HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
HAWAIIAN ELECTRIC INDUSTRIES, INC.	1-8503	99-0208097
and Principal Subsidiary		
HAWAIIAN ELECTRIC COMPANY, INC.	1-4955	99-0040500

State of Hawaii
(State or other jurisdiction of incorporation or organization)

Hawaiian Electric Industries, Inc. – 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813
Hawaiian Electric Company, Inc. – 900 Richards Street, Honolulu, Hawaii 96813
(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. – (808) 543-5662
Hawaiian Electric Company, Inc. – (808) 543-7771
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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.
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x 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).
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 Securities Exchange Act of 1934.

Hawaiian Electric Industries, Inc.	Large accelerated filer x	Hawaiian Electric Company, Inc.	Large accelerated filer o
	Accelerated filer o		Accelerated filer o
	Non-accelerated filer o		Non-accelerated filer x

(Do not check if a smaller reporting company)	(Do not check if a smaller reporting company)
Smaller reporting company o	Smaller reporting company o
Emerging growth 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 standards provided pursuant to Section 13(a) of the Exchange Act.

Hawaiian Electric Industries, Inc. o   Hawaiian Electric Company, Inc. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Hawaiian Electric Industries, Inc. Yes o No x   Hawaiian Electric Company, Inc. Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding July 27, 2017
Hawaiian Electric Industries, Inc. (Without Par Value)	108,785,486 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	16,019,785 Shares (not publicly traded)

Hawaiian Electric Industries, Inc. (HEI) is the sole holder of Hawaiian Electric Company, Inc. (Hawaiian Electric) common stock.

This combined Form 10-Q is separately filed by HEI and Hawaiian Electric. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to Hawaiian Electric is also attributed to HEI.

Hawaiian Electric Industries, Inc. and Subsidiaries
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GLOSSARY OF TERMS

Terms	Definitions
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of ASB Hawaii, Inc.
ASB Hawaii	ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
ASU	Accounting Standards Update
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc. (dissolved in 2015 and wound up in 2017); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
CBRE	Community-based renewable energy
DER	Distributed energy resources
D&O	Decision and order from the PUC
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EIP	2010 Equity and Incentive Plan, as amended and restated
EPA	Environmental Protection Agency — federal
EPS	Earnings per share
ERP/EAM	Enterprise Resource Planning/Enterprise Asset Management
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America

GLOSSARY OF TERMS, continued

Terms	Definitions
GNMA	Government National Mortgage Association
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
Hawaiian Electric	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated financing subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HEP	Hamakua Energy Partners, L.P., successor in interest to Encogen Hawaii, L.P.
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc. (dissolved in 2015 and wound up in 2017) and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELOC	Home equity line of credit
HPOWER	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatthour/s (as applicable)
LNG	Liquefied natural gas
LTIP	Long-term incentive plan
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
Merger	As provided in the Merger Agreement (see below), merger of NEE Acquisition Sub II, Inc. with and into HEI, with HEI surviving, and then merger of HEI with and into NEE Acquisition Sub I, LLC, with NEE Acquisition Sub I, LLC surviving as a wholly owned subsidiary of NextEra Energy, Inc.
Merger Agreement	Agreement and Plan of Merger by and among HEI, NextEra Energy, Inc., NEE Acquisition Sub II, Inc. and NEE Acquisition Sub I, LLC, dated December 3, 2014 and terminated July 16, 2016
MPIR	Major Project Interim Recovery
MW	Megawatt/s (as applicable)
NEE	NextEra Energy, Inc.
NEM	Net energy metering
NII	Net interest income
NPBC	Net periodic benefit costs
NPPC	Net periodic pension costs
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSIPs	Power Supply Improvement Plans
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovoltaic
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference

Spin-Off	The previously planned distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger, which was terminated
TDR	Troubled debt restructuring
Trust III	HECO Capital Trust III
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (Hawaiian Electric) and their subsidiaries contain "forward-looking statements," which include statements that are predictive in nature, depend upon or refer to future events or conditions and usually include words such as "will," "expects," "anticipates," "intends," "plans," "believes," "predicts," "estimates" or similar expressions. In additio statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic, political and market factors, among other things. These forward-looking statements are not guarantees of future performance.

Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

- international, national and local economic and political conditions—including the state of the Hawaii tourism, defense and construction industries; the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by ASB, which could result in higher loan loss provisions and write-offs); decisions concerning the extent of the presence of the federal government and military in Hawaii; the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions; and the potential impacts of global developments (including global economic conditions and uncertainties; the effects of the United Kingdom's referendum to withdraw from the European Union; unrest; the conflict in Syria; the effects of changes that have or may occur in U.S. policy, such as with respect to immigration and trade; terrorist acts by ISIS or others; potential conflict or crisis with North Korea; and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling, monetary policy and policy and regulation changes advanced or proposed by President Trump and his administration;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' operations and the economy;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue common stock) under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of the Company's pension and other retirement plan assets and ASB's securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);
- the impacts of the termination of the Merger with NextEra Energy, Inc. (NEE) and the resulting loss of NEE's resources, expertise and support (e.g., financial and technological), including potentially higher costs and longer lead times to increase levels of renewable energy and to complete projects like Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) and smart grids, and a higher cost of capital;
- the potential delay by the Public Utilities Commission of the State of Hawaii (PUC) in considering (and potential disapproval of actual or proposed) renewable energy proposals and related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; and uncertainties surrounding technologies, solar power, wind power, biofuels, environmental assessments required to meet renewable portfolio

standards (RPS) goals and the impacts of implementation of the renewable energy proposals on future costs of electricity;

- the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans included in their updated Power Supply Improvement Plans (PSIPs), Demand Response Portfolio Plan, Distributed Generation Interconnection Plan, Grid Modernization Plans, and business model changes, which have been and are continuing to be developed and updated in response to the orders issued by the PUC in April 2014, its April 2014 inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals, and subsequent orders of the PUC;
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities or modifications of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatthour sales;
- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the Utilities;

- the risks associated with increasing reliance on renewable energy, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the potential that, as IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units;
- the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of the Utilities and ASB or their competitors;
- new technological developments, such as the commercial development of energy storage and microgrids, that could affect the operations of the Utilities;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and the Utilities (including at ASB branches and electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;
- federal, state, county and international governmental and regulatory actions, such as existing, new and changes in laws, rules and regulations applicable to HEI, the Utilities and ASB (including changes in taxation, increases in capital requirements, regulatory policy changes, environmental laws and regulations (including resulting compliance costs and risks of fines and penalties and/or liabilities), the regulation of greenhouse gas emissions, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon “cap and trade” legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);
- developments in laws, regulations and policies governing protections for historic, archaeological and cultural sites, and plant and animal species and habitats, as well as developments in the implementation and enforcement of such laws, regulations and policies;
- discovery of conditions that may be attributable to historical chemical releases, including any necessary investigation and remediation, and any associated enforcement, litigation or regulatory oversight;
- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs as a result of adverse regulatory audit reports or otherwise);
- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions, restrictions and penalties that may arise, such as with respect to environmental conditions or RPS);
- potential enforcement actions by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC) and/or other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);
- the ability of the Utilities to recover increasing costs and earn a reasonable return on capital investments not covered by RAMs;
- the risks associated with the geographic concentration of HEI’s businesses and ASB’s loans, ASB’s concentration in a single product type (i.e., first mortgages) and ASB’s significant credit relationships (i.e., concentrations of large loans and/or credit lines with certain customers);
- changes in accounting principles applicable to HEI, the Utilities and ASB, including the adoption of new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;

- changes by securities rating agencies in their ratings of the securities of HEI and Hawaiian Electric and the results of financing efforts;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;
- changes in ASB’s loan portfolio credit profile and asset quality which may increase or decrease the required level of provision for loan losses, allowance for loan losses and charge-offs;
- changes in ASB’s deposit cost or mix which may have an adverse impact on ASB’s cost of funds;
- the final outcome of tax positions taken by HEI, the Utilities and ASB;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities’ transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric with the Securities and Exchange Commission (SEC).

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made. Except to the extent required by the federal securities laws, HEI, Hawaiian Electric, ASB and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral and whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands, except per share amounts)	2017	2016	2017	2016
Revenues				
Electric utility	$556,875	$495,395	$1,075,486	$977,447
Bank	75,329	70,749	148,185	139,589
Other	77	100	172	168
Total revenues	632,281	566,244	1,223,843	1,117,204
Expenses				
Electric utility	501,828	424,709	971,501	851,435
Bank	50,533	50,525	99,229	99,771
Other	4,024	5,555	9,355	11,692
Total expenses	556,385	480,789	1,080,085	962,898
Operating income (loss)				
Electric utility	55,047	70,686	103,985	126,012
Bank	24,796	20,224	48,956	39,818
Other	(3,947)	(5,455)	(9,183)	(11,524)
Total operating income	75,896	85,455	143,758	154,306
Interest expense, net—other than on deposit liabilities and other bank borrowings	(20,440)	(17,301)	(40,008)	(37,427)
Allowance for borrowed funds used during construction	1,143	760	2,032	1,422
Allowance for equity funds used during construction	3,027	1,997	5,426	3,736
Income before income taxes	59,626	70,911	111,208	122,037
Income taxes	20,492	26,310	37,408	44,611
Net income	39,134	44,601	73,800	77,426
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	$38,661	$44,128	$72,854	$76,480
Basic earnings per common share	$0.36	$0.41	$0.67	$0.71
Diluted earnings per common share	$0.36	$0.41	$0.67	$0.71
Dividends declared per common share	$0.31	$0.31	$0.62	$0.62
Weighted-average number of common shares outstanding	108,750	107,962	108,712	107,791
Net effect of potentially dilutive shares	47	171	157	187
Weighted-average shares assuming dilution	108,797	108,133	108,869	107,978

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2017	2016	2017	2016
Net income for common stock	$38,661	$44,128	$72,854	$76,480
Other comprehensive income (loss), net of taxes:				
Net unrealized gains on available-for-sale investment securities:				
Net unrealized gains on available-for-sale investment securities arising during the period, net of taxes of $1,334, $1,925, $1,482 and $6,830, respectively	2,021	2,916	2,244	10,344
Reclassification adjustment for net realized gains included in net income, net of taxes of nil, $238, nil and $238, respectively	—	(360)	—	(360)
Derivatives qualifying as cash flow hedges:				
Effective portion of foreign currency hedge net unrealized gains (losses) arising during the period, net of (taxes) benefits of nil, $475, nil and ($163), respectively	—	(745)	—	257
Reclassification adjustment to net income, net of tax benefits of nil, nil, $289 and $35, respectively	—	—	454	54
Retirement benefit plans:				
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $2,508, $2,362, $5,010 and $4,619, respectively	3,930	3,698	7,851	7,236
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,281, $2,166, $4,582 and $4,218, respectively	(3,581)	(3,401)	(7,194)	(6,623)
Other comprehensive income, net of taxes	2,370	2,108	3,355	10,908
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$41,031	$46,236	$76,209	$87,388

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (unaudited)

(dollars in thousands)	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$210,381	$278,452
Accounts receivable and unbilled revenues, net	249,539	237,950
Available-for-sale investment securities, at fair value	1,302,886	1,105,182
Stock in Federal Home Loan Bank, at cost	11,706	11,218
Loans receivable held for investment, net	4,688,278	4,683,160
Loans held for sale, at lower of cost or fair value	5,261	18,817
Property, plant and equipment, net of accumulated depreciation of $2,508,291 and $2,444,348 at June 30, 2017 and December 31, 2016, respectively	4,726,524	4,603,465
Regulatory assets	938,277	957,451
Other	478,763	447,621
Goodwill	82,190	82,190
Total assets	$12,693,805	$12,425,506
Liabilities and shareholders’ equity		
Liabilities		
Accounts payable	$194,755	$143,279
Interest and dividends payable	22,124	25,225
Deposit liabilities	5,724,386	5,548,929
Short-term borrowings—other than bank	49,789	—
Other bank borrowings	188,130	192,618
Long-term debt, net—other than bank	1,618,647	1,619,019
Deferred income taxes	750,413	728,806
Regulatory liabilities	431,630	410,693
Contributions in aid of construction	543,204	543,525
Defined benefit pension and other postretirement benefit plans liability	626,795	638,854
Other	434,610	473,512
Total liabilities	10,584,483	10,324,460
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 3 and 4)		
Shareholders’ equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none	—	—
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 108,785,486 shares and 108,583,413 shares at June 30, 2017 and December 31, 2016, respectively	1,660,403	1,660,910
Retained earnings	444,400	438,972
Accumulated other comprehensive loss, net of tax benefits	(29,774)	(33,129)
Total shareholders’ equity	2,075,029	2,066,753
Total liabilities and shareholders’ equity	$12,693,805	$12,425,506

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

	Common stock		Retained	Accumulated other comprehensive	
(in thousands)	Shares	Amount	Earnings	income (loss)	Total
Balance, December 31, 2016	108,583	$1,660,910	$438,972	$ (33,129)	$2,066,753
Net income for common stock	—	—	72,854	—	72,854
Other comprehensive income, net of taxes	—	—	—	3,355	3,355
Issuance of common stock, net of expenses	202	(507)	—	—	(507)
Common stock dividends	—	—	(67,426)	—	(67,426)
Balance, June 30, 2017	108,785	$1,660,403	$444,400	$ (29,774)	$2,075,029
Balance, December 31, 2015	107,460	$1,629,136	$324,766	$ (26,262)	$1,927,640
Net income for common stock	—	—	76,480	—	76,480
Other comprehensive income, net of taxes	—	—	—	10,908	10,908
Issuance of common stock, net of expenses	727	18,002	—	—	18,002
Common stock dividends	—	—	(66,848)	—	(66,848)
Balance, June 30, 2016	108,187	$1,647,138	$334,398	$ (15,354)	$1,966,182

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30	
(in thousands)	2017	2016
Cash flows from operating activities		
Net income	$73,800	$77,426
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	100,062	97,148
Other amortization	6,101	4,840
Provision for loan losses	6,741	9,519
Loans receivable originated and purchased, held for sale	(69,595)	(98,004)
Proceeds from sale of loans receivable, held for sale	79,944	98,457
Deferred income taxes	17,047	21,738
Share-based compensation expense	3,285	2,011
Allowance for equity funds used during construction	(5,426)	(3,736)
Other	246	2,982
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(12,394)	12,894
Decrease (increase) in fuel oil stock	(5,962)	9,644
Decrease (increase) in regulatory assets	8,179	(11,752)
Increase in accounts, interest and dividends payable	55,451	20,837
Change in prepaid and accrued income taxes, tax credits and utility revenue taxes	(37,954)	622
Increase in defined benefit pension and other postretirement benefit plans liability	420	95
Change in other assets and liabilities	(33,922)	(18,878)
Net cash provided by operating activities	186,023	225,843
Cash flows from investing activities		
Available-for-sale investment securities purchased	(295,510)	(176,598)
Principal repayments on available-for-sale investment securities	99,663	102,716
Proceeds from sale of available-for-sale investment securities	—	16,423
Purchase of stock from Federal Home Loan Bank	(2,868)	(2,773)
Redemption of stock from Federal Home Loan Bank	2,380	2,233
Net increase in loans held for investment	(20,326)	(155,930)
Proceeds from sale of commercial loans	13,493	14,105
Proceeds from sale of real estate acquired in settlement of loans	185	553
Capital expenditures	(222,246)	(203,631)
Contributions in aid of construction	17,571	16,810
Other	8,216	1,106
Net cash used in investing activities	(399,442)	(384,986)
Cash flows from financing activities		
Net increase in deposit liabilities	175,457	206,949
Net increase in short-term borrowings with original maturities of three months or less	49,789	12,922
Net increase (decrease) in retail repurchase agreements	9,048	(27,158)
Proceeds from other bank borrowings	59,500	55,835
Repayments of other bank borrowings	(73,034)	(84,369)
Proceeds from issuance of long-term debt	265,000	75,000
Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds	(265,000)	(75,000)
Withheld shares for employee taxes on vested share-based compensation	(3,787)	(2,345)

Net proceeds from issuance of common stock	—	7,668
Common stock dividends	(67,426)	(55,591)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	(3,253)	2,908
Net cash provided by financing activities	145,348	115,873
Net decrease in cash and cash equivalents	(68,071)	(43,270)
Cash and cash equivalents, beginning of period	278,452	300,478
Cash and cash equivalents, end of period	$210,381	$257,208

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2017	2016	2017	2016
Revenues	$556,875	$495,395	$1,075,486	$977,447
Expenses				
Fuel oil	141,259	91,899	285,529	205,639
Purchased power	153,067	139,058	280,191	254,917
Other operation and maintenance	106,374	99,563	206,614	203,471
Depreciation	48,156	46,760	96,372	93,541
Taxes, other than income taxes	52,972	47,429	102,795	93,867
Total expenses	501,828	424,709	971,501	851,435
Operating income	55,047	70,686	103,985	126,012
Allowance for equity funds used during construction	3,027	1,997	5,426	3,736
Interest expense and other charges, net	(18,214)	(15,103)	(35,718)	(32,411)
Allowance for borrowed funds used during construction	1,143	760	2,032	1,422
Income before income taxes	41,003	58,340	75,725	98,759
Income taxes	14,860	21,984	27,618	36,537
Net income	26,143	36,356	48,107	62,222
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to Hawaiian Electric	25,914	36,127	47,649	61,764
Preferred stock dividends of Hawaiian Electric	270	270	540	540
Net income for common stock	$25,644	$35,857	$47,109	$61,224

The accompanying notes are an integral part of these condensed consolidated financial statements.
HEI owns all of the common stock of Hawaiian Electric. Therefore, per share data with respect to shares of common stock of Hawaiian Electric are not meaningful.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2017	2016	2017	2016
Net income for common stock	$25,644	$35,857	$47,109	$61,224
Other comprehensive income (loss), net of taxes:				
Derivatives qualifying as cash flow hedges:				
Effective portion of foreign currency hedge net unrealized gains (losses) arising during the period, net of (taxes) benefits of nil, $475, nil and ($163), respectively	—	(745)	—	257
Reclassification adjustment to net income, net of tax benefits of nil, nil, $289 and nil, respectively	—	—	454	—
Retirement benefit plans:				
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $2,306, $2,160, $4,610 and $4,221, respectively	3,621	3,391	7,239	6,627
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,281, $2,166, $4,582 and $4,218, respectively	(3,581)	(3,401)	(7,194)	(6,623)
Other comprehensive income (loss), net of taxes	40	(755)	499	261
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$25,684	$35,102	$47,608	$61,485

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (unaudited)

(dollars in thousands, except par value)	June 30, 2017	December 31, 2016
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$53,178	$53,153
Plant and equipment	6,711,418	6,605,732
Less accumulated depreciation	(2,430,097)	(2,369,282)
Construction in progress	272,438	211,742
Utility property, plant and equipment, net	4,606,937	4,501,345
Nonutility property, plant and equipment, less accumulated depreciation of $1,233 as of June 30, 2017 and $1,232 as of December 31, 2016	7,410	7,407
Total property, plant and equipment, net	4,614,347	4,508,752
Current assets		
Cash and cash equivalents	42,582	74,286
Customer accounts receivable, net	126,161	123,688
Accrued unbilled revenues, net	103,596	91,693
Other accounts receivable, net	3,684	5,233
Fuel oil stock, at average cost	72,392	66,430
Materials and supplies, at average cost	57,099	53,679
Prepayments and other	36,340	23,100
Regulatory assets	74,167	66,032
Total current assets	516,021	504,141
Other long-term assets		
Regulatory assets	864,110	891,419
Unamortized debt expense	690	208
Other	75,987	70,908
Total other long-term assets	940,787	962,535
Total assets	$6,071,155	$5,975,428
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 16,019,785 shares at June 30, 2017 and December 31, 2016)	$106,818	$106,818
Premium on capital stock	601,486	601,491
Retained earnings	1,095,025	1,091,800
Accumulated other comprehensive income (loss), net of taxes	177	(322)
Common stock equity	1,803,506	1,799,787
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,318,845	1,319,260
Total capitalization	3,156,644	3,153,340
Commitments and contingencies (Note 3)		
Current liabilities		
Short-term borrowings from non-affiliates	43,990	—
Accounts payable	162,375	117,814
Interest and preferred dividends payable	19,497	22,838
Taxes accrued	142,263	172,730
Regulatory liabilities	2,883	3,762

Other	53,140	55,221
Total current liabilities	424,148	372,365
Deferred credits and other liabilities		
Deferred income taxes	759,972	733,659
Regulatory liabilities	428,747	406,931
Unamortized tax credits	91,386	88,961
Defined benefit pension and other postretirement benefit plans liability	587,718	599,726
Other	79,336	76,921
Total deferred credits and other liabilities	1,947,159	1,906,198
Contributions in aid of construction	543,204	543,525
Total capitalization and liabilities	$6,071,155	$5,975,428

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Common Stock Equity (unaudited)

	Common stock		Premium on capital	Retained	Accumulated other comprehensive	
(in thousands)	Shares	Amount	stock	earnings	income (loss)	Total
Balance, December 31, 2016	16,020	$106,818	$601,491	$1,091,800	$ (322)	$1,799,787
Net income for common stock	—	—	—	47,109	—	47,109
Other comprehensive income, net of taxes	—	—	—	—	499	499
Common stock dividends	—	—	—	(43,884)	—	(43,884)
Common stock issuance expenses	—	—	(5)	—	—	(5)
Balance, June 30, 2017	16,020	$106,818	$601,486	$1,095,025	$ 177	$1,803,506
Balance, December 31, 2015	15,805	$105,388	$578,930	$1,043,082	$ 925	$1,728,325
Net income for common stock	—	—	—	61,224	—	61,224
Other comprehensive income, net of taxes	—	—	—	—	261	261
Common stock dividends	—	—	—	(46,800)	—	(46,800)
Common stock issuance expenses	—	—	(4)	—	—	(4)
Balance, June 30, 2016	15,805	$105,388	$578,926	$1,057,506	$ 1,186	$1,743,006

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30	
(in thousands)	2017	2016
Cash flows from operating activities		
Net income	$48,107	$62,222
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	96,372	93,541
Other amortization	4,262	3,793
Deferred income taxes	23,599	32,118
Allowance for equity funds used during construction	(5,426)	(3,736)
Other	1,615	2,982
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(1,729)	16,682
Increase in accrued unbilled revenues	(11,903)	(3,215)
Decrease (increase) in fuel oil stock	(5,962)	9,644
Increase in materials and supplies	(3,420)	(2,482)
Decrease (increase) in regulatory assets	8,179	(677)
Increase in accounts payable	51,637	23,427
Change in prepaid and accrued income taxes, tax credits and revenue taxes	(40,910)	(28,192)
Increase in defined benefit pension and other postretirement benefit plans liability	302	237
Change in other assets and liabilities	(14,047)	(12,220)
Net cash provided by operating activities	150,676	194,124
Cash flows from investing activities		
Capital expenditures	(202,080)	(197,332)
Contributions in aid of construction	17,571	16,810
Other	6,250	331
Net cash used in investing activities	(178,259)	(180,191)
Cash flows from financing activities		
Common stock dividends	(43,884)	(46,800)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(998)	(998)
Proceeds from issuance of special purpose revenue bonds	265,000	—
Funds transferred for redemption of special purpose revenue bonds	(265,000)	—
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	43,990	36,995
Other	(3,229)	—
Net cash used in financing activities	(4,121)	(10,803)
Net increase (decrease) in cash and cash equivalents	(31,704)	3,130
Cash and cash equivalents, beginning of period	74,286	24,449
Cash and cash equivalents, end of period	$42,582	$27,579

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 · Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the unaudited condensed consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited condensed consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K for the year ended December 31, 2016.

In the opinion of HEI's and Hawaiian Electric's management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments required by GAAP to fairly state consolidated HEI's and Hawaiian Electric's financial positions as of June 30, 2017 and December 31, 2016, the results of their operations for the three and six months ended June 30, 2017 and 2016 and their cash flows for the six months ended June 30, 2017 and 2016. All such adjustments are of a normal recurring nature, unless otherwise disclosed below or in other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.

Recent accounting pronouncements.

Revenues from contracts with customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should: (1) identify the contract/s with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, the entity satisfies a performance obligation. ASU No. 2014-09 also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

As of June 30, 2017, the Company has identified its revenue streams from, and performance obligations related to, contracts with customers and has performed an analysis of these revenue streams for the impacts of Topic 606. The majority of the revenue subject to Topic 606 is the Utilities' electric sales revenue and the Company and Hawaiian Electric do not expect a material impact on the timing or pattern of revenue recognition upon adoption of ASU No. 2014-09. The Company and Hawaiian Electric expect changes to the presentation and disclosure of revenues. The Company plans to adopt ASU No. 2014-09 (and subsequently issued revenue-related ASUs, as applicable) in the first quarter of 2018 using the modified retrospective approach. The Company continues to monitor developments in industry-specific application guidance and evaluate further impacts of Topic 606.

Financial instruments. In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which, among other things:

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).
- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

The Company plans to adopt ASU No. 2016-01 in the first quarter of 2018 and expects changes to disclosures, but otherwise believes the impact of adoption will not be material to the Company's and Hawaiian Electric's consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which requires that lessees recognize a liability to make lease payments (the lease liability) and a right-of-use asset, representing its right to use the underlying asset for the lease term, for all leases (except short-term leases) at the commencement date. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election and recognize lease expense for such leases generally on a straight-line basis over the lease term. For finance leases, a lessee is required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the condensed consolidated statement of income. For operating leases, a lessee is required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

The Company plans to adopt ASU No. 2016-02 in the first quarter of 2019 and has not yet determined the method or impact of adoption.

Stock compensation. In March 2016, the FASB issued ASU No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for share-based payment transactions.

The Company adopted ASU No. 2016-09 in the first quarter of 2017. From January 1, 2017, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement. From January 1, 2017, no excess tax benefits or deficiencies are included in determining the assumed proceeds under the treasury stock method of calculating diluted EPS. As of January 1, 2017, HEI adopted an accounting policy to account for forfeitures when they occur.

From January 1, 2017, HEI retrospectively applied the cashflow guidance for taxes paid (equivalent to the value of withheld shares for tax withholding purposes) and excess tax benefits. Excess tax benefits will be classified along with other income tax cash flows as an operating activity and the cash payments made to taxing authorities on the employees’ behalf for withheld shares are classified as financing activities on the HEI unaudited condensed consolidated statements of cash flows for all periods that are presented.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU No. 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date (based on historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU No. 2016-13 amends the accounting for credit losses on available-for-sale (AFS) debt securities and purchased financial assets with credit deterioration. The other-than-temporary impairment model of accounting for credit losses on AFS debt securities will be replaced with an estimate of expected credit losses only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. The AFS debt security model will also require the use of an allowance to record the estimated losses (and subsequent recoveries). The accounting for the initial recognition of the estimated expected credit losses for purchased financial assets with credit deterioration would be recognized through an allowance for credit losses with an offset to the cost basis of the related financial asset at acquisition (i.e., there is no impact to net income at initial recognition).

The Company plans to adopt ASU No. 2016-13 in the first quarter of 2020 and has not yet determined the impact of adoption.

Cash Flows. In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides guidance on eight specific cash flow issues - debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle.

The Company plans to adopt ASU No. 2016-15 in the first quarter of 2018 using a retrospective transition method and has not yet determined the impact of adoption.

Restricted cash. In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

The Company plans to adopt ASU No. 2016-18 in the first quarter of 2018 using a retrospective transition method and believes the impact of adoption will not be material to the Company's and Hawaiian Electric's consolidated statements of cash flows.

Goodwill impairment. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Prior to the adoption of ASU No. 2017-04, an entity was required to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compared the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeded its fair value, the entity performed Step 2 and compared the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeded the implied fair value of that goodwill would then be recorded. ASU No. 2017-04 removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value. ASU No. 2017-04 does not amend the optional qualitative assessment of goodwill impairment.

The Company plans to adopt ASU No. 2017-04 prospectively in the fourth quarter of 2017 and believes the impact of adoption will not be material to the Company's and Hawaiian Electric's consolidated financial statements.

Net periodic pension cost and net periodic postretirement benefit cost. In March 2017, the FASB issued ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Additionally, only the service cost component is eligible for capitalization under GAAP, when applicable.

The Company plans to adopt ASU No. 2017-07 in the first quarter of 2018 and has not yet determined the impact of adoption.

2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended June 30, 2017				
Revenues from external customers	$ 556,836	$75,329	$116	$632,281
Intersegment revenues (eliminations)	39	—	(39)	—
Revenues	$ 556,875	$75,329	$77	$632,281
Income (loss) before income taxes	$ 41,003	$24,796	$(6,173)	$59,626
Income taxes (benefit)	14,860	8,063	(2,431)	20,492
Net income (loss)	26,143	16,733	(3,742)	39,134
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	$ 25,644	$16,733	$(3,716)	$38,661
Six months ended June 30, 2017				
Revenues from external customers	$ 1,075,402	$148,185	$256	$1,223,843
Intersegment revenues (eliminations)	84	—	(84)	—
Revenues	$ 1,075,486	$148,185	$172	$1,223,843
Income (loss) before income taxes	$ 75,725	$48,956	$(13,473)	$111,208
Income taxes (benefit)	27,618	16,410	(6,620)	37,408
Net income (loss)	48,107	32,546	(6,853)	73,800
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	$ 47,109	$32,546	$(6,801)	$72,854
Total assets (at June 30, 2017)	$ 6,071,155	$6,610,877	$11,773	$12,693,805
Three months ended June 30, 2016				
Revenues from external customers	$ 495,349	$70,749	$146	$566,244
Intersegment revenues (eliminations)	46	—	(46)	—
Revenues	$ 495,395	$70,749	$100	$566,244
Income (loss) before income taxes	$ 58,340	$20,224	$(7,653)	$70,911
Income taxes (benefit)	21,984	6,939	(2,613)	26,310
Net income (loss)	36,356	13,285	(5,040)	44,601
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	$ 35,857	$13,285	$(5,014)	$44,128
Six months ended June 30, 2016				
Revenues from external customers	$ 977,394	$139,589	$221	$1,117,204
Intersegment revenues (eliminations)	53	—	(53)	—
Revenues	$ 977,447	$139,589	$168	$1,117,204
Income (loss) before income taxes	$ 98,759	$39,818	$(16,540)	$122,037
Income taxes (benefit)	36,537	13,860	(5,786)	44,611
Net income (loss)	62,222	25,958	(10,754)	77,426
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	$ 61,224	$25,958	$(10,702)	$76,480
Total assets (at December 31, 2016)	$ 5,975,428	$6,421,357	$28,721	$12,425,506

Intercompany electricity sales of the Utilities to the bank and “other” segments are not eliminated because those segments would need to purchase electricity from another source if it were not provided by the Utilities and the profit on such sales is nominal.

Bank fees that ASB charges the Utilities and “other” segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution and the profit on such fees is nominal.

3 · Electric utility segment

Revenue taxes. The Utilities' revenues include amounts for the recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). The Utilities included in the second quarters of 2017 and 2016 and six months ended June 30, 2017 and 2016 approximately $50 million, $44 million, $96 million and $87 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense, in the unaudited condensed consolidated statements of income.

Unconsolidated variable interest entities.

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) ($50 million aggregate liquidation preference) to the public and trust common securities ($1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of $31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of $10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. Trust III has at all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not absorb the majority of the variability of Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of June 30, 2017 and December 31, 2016 each consisted of $51.5 million of 2004 Debentures; $50.0 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III's income statements for the six months ended June 30, 2017 consisted of $1.7 million of interest income received from the 2004 Debentures; $1.6 million of distributions to holders of the Trust Preferred Securities; and $50,000 of common dividends on the trust common securities to Hawaiian Electric. As long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures, then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of June 30, 2017, the Utilities had five power purchase agreements (PPAs) for firm capacity and other PPAs with independent power producers (IPPs) and Schedule Q providers (e.g., customers with cogeneration and/or power production facilities who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs.

Some of the IPPs provided sufficient information for Hawaiian Electric to determine that the IPP was not a VIE, or was either a "business" or "governmental organization," and thus excluded from the scope of accounting standards for VIEs. Other IPPs declined to provide the information necessary for Hawaiian Electric to determine the applicability of accounting standards for VIEs. Since 2004, Hawaiian Electric has continued its efforts to obtain from the other IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2016, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa Partners, L.P. (Kalaeloa) later agreed to provide the information pursuant to the amendments to its PPA (see below). During the negotiations of an amendment to the PPA with AES Hawaii, Inc. (AES Hawaii), management determined that Hawaiian Electric was not the primary beneficiary of AES Hawaii under the existing PPA and consolidation was not required (see below). Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities. If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs in the unaudited condensed consolidated financial statements. The consolidation of any significant IPP could have a material effect on the unaudited condensed consolidated financial statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such

losses. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs.
Pursuant to the current accounting standards for VIEs, Hawaiian Electric is deemed to have a variable interest in Kalaeloa and AES Hawaii by reason of the provisions of Hawaiian Electric's PPA with Kalaeloa and AES Hawaii, respectively. However, management has concluded that Hawaiian Electric is not the primary beneficiary of Kalaeloa or AES Hawaii because Hawaiian Electric does not have the power to direct the activities that most significantly impact Kalaeloa's and AES Hawaii's economic performance nor the obligation to absorb Kalaeloa's or AES Hawaii's expected losses, if any, that could potentially be significant to Kalaeloa or AES Hawaii. Thus, Hawaiian Electric has not consolidated Kalaeloa or AES Hawaii in its unaudited condensed consolidated financial statements.
Commitments and contingencies.
Contingencies. The Utilities are subject in the normal course of business to pending and threatened legal proceedings. Management does not anticipate that the aggregate ultimate liability arising out of these pending or threatened legal proceedings will be material to its financial position. However, the Utilities cannot rule out the possibility that such outcomes could have a material effect on the results of operations or liquidity for a particular reporting period in the future.
Power purchase agreements. As of June 30, 2017, purchases from all IPPs were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	2017	2016	2017	2016
Kalaeloa	$48	$36	$88	$65
AES Hawaii	35	36	64	74
HPOWER	16	17	33	33
Puna Geothermal Venture	10	5	18	12
HEP	10	4	17	15
Other IPPs [1]	34	41	60	56
Total IPPs	$153	$139	$280	$255

[1] Includes wind power, solar power, feed-in tariff projects and other PPAs.
Kalaeloa Partners, L.P. In October 1988, Hawaiian Electric entered into a PPA with Kalaeloa, subsequently approved by the PUC, which provided that Hawaiian Electric would purchase 180 megawatts (MW) of firm capacity for a period of 25 years beginning in May 1991. In October 2004, Hawaiian Electric and Kalaeloa entered into amendments to the PPA, subsequently approved by the PUC, which together effectively increased the firm capacity from 180 MW to 208 MW. The energy payments that Hawaiian Electric makes to Kalaeloa include: (1) a fuel component, with a fuel price adjustment based on the cost of low sulfur fuel oil, (2) a fuel additives cost component and (3) a non-fuel component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator. The capacity payments that Hawaiian Electric makes to Kalaeloa are fixed in accordance with the PPA. Kalaeloa also has a steam delivery cogeneration contract with another customer, the term of which coincides with the PPA. The facility has been certified by the Federal Energy Regulatory Commission as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978.
Hawaiian Electric and Kalaeloa are in negotiations to address the PPA term that ended on May 23, 2016. On August 1, 2016, Hawaiian Electric and Kalaeloa entered into an agreement that neither party will give written notice of termination of the Kalaeloa PPA prior to October 31, 2017. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith. The month-to-month term extensions shall end 60 days after either party notifies the other in writing that negotiations have terminated.
AES Hawaii, Inc. Under a PPA entered into in March 1988, as amended (through Amendment No. 2) for a period of 30 years beginning September 1992, Hawaiian Electric agreed to purchase 180 MW of firm capacity from AES Hawaii. In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC's

Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013, but Hawaiian Electric and AES Hawaii were not able to reach an agreement on the amendment. In June 2015, AES Hawaii filed an arbitration demand regarding a dispute about whether Hawaiian Electric was obligated to buy up to 9 MW of additional capacity based on a 1992 letter. Hawaiian Electric responded to the arbitration demand and in October 2015, AES Hawaii and Hawaiian Electric entered into a Settlement Agreement to stay the arbitration proceeding. The Settlement Agreement included certain conditions precedent which, if satisfied, would have released the parties from the claims under the arbitration proceeding. Among the conditions precedent was the successful negotiation and PUC approval of an amendment to the existing PPA.

In November 2015, Hawaiian Electric entered into Amendment No. 3 for which PUC approval was requested and subsequently denied in January 2017. Approval of Amendment No. 3 would have satisfied the final condition for effectiveness of the Settlement Agreement and resolved AES Hawaii's claims. Following the PUC's decision, the parties agreed to extend the stay of the arbitration proceeding, while settlement discussions continue.

Hu Honua Bioenergy, LLC. In May 2012, Hawaii Electric Light signed a PPA, which the PUC approved in December 2013, with Hu Honua Bioenergy, LLC (Hu Honua) for 21.5 MW of renewable, dispatchable firm capacity fueled by locally grown biomass from a facility on the island of Hawaii. Per the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, failed to meet its obligations under the PPA and failed to provide adequate assurances that it could perform or had the financial means to perform. Hawaii Electric Light terminated the PPA on March 1, 2016. On November 30,