 1, 2018, JCP&L is subject to a FERC-approved settlement agreement that provides an annual revenue requirement of $155 million through December 31, 2019 which is recognized ratably as revenue over time.

The following table represents a disaggregation of revenue from contracts with regulated transmission customers for the three and six months ended June 30, 2018, by transmission owner:

Revenues from Contracts with Customers by Transmission Asset Owner	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
	(In millions)	
ATSI	$167	$ 325
TrAIL	63	123
MAIT	34	64
Other	72	143
Total Revenues	$336	$ 655

3. DISCONTINUED OPERATIONS

FES, FENOC, BSPC and a portion of AE Supply, representing substantially all of FirstEnergy's operations that previously comprised the CES reportable operating segment, are presented as discontinued operations in FirstEnergy's consolidated financial statements resulting from the FES Bankruptcy and actions taken as part of the strategic review to exit commodity-exposed generation, as discussed below. Prior period results have been reclassified to conform with such presentation as discontinued operations.

FES and FENOC Chapter 11 Filing

As discussed in Note 1, "Organization and Basis of Presentation," on March 31, 2018, FES and FENOC announced the FES Bankruptcy. FirstEnergy concluded that it no longer has a controlling interest in FES or FENOC, as the entities are subject to the jurisdiction of the Bankruptcy Court and, accordingly, as of March 31, 2018, FES and FENOC were deconsolidated from FirstEnergy's consolidated financial statements, and will account for its investments in FES and FENOC with fair values of zero.

By eliminating a significant portion of its competitive generation fleet with the deconsolidation of FES and FENOC, FirstEnergy has concluded FES and FENOC meet the criteria for discontinued operations, as this represents a significant event in management’s strategic review to exit commodity-exposed generation and transition to a fully-regulated company.

FES Borrowings from FE

On March 9, 2018, FES borrowed $500 million from FE under the secured credit facility, dated as of December 6, 2016, among FES, as Borrower, FG and NG as guarantors, and FE, as lender, which fully utilized the committed line of credit available under the secured credit facility. Following deconsolidation of FES, FE fully reserved for the $500 million associated with the borrowings under the secured credit facility.

On March 16, 2018, FES and FENOC withdrew from the unregulated companies' money pool, which included FE, FES and FENOC. As of the date of the withdrawal, FES and FENOC owed FE approximately $4 million in unsecured borrowings in the aggregate under the money pool. In addition, as of March 31, 2018, AE Supply had a $102 million outstanding unsecured promissory note owed from FES. Following deconsolidation of FES and FENOC, FE fully reserved the $4 million associated with the outstanding unsecured borrowings under the unregulated companies' money pool and the $102 million associated with the AE Supply unsecured promissory note. For the three months ended June 30, 2018, approximately $8 million of interest was accrued and subsequently reserved.

Services Agreements

FirstEnergy is currently continuing to provide shared services support to FES and FENOC under existing shared services agreements ("Services Agreements"). Under the Services Agreements, costs are directly billed or assigned at no more than cost. The remaining costs are for services that are provided on behalf of more than one company, or costs that cannot be precisely identified and are allocated using formulas provided for in the Services Agreements. Transactions under the Services Agreements are generally settled within 30 days. At this time, FirstEnergy expects to provide shared services support to FES and FENOC under the Services Agreements through at least 2018. Following the deconsolidation of FES and FENOC from FirstEnergy's consolidated financial statements on March 31, 2018, approximately $41 million related to these services were charged to FES by FirstEnergy, which was outstanding as of June 30, 2018.

In addition, on March 16, 2018, FES, FENOC and FESC, entered into the FirstEnergy Solutions Money Pool Agreement in order for FESC to assist FES and FENOC with certain treasury support services under the shared service agreement. FESC is a party to the FirstEnergy Solutions Money Pool Agreement solely in the role as administrator of the money pool arrangement thereunder.

Benefit Obligations

FirstEnergy will retain certain obligations for FES and FENOC employees for services provided prior to emergence from bankruptcy. The retention of this obligation at March 31, 2018, resulted in a liability of $820 million (including EDCP, pension and OPEB) with a corresponding loss from discontinued operations. EDCP, net pension and OPEB costs earned by FES and FENOC employees during bankruptcy are expected to be billed under the Services Agreements, and will be reassessed as the bankruptcy proceedings progress.

Guarantees provided by FE

As discussed in Note 14, "Commitments, Guarantees and Contingencies," FE guaranteed the remaining payments due to CSX and BNSF in connection with the definitive settlement of a dispute regarding a coal transportation agreement. As of March 31, 2018, FE recorded an obligation for this guarantee in other current liabilities with a corresponding loss from discontinued operations. On April 6, 2018, FE paid the remaining $72 million owed under the settlement agreement as a result of the FES Bankruptcy. In addition, as of March 31, 2018, FE recorded, and on May 11, 2018, paid a $58 million obligation for a sale-leaseback indemnity in other current liabilities with a corresponding loss from discontinued operations.

Purchase Power

FES at times provides power through affiliated company power sales to meet a portion of the Utilities' POLR and default service requirements and provide power to certain affiliates' facilities. As of June 30, 2018, the Utilities owed FES approximately $23 million related to these purchases. The terms and conditions of the agreements are generally consistent with industry practices and other third-party arrangements. The Utilities purchased and recognized in continuing operations approximately $71 million and $174 million of power from FES for the three and six months ended June 30, 2018, respectively.

Tax Allocation Agreement

Until FES and FENOC emerge from bankruptcy, it is expected that FES and FENOC will remain parties to the intercompany income tax allocation agreement with FE and its other subsidiaries, which provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of

FirstEnergy that have taxable income. As of June 30, 2018, FE has a $58 million receivable from FES and FENOC, in the aggregate, related to the federal tax obligation.

For U.S. federal income taxes, FES and FENOC will continue to be consolidated in FirstEnergy’s tax return and taxable income will be determined based on the tax basis of underlying individual net assets. Deferred taxes previously recorded on the inside basis differences may not represent the actual tax consequence for the outside basis difference, causing a recharacterization of an existing consolidated-return net operating loss as a future worthless stock deduction (currently estimated at approximately $600 million). The estimated worthless stock deduction is contingent upon the emergence of FES and FENOC from the FES Bankruptcy and such amounts may be impacted by future events.

Competitive Generation Asset Sales

FirstEnergy announced in January 2017 that AE Supply and AGC had entered into an asset purchase agreement with a subsidiary of LS Power, as amended and restated in August 2017, to sell four natural gas generating plants, AE Supply's interest in the Buchanan Generating facility and approximately 59% of AGC's interest in Bath County (1,615 MWs of combined capacity). On

December 13, 2017, AE Supply completed the sale of the natural gas generating plants, with net proceeds of approximately $388 million. On March 1, 2018, AE Supply completed the sale of the Buchanan Generating Facility with net proceeds of approximately $20 million. On May 3, 2018, AE Supply and AGC completed the sale of approximately 59% of AGC's interest in Bath County. Net proceeds were approximately $355 million, which includes adjustments based on the timing of the closing and is subject to other customary post-closing adjustments.

In connection with its obligations under the asset purchase agreement, in June 2018, AE Supply redeemed its $305 million aggregate principal amount of senior notes and on May 3, 2018, AGC optionally redeemed its $100 million aggregate principal amount of senior notes. As a result of these redemptions, "make-whole" premiums of approximately $89 million were required to be paid to the noteholders (reported in continuing operations). Additionally, as a result of the completion of the asset sales to LS Power, AE Supply caused the redemption of $142 million aggregate principal amount of PCRBs and separately, together with MP, caused the redemption of $73.5 million of PCRBs. Also, on May 3, 2018, following closing of the sale by AGC of a portion of its ownership interest in Bath County, AGC completed the redemption of AE Supply's shares in AGC and AGC became a wholly owned subsidiary of MP.

On March 9, 2018, BSPC and FG entered into an asset purchase agreement with Walleye Power, LLC (formerly Walleye Energy, LLC), for the sale of the Bay Shore Generating Facility, including the 136 MW Bay Shore Unit 1 and other retired coal-fired generating equipment owned by FG. The sale is subject to customary and other closing conditions, including regulatory approvals, various third-party consents and approval by the Bankruptcy Court in connection with the FES Bankruptcy. On May 11, 2018, FES filed with the Bankruptcy Court for approval of the sale transaction. On June 14, 2018, the UCC filed a limited objection in the Bankruptcy Court proceeding to approve the sale, contesting the previously agreed purchase price allocation between BSPC and FG, which objection was subsequently resolved. The Bankruptcy Court approved the sale on July 13, 2018, and the transaction was completed on July 31, 2018.

Individually, the AE Supply and BSPC asset sales did not qualify for reporting as discontinued operations. However, the asset sales were part of management’s strategic review to exit commodity-exposed generation and, when considered with FES' and FENOC’s bankruptcy filings on March 31, 2018, represent a collective elimination of substantially all of FirstEnergy’s competitive generation fleet and meet the criteria for discontinued operations.

Summarized Results of Discontinued Operations

Summarized results of discontinued operations for the three and six months ended June 30, 2018 and 2017, were as follows:

(In millions)	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
Revenues	$11	$680	$633	$1,369
Fuel	(5)	(180)	(121)	(344)
Purchased power	—	(74)	(53)	(123)
Other operating expenses	—	(282)	(347)	(774)
Provision for depreciation	—	(27)	(46)	(52)
General taxes	—	(23)	(18)	(52)
Impairment of assets	—	(131)	—	(131)
Other expense, net	(4)	(23)	(64)	(31)

Income (Loss) from discontinued operations, before tax	2	(60)	(16)	(138)
Income tax benefit[1]	(30)	(15)	(1)	(41)
Income (Loss) from discontinued operations, net of tax	32	(45)	(15)	(97)
Gain on deconsolidation, net of tax	—	—	1,239	—
Income (loss) from discontinued operations	$32	$(45)	$1,224	$(97)

[1] In conjunction with the sale of an interest in Bath County, AGC wrote-off and recognized as a benefit in discontinued operations its excess deferred tax liabilities of $32 million, created from the Tax Act, since they are not required to be refunded to ratepayers.

The gain on deconsolidation that was recognized in the six months ended June 30, 2018, consisted of the following:

(In millions)	For the Six Months Ended June 30, 2018
Removal of investment in FES and FENOC	$2,193
Assumption of benefit obligations retained at FE (including Pension, OPEB and EDCP)	(820)
Guarantees and credit support provided by FE	(139)
Reserve on receivables and allocated Pension/OPEB mark-to-market	(914)
Gain on deconsolidation of FES and FENOC, before tax	320
Income tax benefit, including estimated worthless stock deduction	919
Gain on deconsolidation of FES and FENOC, net of tax	$1,239

The following table summarizes the major classes of assets and liabilities as discontinued operations as of June 30, 2018 and December 31, 2017:

(In millions)	June 30, 2018	December 31, 2017
Carrying amount of the major classes of assets included in discontinued operations:		
Cash	$ —	$ 1
Restricted cash	—	3
Receivables	—	202
Materials and supplies	—	201
Collateral	—	130
Other current assets	—	69
Total current assets	—	606
Property, plant and equipment	—	1,057
Investments	—	1,875
Other non-current assets	—	356
Total non-current assets	—	3,288
Total assets included in discontinued operations	$ —	$ 3,894
Carrying amount of the major classes of liabilities included in discontinued operations:		
Currently payable long-term debt	$ —	$ 524
Accounts payable	—	200
Accrued taxes	—	38
Accrued compensation and benefits	—	79
Other current liabilities	—	132
Total current liabilities	—	973
Long-term debt and other long-term obligations	—	2,299
Accumulated deferred income taxes [1]	—	(1,812)
Asset retirement obligations	—	1,945
Deferred gain on sale and leaseback transaction	—	723
Other non-current liabilities	—	244
Total noncurrent liabilities	—	3,399

Total liabilities included in discontinued operations	$ —	$ 4,372

(1) Represents an increase in FirstEnergy's ADIT liability as an ADIT asset was removed upon deconsolidation of FES and FENOC.

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FirstEnergy's Consolidated Statement of Cash Flows combines cash flows from discontinued operations with cash flows from continuing operations within each cash flow statement category. The following table summarizes the major classes of cash flow items as discontinued operations for the six months ended June 30, 2018 and 2017:

(In millions)	For the Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from discontinued operations	$1,224	$(97)
Depreciation and amortization, including nuclear fuel, regulatory assets, net, intangible assets and deferred debt-related costs	47	157
Unrealized (gain) loss on derivative transactions	(10)	53
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(15)	(178)
Nuclear fuel	—	(134)
Sales of investment securities held in trusts	109	437
Purchases of investment securities held in trusts	(122)	(466)

4. EARNINGS PER SHARE OF COMMON STOCK

The convertible Preferred Stock issued in January 2018 (see Note 11, "Capitalization") is considered participating securities since these shares participate in dividends on Common Stock on an "as-converted" basis. As a result, EPS of Common Stock is computed using the two-class method required for participating securities.

The two-class method uses an earnings allocation formula that treats participating securities as having rights to earnings that otherwise would have been available only to common stockholders. Under the two-class method, net income attributable to common stockholders is derived by subtracting the following from income from continuing operations:

- preferred share dividends,
- deemed dividends for the amortization of the beneficial conversion feature recognized at issuance of the Preferred Stock (if any), and
- an allocation of undistributed earnings between the common shares and the participating securities (convertible Preferred Stock) based on their respective rights to receive dividends.

Net losses are not allocated to the convertible Preferred Stock as they do not have a contractual obligation to share in the losses of FirstEnergy. FirstEnergy allocates undistributed earnings based upon income from continuing operations.

The Preferred Stock includes an embedded conversion option at a price that is below the fair value of the Common Stock on the commitment date. This beneficial conversion feature, which was approximately $296 million, represents the difference between the fair value per share of the Common Stock and the conversion price, multiplied by the number of common shares issuable upon conversion. The beneficial conversion feature will be amortized as a deemed dividend over the period from the issue date to the first allowable conversion date (July 22, 2018) as a charge to OPIC, since FE is in an accumulated deficit position with no retained earnings to declare a dividend. As noted above, for EPS reporting purposes, this beneficial conversion feature will be reflected in net income attributable to common stockholders as a deemed dividend. The amount amortized for the three and six months ended June 30, 2018, was approximately $148 million and $261 million, respectively.

Basic EPS available to common stockholders is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Participating securities are excluded from basic weighted average ordinary shares outstanding. Diluted EPS available to common stockholders is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding, including all potentially dilutive common shares, if the effect of such common shares is dilutive.

Diluted EPS reflects the dilutive effect of potential common shares from share-based awards and convertible preferred shares. The dilutive effect of outstanding share based awards is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of the award would be used to purchase Common Stock at the average market price for the period. The dilutive effect of the convertible Preferred Stock is computed using the if-converted method, which assumes conversion of the convertible Preferred Stock at the beginning of the period, giving income recognition for the add-back of the preferred share dividends, amortization of beneficial conversion feature, and undistributed earnings allocated to preferred stockholders.

The following table reconciles basic and diluted EPS of common stock:

Reconciliation of Basic and Diluted EPS of Common Stock	For the Three Months Ended June 30, 2018	2017	For the Six Months Ended June 30, 2018	2017
(In millions, except per share amounts)				
EPS of Common Stock				
Income from continuing operations	$267	$219	$444	$476
Less: Preferred dividends	—	—	(43)	—
Less: Amortization of beneficial conversion feature	(148)	—	(261)	—
Less: Undistributed earnings allocated to preferred stockholders[1]	(13)	—	—	—
Income from continuing operations available to common stockholders	106	219	140	476
Discontinued operations, net of tax	32	(45)	1,224	(97)
Less: Undistributed earnings allocated to preferred stockholders	(4)	—	—	—
Income (loss) from discontinued operations available to common stockholders	28	(45)	1,224	(97)
Income available to common stockholders, basic and diluted	$134	$174	$1,364	$379
Share Count information:				
Weighted average number of basic shares outstanding	477	444	477	443
Assumed exercise of dilutive stock options and awards	2	1	1	1
Weighted average number of diluted shares outstanding	479	445	478	444
Income available to common stockholders, per common share:				
Income from continuing operations, basic	$0.22	$0.49	$0.29	$1.07
Discontinued operations, basic	0.06	(0.10)	2.57	(0.21)
Income available to common stockholders, basic	$0.28	$0.39	$2.86	$0.86
Income from continuing operations, diluted	$0.22	$0.49	$0.29	$1.07
Discontinued operations, diluted	0.06	(0.10)	2.56	(0.22)
Income available to common stockholders, diluted	$0.28	$0.39	$2.85	$0.85

(1) Undistributed earnings were not allocated to participating securities for the six months ended June 30, 2018 as income from continuing operations less dividends declared (common and preferred) and deemed dividends were a net loss.

For both the three and six months ended June 30, 2018 and 2017, one million shares from stock options and awards were excluded from the calculation of diluted shares outstanding, as their inclusion would be antidilutive to basic EPS from continuing operations. Also, for the three and six months ended June 30, 2018, 59 million shares associated with the assumed conversion of Preferred Stock were excluded, as their inclusion would be antidilutive to basic EPS from continuing operations.

5. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The components of the consolidated net periodic costs (credits) for pension and OPEB (including amounts capitalized) were as follows:

Components of Net Periodic Benefit Costs (Credits)	Pension		OPEB	
For the Three Months Ended June 30,	2018	2017	2018	2017
	(In millions)			
Service costs	$56	$52	$1	$1
Interest costs	93	97	6	7
Expected return on plan assets	(144)	(112)	(7)	(7)
Amortization of prior service costs (credits)	2	2	(20)	(20)
Net periodic costs (credits)	$7	$39	$(20)	$(19)

Components of Net Periodic Benefit Costs (Credits)	Pension		OPEB	
For the Six Months Ended June 30,	2018	2017	2018	2017
	(In millions)			
Service costs	$112	$104	$2	$2
Interest costs	186	194	12	14
Expected return on plan assets	(288)	(224)	(15)	(15)
Amortization of prior service costs (credits)	4	4	(40)	(40)
Net periodic costs (credits)	$14	$78	$(41)	$(39)

Pension and OPEB obligations are allocated to FE's subsidiaries employing the plan participants. The net periodic pension and OPEB costs (credits), net of amounts capitalized, recognized in earnings by FirstEnergy were as follows:

	Pension		OPEB	
Net Periodic Benefit Expense (Credit)	2018	2017	2018	2017