HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
November 07, 2018

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 September 30, 2018
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 October 27, 2018
Hawaiian Electric Industries, Inc. (Without Par Value)	108,879,245 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	16,142,216 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
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended September 30, 2018

TABLE OF CONTENTS

Hawaiian Electric Industries, Inc. and Subsidiaries
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended September 30, 2018
GLOSSARY OF TERMS

Terms	Definitions
ADIT	Accumulated deferred income tax balances
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ASC	Accounting Standards Codification
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
CIAC	Contributions in aid of construction
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.; Pacific Current, LLC and its subsidiaries, Hamakua Holdings, LLC (and its subsidiary, Hamakua Energy, LLC) and Mauo Holdings, LLC (and its subsidiary, Mauo, LLC); The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.); and HEI Properties, Inc. (dissolved in 2015 and wound up in 2017)
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
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
ECAC	Energy cost adjustment clause
ECRC	Energy cost recovery 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.
Hamakua Energy	Hamakua Energy, LLC, an indirect subsidiary of HEI and successor in interest to Hamakua Energy Partners, L.P., an affiliate of Arclight Capital Partners (a Boston based private equity firm focused on energy infrastructure investments) and 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), The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and Pacific Current, LLC
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)
LTIP	Long-term incentive plan
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MPIR	Major Project Interim Recovery
MSR	Mortgage servicing right
Mauo	Mauo, LLC, an indirect subsidiary of HEI
MW	Megawatt/s (as applicable)
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
Pacific Current	Pacific Current, LLC, a wholly owned subsidiary of HEI and parent company of Hamakua Holdings, LLC and Mauo Holdings, LLC
PIMs	Performance incentive mechanisms
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

Tax Act	2017 Tax Cuts and Jobs Act (H.R. 1, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018)
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 additic 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; 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; 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, trade policy and tariffs, and other 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 (including tax 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 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, the PUC's April 2014 statement of its 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, distributed generation, 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 ability of the Utilities to achieve performance incentive mechanisms currently in place;
- the impact from the PUC's implementation of performance-based ratemaking for the Utilities pursuant to Senate Bill No. 2939 SD2, including the potential addition of new performance incentive mechanisms, third party proposals adopted by the PUC in its implementation of PBR, and the implications of not achieving performance incentive goals;
- 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 such as the commercial development of energy storage and microgrids and banking through alternative channels;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, its third-party vendors, and its subsidiaries (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;
- failure in addressing issues in the stabilization of the ERP/EAM system implementation could adversely affect the Utilities’ ability to timely and accurately report financial information and make payments to vendors and employees;
- 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 and its subsidiaries, 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/finance lease or on-balance-sheet operating 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 and its subsidiaries;
- 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);
- the ability of the Company's non-regulated subsidiary, Pacific Current, LLC, to achieve its performance and growth objectives, which in turn could affect its ability to service its non-recourse debt;
- the Company's reliance on third parties and the risk of their non-performance; 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, Pacific Current 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 September 30		Nine months ended September 30	
(in thousands, except per share amounts)	2018	2017	2018	2017
Revenues				
Electric utility	$687,409	$598,769	$1,865,962	$1,674,255
Bank	80,496	74,289	233,019	222,474
Other	143	127	218	299
Total revenues	768,048	673,185	2,099,199	1,897,028
Expenses				
Electric utility	613,373	510,272	1,685,413	1,478,915
Bank	53,232	47,313	153,951	146,146
Other	3,379	4,127	11,083	12,954
Total expenses	669,984	561,712	1,850,447	1,638,015
Operating income (loss)				
Electric utility	74,036	88,497	180,549	195,340
Bank	27,264	26,976	79,068	76,328
Other	(3,236)	(4,000)	(10,865)	(12,655)
Total operating income	98,064	111,473	248,752	259,013
Retirement defined benefits expense—other than service costs	(1,276)	(1,928)	(4,673)	(5,710)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(22,523)	(19,227)	(66,042)	(59,235)
Allowance for borrowed funds used during construction	1,006	1,339	3,815	3,371
Allowance for equity funds used during construction	1,962	3,482	8,239	8,908
Income before income taxes	77,233	95,139	190,091	206,347
Income taxes	10,862	34,595	36,473	72,003
Net income	66,371	60,544	153,618	134,344
Preferred stock dividends of subsidiaries	471	471	1,417	1,417
Net income for common stock	$65,900	$60,073	$152,201	$132,927
Basic earnings per common share	$0.61	$0.55	$1.40	$1.22
Diluted earnings per common share	$0.60	$0.55	$1.40	$1.22
Weighted-average number of common shares outstanding	108,879	108,786	108,847	108,737
Net effect of potentially dilutive shares	176	79	243	172
Weighted-average shares assuming dilution	109,055	108,865	109,090	108,909

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2018	2017	2018	2017
Net income for common stock	$65,900	$60,073	$152,201	$132,927
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on available-for-sale investment securities:				
Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax benefits (taxes) of $1,876, $(137), $8,335 and $(1,619), respectively	(5,123)	208	(22,768)	2,452
Derivatives qualifying as cash flow hedges:				
Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and $289, 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 $1,832, $2,516, $5,486 and $7,526, respectively	5,259	3,942	15,755	11,793
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,639, $2,290, $4,916 and $6,872, respectively	(4,725)	(3,596)	(14,174)	(10,790)
Other comprehensive income (loss), net of taxes	(4,589)	554	(21,187)	3,909
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$61,311	$60,627	$131,014	$136,836

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

(dollars in thousands)	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$172,054	$261,881
Accounts receivable and unbilled revenues, net	336,309	263,209
Available-for-sale investment securities, at fair value	1,387,571	1,401,198
Held-to-maturity investment securities, at amortized cost	102,498	44,515
Stock in Federal Home Loan Bank, at cost	8,158	9,706
Loans held for investment, net	4,700,232	4,617,131
Loans held for sale, at lower of cost or fair value	1,036	11,250
Property, plant and equipment, net of accumulated depreciation of $2,651,109 and $2,553,295 at September 30, 2018 and December 31, 2017, respectively	4,694,101	4,460,248
Regulatory assets	830,924	869,297
Other	596,481	513,535
Goodwill	82,190	82,190
Total assets	$12,911,554	$12,534,160
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$167,192	$193,714
Interest and dividends payable	30,280	25,837
Deposit liabilities	6,130,415	5,890,597
Short-term borrowings—other than bank	203,359	117,945
Other bank borrowings	71,110	190,859
Long-term debt, net—other than bank	1,782,242	1,683,797
Deferred income taxes	385,651	388,430
Regulatory liabilities	932,352	880,770
Defined benefit pension and other postretirement benefit plans liability	496,753	509,514
Other	545,862	521,018
Total liabilities	10,745,216	10,402,481
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: 108,879,245 shares and 108,787,807 shares at September 30, 2018 and December 31, 2017, respectively	1,667,371	1,662,491
Retained earnings	527,802	476,836
Accumulated other comprehensive loss, net of tax benefits	(63,128)	(41,941)
Total shareholders' equity	2,132,045	2,097,386
Total liabilities and shareholders' equity	$12,911,554	$12,534,160

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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, 2017	108,788	$1,662,491	$476,836	$ (41,941)	$2,097,386
Net income for common stock	—	—	152,201	—	152,201
Other comprehensive loss, net of tax benefits	—	—	—	(21,187)	(21,187)
Issuance of common stock, net of expenses	91	4,880	—	—	4,880
Common stock dividends (93¢ per share)	—	—	(101,235)	—	(101,235)
Balance, September 30, 2018	108,879	$1,667,371	$527,802	$ (63,128)	$2,132,045
Balance, December 31, 2016	108,583	$1,660,910	$438,972	$ (33,129)	$2,066,753
Net income for common stock	—	—	132,927	—	132,927
Other comprehensive income, net of taxes	—	—	—	3,909	3,909
Issuance of common stock, net of expenses	203	582	—	—	582
Common stock dividends (93¢ per share)	—	—	(101,149)	—	(101,149)
Balance, September 30, 2017	108,786	$1,661,492	$470,750	$ (29,220)	$2,103,022

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

	Nine months ended September 30	
(in thousands)	2018	2017
Cash flows from operating activities		
Net income	$153,618	$134,344
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	159,646	150,123
Other amortization	31,473	15,362
Provision for loan losses	12,337	7,231
Loans originated and purchased, held for sale	(105,956)	(105,816)
Proceeds from sale of loans, held for sale	109,335	119,731
Deferred income taxes	10,823	21,397
Share-based compensation expense	5,891	4,383
Allowance for equity funds used during construction	(8,239)	(8,908)
Other	(4,524)	(1,350)
Changes in assets and liabilities		
Increase in accounts receivable and unbilled revenues, net	(79,128)	(26,250)
Decrease (increase) in fuel oil stock	(5,060)	6,177
Decrease (increase) in regulatory assets	(6,474)	3,922
Increase (decrease) in accounts, interest and dividends payable	(7,122)	18,581
Change in prepaid and accrued income taxes, tax credits and utility revenue taxes	(32,006)	2,828
Increase in defined benefit pension and other postretirement benefit plans liability	7,517	670
Change in other assets and liabilities	15,548	(22,311)
Net cash provided by operating activities	257,679	320,114
Cash flows from investing activities		
Available-for-sale investment securities purchased	(190,411)	(369,467)
Principal repayments on available-for-sale investment securities	168,334	155,026
Purchases of held-to-maturity investment securities	(62,096)	—
Principal repayments of held-to-maturity investment securities	4,007	—
Purchase of stock from Federal Home Loan Bank	(9,933)	(2,868)
Redemption of stock from Federal Home Loan Bank	11,480	4,380
Net decrease (increase) in loans held for investment	(96,212)	13,188
Proceeds from sale of commercial loans	7,149	31,427
Proceeds from sale of real estate acquired in settlement of loans	589	411
Capital expenditures	(404,984)	(343,375)
Contributions in aid of construction	24,361	40,603
Contributions to low income housing investments	(7,714)	—
Other	13,669	1,345
Net cash used in investing activities	(541,761)	(469,330)
Cash flows from financing activities		
Net increase in deposit liabilities	137,443	203,397
Net increase in short-term borrowings with original maturities of three months or less	85,369	24,498
Net increase in retail repurchase agreements	32,626	24,469
Proceeds from other bank borrowings	237,000	59,500
Repayments of other bank borrowings	(287,000)	(123,034)
Proceeds from issuance of long-term debt	100,000	265,000
	(1,867)	(265,000)

Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds		
Withheld shares for employee taxes on vested share-based compensation	(996)	(3,796)
Common stock dividends	(101,235)	(101,149)
Preferred stock dividends of subsidiaries	(1,417)	(1,417)
Other	(5,668)	(9,531)
Net cash provided by financing activities	194,255	72,937
Net decrease in cash and cash equivalents	(89,827)	(76,279)
Cash and cash equivalents, beginning of period	261,881	278,452
Cash and cash equivalents, end of period	$172,054	$202,173

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

5

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

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2018	2017	2018	2017
Revenues	$687,409	$598,769	$1,865,962	$1,674,255
Expenses				
Fuel oil	206,551	146,258	545,236	431,787
Purchased power	177,590	160,347	478,238	440,538
Other operation and maintenance	113,553	98,681	333,805	302,437
Depreciation	50,983	48,206	151,810	144,578
Taxes, other than income taxes	64,696	56,780	176,324	159,575
Total expenses	613,373	510,272	1,685,413	1,478,915
Operating income	74,036	88,497	180,549	195,340
Allowance for equity funds used during construction	1,962	3,482	8,239	8,908
Retirement defined benefits expense—other than service costs	(682)	(1,421)	(2,934)	(4,279)
Interest expense and other charges, net	(18,968)	(16,907)	(54,822)	(52,625)
Allowance for borrowed funds used during construction	1,006	1,339	3,815	3,371
Income before income taxes	57,354	74,990	134,847	150,715
Income taxes	7,144	27,005	24,995	54,623
Net income	50,210	47,985	109,852	96,092
Preferred stock dividends of subsidiaries	228	228	686	686
Net income attributable to Hawaiian Electric	49,982	47,757	109,166	95,406
Preferred stock dividends of Hawaiian Electric	270	270	810	810
Net income for common stock	$49,712	$47,487	$108,356	$94,596

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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 September 30		Nine months ended September 30	
(in thousands)	2018	2017	2018	2017
Net income for common stock	$49,712	$47,487	$108,356	$94,596
Other comprehensive income (loss), net of taxes:				
Derivatives qualifying as cash flow hedges:				
Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and $289, 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 $1,648, $2,306, $4,945 and $6,916, respectively	4,753	3,618	14,259	10,857
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,639, $2,290, $4,916 and $6,872, respectively	(4,725)	(3,596)	(14,174)	(10,790)
Other comprehensive income, net of taxes	28	22	85	521
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$49,740	$47,509	$108,441	$95,117

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

(dollars in thousands, except par value)	September 30, 2018	December 31, 2017
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$ 53,515	$ 53,177
Plant and equipment	6,720,046	6,401,040
Less accumulated depreciation	(2,567,708)	(2,476,352)
Construction in progress	193,086	263,094
Utility property, plant and equipment, net	4,398,939	4,240,959
Nonutility property, plant and equipment, less accumulated depreciation of $1,254 as of September 30, 2018 and $1,251 as of December 31, 2017	7,580	7,580
Total property, plant and equipment, net	4,406,519	4,248,539
Current assets		
Cash and cash equivalents	7,224	12,517
Customer accounts receivable, net	178,785	127,889
Accrued unbilled revenues, net	127,702	107,054
Other accounts receivable, net	3,378	7,163
Fuel oil stock, at average cost	91,822	86,873
Materials and supplies, at average cost	58,507	54,397
Prepayments and other	60,732	25,355
Regulatory assets	89,430	88,390
Total current assets	617,580	509,638
Other long-term assets		
Regulatory assets	741,494	780,907
Other	116,534	91,529
Total other long-term assets	858,028	872,436
Total assets	$ 5,882,127	$ 5,630,613
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 16,142,216 shares at September 30, 2018 and December 31, 2017)	$ 107,634	$ 107,634
Premium on capital stock	614,667	614,675
Retained earnings	1,155,070	1,124,193
Accumulated other comprehensive loss, net of tax benefits	(1,134)	(1,219)
Common stock equity	1,876,237	1,845,283
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,418,631	1,318,516
Total capitalization	3,329,161	3,198,092
Commitments and contingencies (Note 3)		
Current liabilities		
Current portion of long-term debt	49,993	49,963
Short-term borrowings from non-affiliates	85,913	4,999
Accounts payable	122,932	159,610
Interest and preferred dividends payable	28,258	22,575
Taxes accrued, including revenue taxes	195,776	199,101
Regulatory liabilities	10,159	3,401

Other	81,054	59,456
Total current liabilities	574,085	499,105
Deferred credits and other liabilities		
Deferred income taxes	401,069	394,041
Regulatory liabilities	922,193	877,369
Unamortized tax credits	93,073	90,369
Defined benefit pension and other postretirement benefit plans liability	460,279	472,948
Other	102,267	98,689
Total deferred credits and other liabilities	1,978,881	1,933,416
Total capitalization and liabilities	$ 5,882,127	$ 5,630,613

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

7

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

(in thousands)	Common stock Shares	Common stock Amount	Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2017	16,142	$107,634	$614,675	$1,124,193	$ (1,219)	$1,845,283
Net income for common stock	—	—	—	108,356	—	108,356
Other comprehensive income, net of taxes	—	—	—	—	85	85
Common stock dividends	—	—	—	(77,479)	—	(77,479)
Common stock issuance expenses	—	—	(8)	—	—	(8)
Balance, September 30, 2018	16,142	$107,634	$614,667	$1,155,070	$ (1,134)	$1,876,237
Balance, December 31, 2016	16,020	$106,818	$601,491	$1,091,800	$ (322)	$1,799,787
Net income for common stock	—	—	—	94,596	—	94,596
Other comprehensive income, net of taxes	—	—	—	—	521	521
Common stock dividends	—	—	—	(65,825)	—	(65,825)
Common stock issuance expenses	—	—	(4)	—	—	(4)
Balance, September 30, 2017	16,020	$106,818	$601,487	$1,120,571	$ 199	$1,829,075

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

	Nine months ended September 30	
(in thousands)	2018	2017
Cash flows from operating activities		
Net income	$109,852	$96,092
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	151,810	144,578
Other amortization	19,823	6,118
Deferred income taxes	12,835	29,537
Allowance for equity funds used during construction	(8,239)	(8,908)
Other	(1,952)	526
Changes in assets and liabilities		
Increase in accounts receivable	(53,139)	(8,087)
Increase in accrued unbilled revenues	(20,648)	(18,014)
Decrease (increase) in fuel oil stock	(4,949)	6,177
Increase in materials and supplies	(4,110)	(2,280)
Decrease (increase) in regulatory assets	(6,474)	3,922
Increase (decrease) in accounts payable	(8,712)	6,130
Change in prepaid and accrued income taxes, tax credits and revenue taxes	(37,137)	5,291
Increase in defined benefit pension and other postretirement benefit plans liability	5,888	453
Change in other assets and liabilities	38,874	(2,662)
Net cash provided by operating activities	193,722	258,873
Cash flows from investing activities		
Capital expenditures	(334,730)	(306,975)
Contributions in aid of construction	24,361	40,603
Other	9,811	8,114
Net cash used in investing activities	(300,558)	(258,258)
Cash flows from financing activities		
Common stock dividends	(77,479)	(65,825)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,496)	(1,496)
Proceeds from issuance of long-term debt	100,000	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	80,914	6,000
Other	(396)	(3,593)
Net cash provided by (used in) financing activities	101,543	(64,914)
Net decrease in cash and cash equivalents	(5,293)	(64,299)
Cash and cash equivalents, beginning of period	12,517	74,286
Cash and cash equivalents, end of period	$7,224	$9,987

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 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, 2017.

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 September 30, 2018 and December 31, 2017 and the results of their operations for the three and nine months ended September 30, 2018 and 2017 and cash flows for the nine months ended September 30, 2018 and 2017. 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. ASU No. 2014-09 also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company and Hawaiian Electric adopted ASU No. 2014-09 (and subsequently issued revenue-related ASUs, as applicable) in the first quarter of 2018. There was no cumulative effect adjustment and no impact on the timing or pattern of revenue recognition, but ASU No. 2014-09 required changes with respect to the Company's and Hawaiian Electric's revenue disclosures. See Note 7.

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 adopted ASU No. 2016-01 in the first quarter of 2018 and the impact of adoption was not material to the Company's and Hawaiian Electric's consolidated financial statements.

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 adopted ASU No. 2016-15 in the first quarter of 2018 using a retrospective transition method and there was no impact from the adoption to the Company's and Hawaiian Electric's consolidated statements of cash flows.

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 adopted ASU No. 2016-18 in the first quarter of 2018 using a retrospective transition method and the impact of adoption was not material to the Company's and Hawaiian Electric's consolidated statements of cash flows.
Definition of a Business. In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations—Clarifying the Definition of a Business." This update clarifies the definition of a business and adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted ASU No. 2017-01 in the first quarter of 2018 and the impact of adoption was not 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 (NPPC) and net periodic postretirement benefit cost (NPBC) 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 adopted ASU No. 2017-07 in the first quarter of 2018: (1) retrospectively for the presentation in the income statement of the service cost component and the other components of NPPC and NPBC, and (2) prospectively for the capitalization in assets of the service cost component of NPPC and NPBC for Hawaiian Electric and its subsidiaries. HEI and ASB do not capitalize pension and OPEB costs.
The PUC approved in the Utilities' rate cases, stipulated agreements to defer non-service cost components of NPPC and NPBC, which would have been capitalized prior to ASU No. 2017-07, as part of each utility's pension tracking mechanisms. Such treatment is effective starting in 2018 and continues until each utility's next rate case. In each utility's next rate case, rates established would include recovery of the deferred non-service cost components and each utility plans to seek to capitalize only the service components of NPPC and NPBC going forward, which reflects the requirements of ASU No. 2017-07.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Thus, the adoption of ASU 2017-07 in the first quarter of 2018 does not have a net income impact. The following table summarizes the impact to the prior period financial statements of the adoption of ASU No. 2017-07:

	Three months ended September 30, 2017			Nine months ended September 30, 2017		
(in thousands)	As previously filed	Adjustment from adoption of ASU No. 2017-07	As currently reported	As previously filed	Adjustment from adoption of ASU No. 2017-07	As currently reported
HEI Condensed Consolidated Income Statement						
Expenses						
Electric utility	$511,693	$ (1,421)	$510,272	$1,483,194	$ (4,279)	$1,478,915
Bank	47,525	(212)	47,313	146,754	(608)	146,146
Other	4,422	(295)	4,127	13,777	(823)	12,954
Total expenses	563,640	(1,928)	561,712	1,643,725	(5,710)	1,638,015
Operating income						
Electric utility	87,076	1,421	88,497	191,061	4,279	195,340
Bank	26,764	212	26,976	75,720	608	76,328
Other	(4,295)	295	(4,000)	(13,478)	823	(12,655)
Total operating income	109,545	1,928	111,473	253,303	5,710	259,013
Retirement defined benefits expense--other than service costs	—	(1,928)	(1,928)	—	(5,710)	(5,710)
Hawaiian Electric Condensed Consolidated Income Statement						
Other operation and maintenance	100,102	(1,421)	98,681	306,716	(4,279)	302,437
Total expense	511,693	(1,421)	510,272	1,483,194	(4,279)	1,478,915
Operating income	87,076	1,421	88,497	191,061	4,279	195,340
Retirement defined benefits expense--other than service costs	—	(1,421)	(1,421)	—	(4,279)	(4,279)
Hawaiian Electric Condensed Consolidating Income Statement (in Note 3)						
Hawaiian Electric (parent only)						
Other operation and maintenance	66,221	(1,225)	64,996	204,460	(3,812)	200,648
Total expense	367,619	(1,225)	366,394	1,058,382	(3,812)	1,054,570
Operating income	61,648	1,225	62,873	128,142	3,812	131,954
Retirement defined benefits expense--other than service costs	—	(1,225)	(1,225)	—	(3,812)	(3,812)
Hawaii Electric Light						
Other operation and maintenance	16,593	15	16,608	49,667	183	49,850
Total expense	71,292	15	71,307	212,692	183	212,875
Operating income	13,042	(15)	13,027	32,334	(183)	32,151
Retirement defined benefits expense--other than service costs	—	15	15	—	183	183
Maui Electric						
Other operation and maintenance	17,288	(211)	17,077	52,589	(650)	51,939
Total expense	72,782	(211)	72,571	212,120	(650)	211,470
Operating income	12,416	211	12,627	30,636	650	31,286

Retirement defined benefits expense--other than service costs	—	(211)	(211)	—	(650)	(650)
ASB Statements of Income Data (in Note 4)						
Compensation and employee benefits	23,724	(212)	23,512	71,703	(608)	71,095
Other expense	5,050	212	5,262	14,066	608	14,674

12

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Derivatives and Hedging. In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which is intended to improve and simplify accounting rules around hedge accounting. The amendments in ASU No. 2017-12 improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The amendments also expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the new guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, but early adoption is permitted. The Company early adopted ASU No. 2017-12 in the second quarter of 2018, with an effective date of April 1, 2018, and the adoption did not have a material impact on the Company’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 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 is currently analyzing the potential impact of adoption. The Company plans to elect the practical expedient package provided by the new standard under which the Company will not have to reassess whether any expired or existing contracts are or contain leases, whether there is a change in lease classification for any expired or existing leases under the new standard, or whether there were initial direct costs for any existing leases that would be treated differently under the new standard. The Company also plans to elect the additional adoption method to initially apply the new requirements as of the effective date, i.e., January 1, 2019, by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, the Company will continue to report comparative periods presented in the financial statements in the period of adoption under ASC 840, including the required disclosures under ASC 840.

The Company is in the process of analyzing the measurement provisions of the new standard and their impact on its existing lease arrangements that fall within the scope of ASU No. 2016-02.

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. The guidance is to be applied on a modified retrospective basis with the cumulative effect of initially applying the amendments recognized in retained earnings at the date of initial application. The Company has assembled a project team that meets regularly to evaluate the provisions of this ASU, identify additional data requirements necessary and determine an approach for implementation. The team has assigned roles and responsibilities and developed key tasks to complete and a general timeline to be followed. The Company is evaluating the effect that this ASU will have on the consolidated financial statements and disclosures. Economic conditions and the composition of the Company’s loan portfolio at the time of adoption will influence the extent of the adopting accounting adjustment.

Compensation-defined benefit plans. In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020. The Company is evaluating the impact of the adoption of ASU No. 2018-14 on its financial statement disclosures, but does not expect it to have a material impact.

Cloud computing implementation costs. In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which requires a customer in a cloud computing arrangement that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. ASU No. 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the impact of the adoption of ASU No. 2018-15 on its consolidated financial statements.

Condensed Consolidated Statements of Cash Flows error. Subsequent to the issuance of interim Condensed Consolidated Financial Statements (unaudited) for the quarter ended September 30, 2017, the Company and the Utilities identified an error within their previously reported interim Condensed Consolidated Statements of Cash Flows (unaudited). The timing of certain capital expenditure payments, including those that had retainage balances or were related to certain capitalized amounts were not reflected timely. The Company and the Utilities have evaluated the effect of the error, both qualitatively and quantitatively, and concluded that it is immaterial to their respective previously issued condensed consolidated financial statements. For the nine months ended September 30, 2017, the correction of this error resulted in increases in Net Cash Provided by Operating Activities (impacting the change in Accounts, Interest and Dividends Payable for the Company and Accounts Payable for the Utilities) and Net Cash Used in Investing Activities (impacting the Capital Expenditures for the Company and the Utilities) of $29 million.

Reclassifications. Reclassifications made to prior year-end financial statements to conform to 2018 presentation include a reclassification of contributions in aid of construction (CIAC) balances to “Property, plant and equipment, net” and “Total property, plant and equipment, net” for the Company and Hawaiian Electric, respectively, which reduced the amounts of the respective balances.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Note 2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended September 30, 2018				
Revenues from external customers	$ 687,396	$80,496	$156	$768,048
Intersegment revenues (eliminations)	13	—	(13)	—
Revenues	$ 687,409	$80,496	$143	$768,048
Income (loss) before income taxes	$ 57,354	$26,831	$(6,952)	$77,233
Income taxes (benefit)	7,144	5,610	(1,892)	10,862
Net income (loss)	50,210	21,221	(5,060)	66,371
Preferred stock dividends of subsidiaries	498	—	(27)	471
Net income (loss) for common stock	$ 49,712	$21,221	$(5,033)	$65,900
Nine months ended September 30, 2018				
Revenues from external customers	$ 1,865,922	$233,019	$258	$2,099,199
Intersegment revenues (eliminations)	40	—	(40)	—
Revenues	$ 1,865,962	$233,019	$218	$2,099,199
Income (loss) before income taxes	$ 134,847	$77,845	$(22,601)	$190,091
Income taxes (benefit)	24,995	17,103	(5,625)	36,473
Net income (loss)	109,852	60,742	(16,976)	153,618
Preferred stock dividends of subsidiaries	1,496	—	(79)	1,417
Net income (loss) for common stock	$ 108,356	$60,742	$(16,897)	$152,201
Total assets (at September 30, 2018)	$ 5,882,127	$6,929,456	$99,971	$12,911,554
Three months ended September 30, 2017				
Revenues from external customers	$ 598,756	$74,289	$140	$673,185
Intersegment revenues (eliminations)	13	—	(13)	—
Revenues	$ 598,769	$74,289	$127	$673,185
Income (loss) before income taxes	$ 74,990	$26,764	$(6,615)	$95,139
Income taxes (benefit)	27,005	9,172	(1,582)	34,595
Net income (loss)	47,985	17,592	(5,033)	60,544
Preferred stock dividends of subsidiaries	498	—	(27)	471
Net income (loss) for common stock	$ 47,487	$17,592	$(5,006)	$60,073
Nine months ended September 30, 2017				
Revenues from external customers	$ 1,674,158	$222,474	$396	$1,897,028
Intersegment revenues (eliminations)	97	—	(97)	—
Revenues	$ 1,674,255	$222,474	$299	$1,897,028
Income (loss) before income taxes	$ 150,715	$75,720	$(20,088)	$206,347
Income taxes (benefit)	54,623	25,582	(8,202)	72,003
Net income (loss)	96,092	50,138	(11,886)	134,344
Preferred stock dividends of subsidiaries	1,496	—	(79)	1,417
Net income (loss) for common stock	$ 94,596	$50,138	$(11,807)	$132,927
Total assets (at December 31, 2017)	$ 5,630,613	$6,798,659	$104,888	$12,534,160

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.

Hamakua Energy’s sales to Hawaii Electric Light (a regulated affiliate) are eliminated in consolidation.

Revenue taxes. The Utilities' revenues include amounts for recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. For the third quarters of 2018 and 2017 and the nine months ended September 30, 2018 and 2017, the Utilities' revenues include recovery of revenue taxes of approximately $61 million, $54 million, $166 million and $150 million, respectively, which amounts are included in "Taxes, other than income taxes" expense, in the unaudited condensed consolidated statements of income. However, the Utilities pay revenue taxes to the taxing authorities in the period based on (1) the prior year's billed revenues (in the case of public service company taxes and PUC fees) in the current year or (2) the current year's cash collections from electric sales (in the case of franchise taxes) after year-end.

HECO Capital Trust III. Trust III, a statutory trust, which was formed to effect the issuance of $50 million of cumulative quarterly income preferred securities in 2004, has at all times been an unconsolidated subsidiary of Hawaiian Electric. Trust III's balance sheets as of September 30, 2018 and December 31, 2017 each consisted of $51.5 million of 2004 Debentures; $50 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III's income statements for the nine months ended September 30, 2018 and 2017 consisted of $2.5 million of interest income received from the 2004 Debentures; $2.4 million of distributions to holders of the Trust Preferred Securities; and $75,000 of common dividends on the trust common securities to Hawaiian Electric.

Unconsolidated variable interest entities.

Power purchase agreements. As of September 30, 2018, the Utilities had five PPAs for firm capacity and other PPAs with independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or power production facilities who buy power from or sell power to the Utilities), none of which is currently required to be consolidated as VIEs.

Pursuant to the current accounting standards for VIEs, the Utilities are deemed to have a variable interest in Kalaeloa Partners, L.P. (Kalaeloa), AES Hawaii, Inc. (AES Hawaii) and the predecessor of Hamakua Energy by reason of the provisions of the PPA that the Utilities have with the three IPPs. However, management has concluded that the Utilities are not the primary beneficiary of Kalaeloa, AES Hawaii and the predecessor of Hamakua Energy because the Utilities do not have the power to direct the activities that most significantly impact the three IPPs' economic performance nor the obligation to absorb their expected losses, if any, that could potentially be significant to the IPPs. Thus, the Utilities have not consolidated Kalaeloa, AES Hawaii and the predecessor of Hamakua Energy in its unaudited condensed consolidated financial statements. In November 2017, HEI acquired the Hamakua project through Hamakua Energy, an indirect subsidiary of Pacific Current, and has consolidated it in HEI's unaudited condensed consolidated financial statements since the acquisition.

For the other PPAs with IPPs, the Utilities have concluded that the consolidation of the IPPs was not required because either the Utilities do not have variable interests in the IPPs due to the absence of an obligation in the PPAs for the Utilities to absorb any variability of the IPPs, or the IPPs were considered a "governmental organization," and thus excluded from the scope of accounting standards for VIEs. Two IPPs of as-available energy declined to provide the information necessary for Utilities to determine the applicability of accounting standards for VIEs. If information is ultimately received from the IPPs, a possible outcome of future analyses of such information is the consolidation of one or both 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 to the IPP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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. Purchases from all IPPs were as follows:

	Three months ended September 30		Nine months ended September 30	
(in millions)	2018	2017	2018	2017
Kalaeloa	$62	$48	$154	$136
AES Hawaii	38	39	107	103
HPOWER	19	18	51	51
Puna Geothermal Venture	—	10	15	28
Hamakua Energy	17	8	39	25
Other IPPs [1]	41	38	112	98
Total IPPs	$177	$161	$478	$441

[1] Includes wind power, solar power, feed-in tariff projects and other PPAs.

Kalaeloa Partners, L.P. Under a 1988 PPA, as amended, Hawaiian Electric is committed to purchase 208 MW of firm capacity from Kalaeloa. Hawaiian Electric and Kalaeloa are currently in negotiations to address the PPA term that ended on May 23, 2016. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith, but would end 60 days after either party notifies the other in writing that negotiations have terminated. Hawaiian Electric and Kalaeloa have agreed that neither party will terminate the PPA prior to October 31, 2019. This agreement contemplates continued negotiations between the parties and accounts for time needed for PUC approval of a negotiated resolution.

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 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 continued. In February 2018, Hawaiian Electric reached agreement with AES Hawaii on Amendment No. 4, which was submitted to the PUC for approval in April 2018. Amendment No. 4, among other things, provides (1) that AES Hawaii will make certain operational commitments to improve reliability, (2) for inclusion of AES Hawaii in the Utilities' greenhouse gas partnership, (3) provisions to allow AES Hawaii to reduce coal combustion by modifying its fuel consumption to include biomass upon approval by Hawaiian Electric, and (4) for release of an option agreement by Hawaiian Electric for land owned by AES Hawaii. Amendment No. 4 includes a stay of the arbitration proceeding pending review by the PUC. If approved by the PUC, Amendment No. 4 will resolve AES Hawaii's claims. In June 2018, the PUC issued an order suspending the Amendment No. 4 docket pending a DOH decision on AES' request for approval of its Emission Reduction Plan and partnership with Hawaiian Electric.

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. Under 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, 2016, Hu Honua filed a civil complaint in the United States District Court for the District of Hawaii that included claims purportedly arising out of the termination of Hu Honua's PPA. On May 26, 2017, Hawaii Electric Light and Hu Honua entered into a settlement agreement that will settle all claims related to the termination of the original PPA. The settlement agreement was contingent on the PUC's approval of an amended and restated PPA between Hawaii Electric Light and Hu Honua dated May 5, 2017. In July 2017, the PUC approved the amended and restated PPA. On August 25, 2017, the PUC's approval was appealed by a third party. The appeal is still pending. Hu Honua is expected to be on-line by the end of 2018.

Utility projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, or if PUC-imposed caps on project costs are expected to be exceeded, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income.

Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) implementation project. On August 11, 2016, the PUC approved the Utilities' request to commence the ERP/EAM implementation project, subject to certain conditions, including a $77.6 million cap on cost recovery as well as a requirement that the Utilities pass onto customers a minimum of $244 million in benefits associated with the system over its 12-year service life. The D&O approved the deferral of certain project costs and allowed the accrual of allowance for funds used during construction (AFUDC), but limited the AFUDC rate to 1.75%. Pursuant to the D&O and subsequent orders, in 2017 and 2018, the Utilities filed project justification, status and cost reports; bottom-up, low-level analyses of the project's benefits; and proposed performance metrics and tracking mechanism for passing the project's benefits on to customers.

Over the past years, the Utilities collaborated with the Consumer Advocate to reach substantive agreement regarding the approach for delivering the $244 million in system benefits to customers. On September 17, 2018, Utilities provided the Consumer Advocate with their final drafts of the rate case-centric benefit delivery mechanism and ERP/EAM annual enterprise systems benefits report for its review. The parties will file these documents with the PUC upon final agreement.

Monthly reports on the status and costs of the project continue to be filed. The ERP/EAM Implementation Project went live in October 2018. In the Hawaiian Electric 2017 rate case, a settlement agreement approved by the PUC included authorization for the deferred project costs to accrue a return at 1.75% after the project goes into service and until the deferred project costs are included in rate base, and for amortization of the deferred costs to not begin until the amortization expense is incorporated in rates and the unamortized deferred project costs are included in rate base. As of September 30, 2018, the Project incurred costs of $73.3 million of which $12.9 million were charged to other operation and maintenance (O&M) expense, $2.6 million relate to capital costs and $57.8 million are deferred costs.

Schofield Generating Station Project. In June 2018, Hawaiian Electric placed into service a 50 MW utility owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks. The project is located on land leased from the U.S. Army under a 35-year lease. PUC orders resulted in a project cost cap of $157.3 million of which capital costs up to $141.6 million (90% of the cost cap) are recoverable through the Major Project Interim Recovery (MPIR) adjustment mechanism. Recovery of capital costs under the MPIR adjustment mechanism was approved by the PUC on June 27, 2018. (See "Decoupling" section below for MPIR guidelines and capital cost recovery discussion.) A decision on recovery of related incremental operation and maintenance expense (approximately $1.8 million annualized) during the interim period (i.e., between the in-service date and the next rate case) is pending. Project costs incurred as of September 30, 2018 amounted to $142.5 million. Cost recovery of capital costs in excess of $141.6 million is to be addressed in the next general rate case.

West Loch PV Project. In July 2016, Hawaiian Electric announced plans to build, own and operate a utility-owned, grid-tied 20-MW (ac) solar facility on property owned by the Department of the Navy. In June 2017, the PUC approved the expenditure of funds for the project, including Hawaiian Electric's proposed project cost cap of $67 million and a performance guarantee to provide energy at 9.56 cents/KWH or less to the system.

In approving the project, the PUC agreed that the project is eligible for recovery of costs offset by related net benefits under the newly-established MPIR adjustment mechanism. (See "Decoupling" section below for MPIR guidelines and capital cost recovery discussion.) Hawaiian Electric has provided supplemental materials, as requested by the PUC, to support meeting the MPIR guidelines, accompanied by system performance guarantee and cost savings sharing mechanisms. A decision on these matters is pending.

Hawaiian Electric executed a fixed-price Engineering, Procurement, and Construction (EPC) contract for the project on December 6, 2017. The EPC contract includes the cost of the solar panels for the project, which is not subject to modification due to any tariffs that may be imposed under the current photovoltaic (PV) cell and module import tariffs. Construction of the facility began in the second quarter of 2018, and the facility is expected to be placed in service in the second quarter of 2019. Project costs incurred as of September 30, 2018 amounted to $28.6 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Telcom. The Utilities each had separate agreements for the joint ownership and maintenance of utility poles with Hawaiian Telcom, Inc. (Hawaiian Telcom), the respective county or counties in which each utility operates and other third parties, such as the State of Hawaii. The agreements set forth various circumstances requiring pole removal/installation/replacement and the sharing of costs among the joint pole owners. The agreements allowed for the cost of work done by one joint pole owner to be shared by the other joint pole owners based on the apportionment of costs in the agreements. The Utilities maintained, replaced and installed the majority of the jointly-owned poles in each of the respective service territories, and billed the other joint pole owners for their respective share of the costs. The counties and the State had been reimbursing the Utilities for their share of the costs. However, Hawaiian Telcom had been delinquent in reimbursing the Utilities for its share of the costs.

Hawaiian Telcom’s delinquency will be resolved by new agreements with Hawaiian Telcom approved by the PUC in October 2018. These new agreements provide for the purchase by the Utilities of Hawaiian Telcom’s interest in all the joint poles, and licensing and operating agreements between the Utilities and Hawaiian Telcom subsequent to the transfer of the joint pole interest to the Utilities. The Utilities’ consideration of approximately $48 million for acquiring Hawaiian Telcom’s interest in the poles will be offset in part by the receivables owed by Hawaiian Telcom to the Utilities. As of September 30, 2018, receivables from Hawaiian Telcom under the joint pole agreement, net of a reserve for a portion of the interest, were $17.4 million ($11.6 million at Hawaiian Electric, $4.7 million at Hawaii Electric Light, and $1.1 million at Maui Electric). The remaining consideration for acquiring Hawaiian Telcom’s interest in the joint poles will be settled through the set-off of current and future license fees due from Hawaiian Telcom, after which Hawaiian Telcom would make cash payments for license fees under the agreement.

Environmental regulation. The Utilities are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances.

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically encounter petroleum or other chemical releases associated with current or previous operations. The Utilities report and take action on these releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material effect, individually or in the aggregate, on Hawaiian Electric’s consolidated results of operations, financial condition or liquidity.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The Environmental Protection Agency (EPA) has since identified environmental impacts in the subsurface soil at the Site. Although Maui Electric never operated at the Site or owned the Site property, after discussions with the EPA and the Hawaii Department of Health (DOH), Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of environmental contamination. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils and other subsurface contaminants. Maui Electric has a reserve balance of $2.7 million as of September 30, 2018, representing the probable and reasonably estimable cost to complete the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation.

Pearl Harbor sediment study. In July 2014, the U.S. Navy notified Hawaiian Electric of the Navy’s determination that Hawaiian Electric is a Potentially Responsible Party responsible for cleanup of PCB contamination in sediment in the area offshore of the Waiau Power Plant as part of the Pearl Harbor Superfund Site. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to investigate the area. The Navy has completed a remedial investigation and a feasibility study (FS) for the remediation of contaminated sediment at several locations in Pearl Harbor and issued its Final FS Report on June 29, 2015. On February 2, 2016, the Navy released the Proposed

Plan for Pearl Harbor Sediment Remediation and Hawaiian Electric submitted comments. The extent of the contamination, the appropriate remedial measures to address it and Hawaiian Electric's potential responsibility for any associated costs have not been determined.

On March 23, 2015, Hawaiian Electric received a letter from the EPA requesting that Hawaiian Electric submit a work plan to assess potential sources and extent of PCB contamination onshore at the Waiau Power Plant. Hawaiian Electric submitted a sampling and analysis (SAP) work plan to the EPA and the DOH. Onshore sampling at the Waiau Power Plant was completed in two phases in December 2015 and June 2016. Appropriate remedial measures are being developed to address the extent of the onshore contamination, and any associated costs have not yet been determined.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

As of September 30, 2018, the reserve account balance recorded by Hawaiian Electric to address the PCB contamination was $4.6 million. The reserve represents the probable and reasonably estimable cost to complete the onshore and offshore investigations and the remediation of PCB contamination in the offshore sediment. The final remediation costs will depend on the assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiau Power Plant by the Navy.

Regulatory proceedings

Decoupling. Decoupling is a regulatory model that is intended to facilitate meeting the State of Hawaii's goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The decoupling model, implemented in Hawaii in 2011, delinks revenues from sales and includes annual rate adjustments. The decoupling mechanism has the following major components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a rate adjustment mechanism (RAM), (3) major project interim recovery component (MPIR), (4) performance incentive mechanisms (PIMs), and (5) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility exceeds the return on average common equity (ROACE) allowed in its most recent rate case. Under the decoupling mechanism, triennial general rate cases are required.

Rate adjustment mechanism. The RAM is based on the lesser of: a) an inflationary adjustment for certain O&M expenses and return on investment for certain rate base changes, or b) cumulative annual compounded increase in Gross Domestic Product Price Index applied to annualized target revenues (the RAM Cap). Annualized target revenues reset upon the issuance of an interim or final D&O in a rate case.

The RAM Cap impacted the Utilities' recovery of capital investments as follows:

- Hawaiian Electric's RAM revenues were limited to the RAM Cap in 2017 and 2018.
- Maui Electric's RAM revenues in 2017 and 2018 were below the RAM Cap.
- Hawaii Electric Light's RAM revenues in 2017 and 2018 were below the RAM Cap.

For the RAM years 2014 - 2016, Hawaiian Electric was allowed to record RAM revenue beginning on January 1 and to bill such amounts from June 1 of the applicable year through May 31 of the following year. Subsequent to 2016, Hawaiian Electric reverted to the RAM provisions initially approved in March 2011—i.e., RAM is both accrued and billed from June 1 of each year through May 31 of the following year.

Major project interim recovery. On April 27, 2017, the PUC issued an order that provided guidelines for interim recovery of revenues to support major projects placed in service between general rate cases.

Projects eligible for recovery through the MPIR adjustment mechanism are major projects (i.e., projects with capital expenditures net of customer contributions in excess of $2.5 million), including, but not restricted to, renewable energy, energy efficiency, utility scale generation, grid modernization and smaller qualifying projects grouped into programs for review. The MPIR adjustment mechanism provides the opportunity to recover revenues for approved costs of eligible projects placed in service between general rate cases wherein cost recovery is limited by a revenue cap and is not provided by other effective recovery mechanisms. The request for PUC approval must include a business case and all costs that are allowed to be recovered through the MPIR adjustment mechanism must be offset by any related benefits. The guidelines provide for accrual of revenues approved for recovery upon in-service date to be collected from customers through the annual RBA tariff. Capital projects that are not recovered through the MPIR would be included in the RAM and be subject to the RAM Cap, until the next rate case when the Utilities would request recovery in base rates.

The PUC has approved recovery of capital costs under the MPIR for Schofield generation station, which would adjust revenues in July through December 2018 by $3.4 million and be collected in customer bills beginning in June 2019. A decision on recovery of related incremental O&M expenses is pending. In February 2019, Hawaiian Electric will file an MPIR for 2019 (which will accrue effective January 1, 2019) which will include the 2019 return on project amount (up to the capped amount) in rate base, depreciation and incremental O&M expenses (if approved for recovery by the PUC), for collection from June 2020 through May 2021.

Performance incentive mechanisms. The PUC has ordered the following performance incentive mechanisms (PIM), which will be reflected in the annual decoupling filing beginning in 2019. The PIM tariff requires the performance targets, deadbands and the amount of maximum financial incentives used to determine the PIM financial incentive levels for each of the PIMs to be re-determined upon issuance of an interim or final order in a general rate case for each utility.

- Service Quality performance incentives are measured on a calendar-year basis beginning in 2018.
- Service Reliability Performance measured by System Average Interruption Duration and Frequency Indexes (penalties only). Target performance is based on each utility’s historical 10-year average performance with a

deadband of one standard deviation. The maximum penalty for each performance index is 20 basis points applied to the common equity share of each respective utility's approved rate base (or maximum penalties of approximately $6.7 million - for both indices in total for the three utilities).

- Call Center Performance measured by the percentage of calls answered within 30 seconds. Target performance is based on the annual average performance for each utility for the most recent 8 quarters with a deadband of 3% above and below the target. The maximum penalty or incentive is 8 basis points applied to the common equity share of each respective utility's approved rate base (or maximum penalties or incentives of approximately $1.3 million - in total for the three utilities).
- Demand Response measured by the demand response resources acquired in 2018. The award is up to 5% of the aggregate annual contract value for cost-effective demand response capability contracted with aggregators by December 31, 2018. The maximum award is $0.5 million for the three utilities in total and there are no penalties. This incentive applies to one-time performance in 2018 only.
- Procurement of low-cost variable renewable resources through the request for proposal process in 2018 measured by comparison of the procurement price to target prices. The incentive is a percentage of the savings determined by comparing procured price to a target of 11.5 cents per kilowatt-hour for renewable projects with storage capability and 9.5 cents per kilowatt-hour for energy-only renewable projects. There are two phases to this incentive. Phase 1 has an incentive of 20% of the savings for purchased power agreements filed by December 31, 2018 and subsequently approved by the PUC, with a cap of $3.5 million for the three utilities in total. Phase 2 has scaled incentives of 15%, 10% and 5% of the savings for purchased power agreements filed in January, February and March 2019, respectively, and subsequently approved by the PUC, with a cap of $3 million for the three utilities in total. There are no penalties.

Annual decoupling filings. The net annual incremental amounts to be collected (refunded) from June 1, 2018 through May 31, 2019 are as follows:

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
2018 Annual incremental RAM adjusted revenues *	$ 13.8	$ 3.4	$ 2.0
Annual change in accrued RBA balance as of December 31, 2017 (and associated revenue taxes)	$ 6.6	$ 0.7	$ 3.2
2017 Tax Act Adjustment **	$ —	$ —	$ (2.8)
Net annual incremental amount to be collected under the tariffs	$ 20.4	$ 4.1	$ 2.4

* The 2018 annual RAM adjusted revenues for Maui Electric terminated on August 23, 2018, the effective date of interim increase tariff rates that were implemented pursuant to the Interim D&O issued in the Maui Electric consolidated 2015 and 2018 rate case.

** Maui Electric incorporated a $2.8 million adjustment into its 2018 annual decoupling filing to incorporate the impact of the lower corporate income tax rate and the exclusion of the domestic production activities deduction, as a result of the 2017 Tax Cuts and Jobs Act (the Tax Act). Tax adjustments for Hawaiian Electric and Hawaii Electric Light are described in the discussion below of their respective on-going rate cases.

Performance-based regulation proceeding. On April 18, 2018, the PUC issued an order, instituting a proceeding to investigate performance-based regulation (PBR). The PUC intends to provide a forum to collaboratively develop modifications or new components to better align utility and customer interests. The PUC stated that PBR seeks to utilize both revenue adjustment mechanisms and performance mechanisms to more strongly align utilities' incentives with customer interests.

The order stated that, in general, the PUC is interested in ratemaking elements and/or mechanisms that result in:

- Greater cost control and reduced rate volatility;
- Efficient investment and allocation of resources regardless of classification as capital or operating expense;
- Fair distribution of risks between utilities and customers; and
- Fulfillment of State policy goals.

Through this investigation, the PUC intends to: (1) identify specific areas of utility performance that should be improved; (2) determine appropriate metrics for measuring successful outcomes in those areas; and (3) establish reasonable financial rewards and/or penalties that are sufficient to incent the utility to achieve those outcomes.
The proceeding has two phases. Phase 1 examines the current regulatory framework and identifies those areas of utility performance that are deserving of further focus in Phase 2. The PUC provided staff reports to the parties, held technical workshops and the parties filed briefs on: 1) goals and outcomes and 2) assessment of the existing regulatory framework. Metrics will be discussed in late 2018, to be followed by a PUC staff proposal, parties' statements of position, and a PUC order related to Phase 1, which is expected after March 2019. Phase 2 will address design and implementation of performance incentive mechanisms, revenue adjustment mechanisms and other regulatory reforms.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Performance-based ratemaking legislation. On April 24, 2018, Senate Bill No. 2939 SD2 was signed into law, which establishes performance metrics that the PUC shall consider while establishing performance incentives and penalty mechanisms under a performance-based ratemaking model. The law requires that the PUC establish these performance-based ratemaking mechanisms on or before January 1, 2020. The PUC opened a proceeding on April 18, 2018. See “Performance-based regulation proceeding” above.

Most recent rate proceedings.

Hawaiian Electric consolidated 2014 and 2017 test year rate cases. In June 2014, Hawaiian Electric submitted its 2014 test year rate case filing, stating that it intended to forgo the opportunity to seek a general rate increase in base rates. In December 2016, Hawaiian Electric filed an application with the PUC for a general rate increase, and the PUC issued an order consolidating the Hawaiian Electric filings for the 2014 and 2017 test year rate cases. On February 16, 2018, Hawaiian Electric implemented an interim increase of $36.0 million. On April 13, 2018, Hawaiian Electric implemented an additional interim rate adjustment to adjust rates for the impact of the Tax Act.

On June 22, 2018, the PUC issued its Final D&O, approving final rate relief of a $37.7 million increase before the Tax Act impact reduction of $38.3 million, based on an ROACE of 9.5% and an overall rate of return of 7.57%. The PUC indicated that the ECRC mechanism shall reflect a 98/2% risk-sharing split between ratepayers and Hawaiian Electric, with an annual maximum exposure cap of $2.5 million.

Maui Electric consolidated 2015 and 2018 test year rate cases. In December 2014, Maui Electric submitted its 2015 test year rate case filing, proposing no change to its base rates. In August 2017, the PUC issued an order consolidating the Maui Electric filings for the 2015 and 2018 test year rate cases. In October 2017, Maui Electric filed its 2018 test year rate case application and in February 2018, Maui Electric filed revised schedules to reflect the adjustments resulting from the Tax Act.

On August 9, 2018, the PUC approved an interim rate increase based on a stipulated settlement between Maui Electric and the Consumer Advocate of $12.5 million over revenues at current effective rates based on 7.43% rate of return (which incorporates a ROACE of 9.5% and a capital structure that includes a 57% common equity capitalization) on a $462 million rate base, with the depreciation rates approved in July 2018. Interim rates were effective on August 23, 2018.

Hawaii Electric Light 2016 and 2019 test year rate cases. In September 2016, Hawaii Electric Light filed an application with the PUC for a general rate increase.

In August 2017, the PUC issued an order granting an interim rate increase of $9.9 million based on the Stipulated Settlement Letter of Hawaii Electric Light and the Consumer Advocate filed on July 11, 2017 and an ROACE of 9.5% and subject to refund with interest, if it exceeds amounts allowed in a final order. The interim rate increase was implemented on August 31, 2017. On May 1, 2018, Hawaii Electric Light implemented an interim rate reduction of $9.9 million which was primarily to incorporate the effects of the Tax Act.

On June 29, 2018, the PUC issued its Final D&O, approving the rates implemented in the interim rate reduction.

On October 5, 2018, Hawaii Electric Light filed a notice that it intends to file an application for a general rate increase on or after December 5, 2018 but before January 1, 2019.

Tax Cuts and Jobs Act impact on utility rates. The Utilities began tracking the impact of the Tax Cuts and Jobs Act of 2017 (Tax Act) as of January 1, 2018. Each Utility accrued regulatory liabilities for estimated tax savings from January 1 to the date incorporated in rates:

- Hawaiian Electric incorporated the Tax Act reductions in rates (based on the 2017 test year rate case) effective April 13, 2018.
- Hawaii Electric Light incorporated the Tax Act reductions (based on the 2016 test year rate case) effective May 1, 2018.
- Maui Electric’s rates were adjusted for the Tax Act as follows:

adjustments for the period January 1, 2018 through May 31, 2018 are in the annual Revenue Balancing Account adjustment, which became effective on June 1, 2018, adjustments for the period June 1, 2018 through August 22, 2018 are embedded in the Revenue Balancing Account, which will be incorporated in rates on June 1, 2019, and

adjustments from August 23, 2018 and thereafter are incorporated in interim rates as a result of the 2018 test year rate case.

See discussion in “Decoupling” section above.

22

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Condensed consolidating financial information. Hawaiian Electric is not required to provide separate financial statements or other disclosures concerning Hawaii Electric Light and Maui Electric to holders of the 2004 Debentures, which was issued by Hawaii Electric Light and Maui Electric to Trust III, since all of their voting capital stock is owned, and their obligations with respect to these securities have been fully and unconditionally guaranteed, on a subordinated basis, by Hawaiian Electric. Consolidating information is provided below for Hawaiian Electric and each of its subsidiaries for the periods ended and as of the dates indicated.

Hawaiian Electric also unconditionally guarantees Hawaii Electric Light's and Maui Electric's obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of Hawaii Electric Light and Maui Electric, (b) under their respective private placement note agreements and the Hawaii Electric Light notes and Maui Electric notes issued thereunder and (c) relating to the trust preferred securities of Trust III. Hawaiian Electric is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on Hawaii Electric Light's and Maui Electric's preferred stock if the respective subsidiary is unable to make such payments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Three months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$488,210	98,981	100,273	—	(55)	$ 687,409
Expenses						
Fuel oil	141,357	26,429	38,765	—	—	206,551
Purchased power	138,135	24,091	15,364	—	—	177,590
Other operation and maintenance	78,988	15,253	19,312	—	—	113,553
Depreciation	34,282	10,072	6,629	—	—	50,983
Taxes, other than income taxes	46,096	9,215	9,385	—	—	64,696
Total expenses	438,858	85,060	89,455	—	—	613,373
Operating income	49,352	13,921	10,818	—	(55)	74,036
Allowance for equity funds used during construction	1,648	39	275	—	—	1,962
Equity in earnings of subsidiaries	16,636	—	—	—	(16,636)	—
Retirement defined benefits expense—other than service costs	(475)	(104)	(103)	—	—	(682)
Interest expense and other charges, net	(13,542)	(3,026)	(2,455)	—	55	(18,968)
Allowance for borrowed funds used during construction	810	49	147	—	—	1,006
Income before income taxes	54,429	10,879	8,682	—	(16,636)	57,354
Income taxes	4,447	1,571	1,126	—	—	7,144
Net income	49,982	9,308	7,556	—	(16,636)	50,210
Preferred stock dividends of subsidiaries	—	133	95	—	—	228
Net income attributable to Hawaiian Electric	49,982	9,175	7,461	—	(16,636)	49,982
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$49,712	9,175	7,461	—	(16,636)	$ 49,712

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Three months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$49,712	9,175	7,461	—	(16,636)	$ 49,712
Other comprehensive income (loss), net of taxes:						
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	4,753	705	606	—	(1,311)	4,753
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,725)	(705)	(606)	—	1,311	(4,725)
Other comprehensive income, net of taxes	28	—	—	—	—	28
	$49,740	9,175	7,461	—	(16,636)	$ 49,740

Comprehensive income attributable to common shareholder

24

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Three months ended September 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$429,267	84,334	85,198	—	(30)	$ 598,769
Expenses						
Fuel oil	103,959	15,754	26,545	—	—	146,258
Purchased power	123,893	21,332	15,122	—	—	160,347
Other operation and maintenance	64,996	16,608	17,077	—	—	98,681
Depreciation	32,722	9,685	5,799	—	—	48,206
Taxes, other than income taxes	40,824	7,928	8,028	—	—	56,780
Total expenses	366,394	71,307	72,571	—	—	510,272
Operating income	62,873	13,027	12,627	—	(30)	88,497
Allowance for equity funds used during construction	3,108	167	207	—	—	3,482
Equity in earnings of subsidiaries	12,767	—	—	—	(12,767)	—
Retirement defined benefits expense—other than service costs	(1,225)	15	(211)	—	—	(1,421)
Interest expense and other charges, net	(11,786)	(2,899)	(2,252)	—	30	(16,907)
Allowance for borrowed funds used during construction	1,173	72	94	—	—	1,339
Income before income taxes	66,910	10,382	10,465	—	(12,767)	74,990
Income taxes	19,153	3,815	4,037	—	—	27,005
Net income	47,757	6,567	6,428	—	(12,767)	47,985
Preferred stock dividends of subsidiaries	—	133	95	—	—	228
Net income attributable to Hawaiian Electric	47,757	6,434	6,333	—	(12,767)	47,757
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$47,487	6,434	6,333	—	(12,767)	$ 47,487

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Three months ended September 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$47,487	6,434	6,333	—	(12,767)	$ 47,487
Other comprehensive income (loss), net of taxes:						
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	3,618	476	404	—	(880)	3,618
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(3,596)	(476)	(404)	—	880	(3,596)
Other comprehensive income, net of taxes	22	—	—	—	—	22
	$47,509	6,434	6,333	—	(12,767)	$ 47,509

Comprehensive income attributable to common shareholder

25

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Nine months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,321,089	276,462	268,567	—	(156)	$1,865,962
Expenses						
Fuel oil	375,862	64,348	105,026	—	—	545,236
Purchased power	367,317	72,589	38,332	—	—	478,238
Other operation and maintenance	228,773	50,366	54,666	—	—	333,805
Depreciation	103,112	30,165	18,533	—	—	151,810
Taxes, other than income taxes	125,214	25,835	25,275	—	—	176,324
Total expenses	1,200,278	243,303	241,832	—	—	1,685,413
Operating income	120,811	33,159	26,735	—	(156)	180,549
Allowance for equity funds used during construction	7,123	274	842	—	—	8,239
Equity in earnings of subsidiaries	35,041	—	—	—	(35,041)	—
Retirement defined benefits expense—other than service costs	(2,091)	(312)	(531)	—	—	(2,934)
Interest expense and other charges, net	(38,967)	(8,855)	(7,156)	—	156	(54,822)
Allowance for borrowed funds used during construction	3,198	190	427	—	—	3,815
Income before income taxes	125,115	24,456	20,317	—	(35,041)	134,847
Income taxes	15,949	5,017	4,029	—	—	24,995
Net income	109,166	19,439	16,288	—	(35,041)	109,852
Preferred stock dividends of subsidiaries	—	400	286	—	—	686
Net income attributable to Hawaiian Electric	109,166	19,039	16,002	—	(35,041)	109,166
Preferred stock dividends of Hawaiian Electric	810	—	—	—	—	810
Net income for common stock	$108,356	19,039	16,002	—	(35,041)	$108,356

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Nine months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$108,356	19,039	16,002	—	(35,041)	$ 108,356
Other comprehensive income (loss), net of taxes:						
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	14,259	2,114	1,817	—	(3,931)	14,259
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(14,174)	(2,113)	(1,817)	—	3,930	(14,174)
Other comprehensive income, net of taxes	85	1	—	—	(1)	85
	$108,441	19,040	16,002	—	(35,042)	$ 108,441

Comprehensive income attributable to common shareholder

26

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Nine months ended September 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,186,524	245,026	242,756	—	(51)	$1,674,255
Expenses						
Fuel oil	301,774	47,486	82,527	—	—	431,787
Purchased power	340,498	63,403	36,637	—	—	440,538
Other operation and maintenance	200,648	49,850	51,939	—	—	302,437
Depreciation	98,167	29,056	17,355	—	—	144,578
Taxes, other than income taxes	113,483	23,080	23,012	—	—	159,575
Total expenses	1,054,570	212,875	211,470	—	—	1,478,915
Operating income	131,954	32,151	31,286	—	(51)	195,340
Allowance for equity funds used during construction	7,823	416	669	—	—	8,908
Equity in earnings of subsidiaries	29,306	—	—	—	(29,306)	—
Retirement defined benefits expense—other than service costs	(3,812)	183	(650)	—	—	(4,279)
Interest expense and other charges, net	(36,405)	(8,899)	(7,372)	—	51	(52,625)
Allowance for borrowed funds used during construction	2,910	172	289	—	—	3,371
Income before income taxes	131,776	24,023	24,222	—	(29,306)	150,715
Income taxes	36,370	8,973	9,280	—	—	54,623
Net income	95,406	15,050	14,942	—	(29,306)	96,092
Preferred stock dividends of subsidiaries	—	400	286	—	—	686
Net income attributable to Hawaiian Electric	95,406	14,650	14,656	—	(29,306)	95,406
Preferred stock dividends of Hawaiian Electric	810	—	—	—	—	810
Net income for common stock	$94,596	14,650	14,656	—	(29,306)	$94,596

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Nine months ended September 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$94,596	14,650	14,656	—	(29,306)	$ 94,596
Other comprehensive income (loss), net of taxes:						
Derivatives qualifying as cash flow hedges:						
Reclassification adjustment to net income, net of taxes	454	—	—	—	—	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	10,857	1,428	1,214	—	(2,642)	10,857
	(10,790)	(1,427)	(1,214)	—	2,641	(10,790)

Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes						
Other comprehensive income, net of taxes	521	1	—	—	(1)	521
Comprehensive income attributable to common shareholder	$95,117	14,651	14,656	—	(29,307)	$ 95,117

27

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$44,030	5,873	3,612	—	—	$53,515
Plant and equipment	4,404,946	1,227,530	1,087,570	—	—	6,720,046
Less accumulated depreciation	(1,513,351)	(541,451)	(512,906)	—	—	(2,567,708)
Construction in progress	154,566	11,060	27,460	—	—	193,086
Utility property, plant and equipment, net	3,090,191	703,012	605,736	—	—	4,398,939
Nonutility property, plant and equipment, less accumulated depreciation	5,933	115	1,532	—	—	7,580
Total property, plant and equipment, net	3,096,124	703,127	607,268	—	—	4,406,519
Investment in wholly owned subsidiaries, at equity	571,574	—	—	—	(571,574)	—
Current assets						
Cash and cash equivalents	3,867	3,027	229	101	—	7,224
Advances to affiliates	2,000	—	—	—	(2,000)	—
Customer accounts receivable, net	124,792	29,364	24,629	—	—	178,785
Accrued unbilled revenues, net	94,956	15,810	16,936	—	—	127,702
Other accounts receivable, net	10,312	1,352	1,069	—	(9,355)	3,378
Fuel oil stock, at average cost	61,110	11,483	19,229	—	—	91,822
Materials and supplies, at average cost	32,407	7,840	18,260	—	—	58,507
Prepayments and other	44,458	8,604	7,670	—	—	60,732
Regulatory assets	75,541	6,217	7,672	—	—	89,430
Total current assets	449,443	83,697	95,694	101	(11,355)	617,580
Other long-term assets						
Regulatory assets	527,650	115,114	98,730	—	—	741,494
Other	77,899	20,363	18,272	—	—	116,534
Total other long-term assets	605,549	135,477	117,002	—	—	858,028
Total assets	$4,722,690	922,301	819,964	101	(582,929)	$5,882,127
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,876,237	294,220	277,253	101	(571,574)	$1,876,237
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	1,000,020	217,724	200,887	—	—	1,418,631
Total capitalization	2,898,550	518,944	483,140	101	(571,574)	3,329,161
Current liabilities						
Current portion of long-term debt	29,996	10,998	8,999	—	—	49,993
Short-term borrowings from non-affiliates	85,913	—	—	—	—	85,913
Short-term borrowings from affiliate	—	—	2,000	—	(2,000)	—
Accounts payable	90,937	12,289	19,706	—	—	122,932

Interest and preferred dividends payable	19,994	4,243	4,030	—	(9)	28,258
Taxes accrued	136,485	30,829	28,462	—	—	195,776
Regulatory liabilities	3,124	2,850	4,185	—	—	10,159
Other	64,697	9,594	16,109	—	(9,346)	81,054
Total current liabilities	431,146	70,803	83,491	—	(11,355)	574,085
Deferred credits and other liabilities						
Deferred income taxes	285,789	56,417	58,863	—	—	401,069
Regulatory liabilities	649,761	174,739	97,693	—	—	922,193
Unamortized tax credits	61,299	16,271	15,503	—	—	93,073
Defined benefit pension and other postretirement benefit plans liability	332,743	64,026	63,510	—	—	460,279
Other	63,402	21,101	17,764	—	—	102,267
Total deferred credits and other liabilities	1,392,994	332,554	253,333	—	—	1,978,881
Total capitalization and liabilities	$4,722,690	922,301	819,964	101	(582,929)	$5,882,127

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
December 31, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,972	6,189	3,016	—	—	$53,177
Plant and equipment	4,140,892	1,206,776	1,053,372	—	—	6,401,040
Less accumulated depreciation	(1,451,612)	(528,024)	(496,716)	—	—	(2,476,352)
Construction in progress	231,571	8,182	23,341	—	—	263,094
Utility property, plant and equipment, net	2,964,823	693,123	583,013	—	—	4,240,959
Nonutility property, plant and equipment, less accumulated depreciation	5,933	115	1,532	—	—	7,580
Total property, plant and equipment, net	2,970,756	693,238	584,545	—	—	4,248,539
Investment in wholly owned subsidiaries, at equity	557,013	—	—	—	(557,013)	—
Current assets						
Cash and cash equivalents	2,059	4,025	6,332	101	—	12,517
Advances to affiliates	—	—	12,000	—	(12,000)	—
Customer accounts receivable, net	86,987	22,510	18,392	—	—	127,889
Accrued unbilled revenues, net	77,176	15,940	13,938	—	—	107,054
Other accounts receivable, net	11,376	2,268	1,210	—	(7,691)	7,163
Fuel oil stock, at average cost	64,972	8,698	13,203	—	—	86,873
Materials and supplies, at average cost	28,325	8,041	18,031	—	—	54,397
Prepayments and other	17,928	4,514	2,913	—	—	25,355
Regulatory assets	76,203	5,038	7,149	—	—	88,390
Total current assets	365,026	71,034	93,168	101	(19,691)	509,638
Other long-term assets						
Regulatory assets	557,464	122,783	100,660	—	—	780,907
Other	60,157	16,311	15,061	—	—	91,529
Total other long-term assets	617,621	139,094	115,721	—	—	872,436
Total assets	$4,510,416	903,366	793,434	101	(576,704)	$5,630,613
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,845,283	286,647	270,265	101	(557,013)	$1,845,283
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	924,979	202,701	190,836	—	—	1,318,516
Total capitalization	2,792,555	496,348	466,101	101	(557,013)	3,198,092
Current liabilities						
Current portion of long-term debt	29,978	10,992	8,993	—	—	49,963
Short-term borrowings-non-affiliate	4,999	—	—	—	—	4,999
Short-term borrowings-affiliate	12,000	—	—	—	(12,000)	—
Accounts payable	121,328	17,855	20,427	—	—	159,610

Interest and preferred dividends payable	15,677	4,174	2,735	—	(11)	22,575
Taxes accrued	133,839	34,950	30,312	—	—	199,101
Regulatory liabilities	607	1,245	1,549	—	—	3,401
Other	43,121	9,818	14,197	—	(7,680)	59,456
Total current liabilities	361,549	79,034	78,213	—	(19,691)	499,105
Deferred credits and other liabilities						
Deferred income taxes	281,223	56,955	55,863	—	—	394,041
Regulatory liabilities	613,329	169,139	94,901	—	—	877,369
Unamortized tax credits	59,039	16,167	15,163	—	—	90,369
Defined benefit pension and other postretirement benefit plans liability	340,983	66,447	65,518	—	—	472,948
Other	61,738	19,276	17,675	—	—	98,689
Total deferred credits and other liabilities	1,356,312	327,984	249,120	—	—	1,933,416
Total capitalization and liabilities	$4,510,416	903,366	793,434	101	(576,704)	$5,630,613

29

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Changes in Common Stock Equity
Nine months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2017	$1,845,283	286,647	270,265	101	(557,013)	$1,845,283
Net income for common stock	108,356	19,039	16,002	—	(35,041)	108,356
Other comprehensive income, net of taxes	85	1	—	—	(1)	85
Common stock dividends	(77,479)	(11,467)	(9,014)	—	20,481	(77,479)
Common stock issuance expenses	(8)	—	—	—	—	(8)
Balance, September 30, 2018	$1,876,237	294,220	277,253	101	(571,574)	$1,876,237

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Changes in Common Stock Equity
Nine months ended September 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2016	$1,799,787	291,291	259,554	101	(550,946)	$1,799,787
Net income for common stock	94,596	14,650	14,656	—	(29,306)	94,596
Other comprehensive income, net of taxes	521	1	—	—	(1)	521
Common stock dividends	(65,825)	(11,622)	(8,959)	—	20,581	(65,825)
Common stock issuance expenses	(4)	(1)	—	—	1	(4)
Balance, September 30, 2017	$1,829,075	294,319	265,251	101	(559,671)	$1,829,075

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Nine months ended September 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$ 109,166	19,439	16,288	—	(35,041)	$ 109,852
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(35,116)	—	—	—	35,041	(75)
Common stock dividends received from subsidiaries	20,531	—	—	—	(20,481)	50
Depreciation of property, plant and equipment	103,112	30,165	18,533	—	—	151,810
Other amortization	15,159	3,992	672	—	—	19,823
Deferred income taxes	7,182	1,195	4,458	—	—	12,835
Allowance for equity funds used during construction	(7,123)	(274)	(842)	—	—	(8,239)
Other	(1,227)	(315)	(410)	—	—	(1,952)
Changes in assets and liabilities:						
Increase in accounts receivable	(41,566)	(6,738)	(6,499)	—	1,664	(53,139)
Decrease (increase) in accrued unbilled revenues	(17,780)	130	(2,998)	—	—	(20,648)
Decrease (increase) in fuel oil stock	3,862	(2,785)	(6,026			