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HAWAIIAN ELECTRIC INDUSTRIES INC
 Form 10-K405
 March 25, 2002

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 2001
 OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
 THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R. Ide
1-8503	HAWAIIAN ELECTRIC INDUSTRIES, INC. (A Hawaii Corporation) 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-5662	99-
1-4955	HAWAIIAN ELECTRIC COMPANY, INC. (A Hawaii Corporation) 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-7771	99-

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Nam on
Hawaiian Electric Industries, Inc.	Common Stock, Without Par Value	New
Hawaiian Electric Industries, Inc.	Guarantee with respect to 8.36% Trust Originated Preferred Securities /SM/ (TOPrS /SM/)	New
Hawaiian Electric Industries, Inc.	Preferred Stock Purchase Rights	New
Hawaiian Electric Company, Inc.	Guarantee with respect to 8.05% Cumulative Quarterly Income Preferred Securities Series 1997 (QUIPS/SM/)	New
Hawaiian Electric Company, Inc.	Guarantee with respect to 7.30% Cumulative Quarterly Income Preferred Securities Series 1998 (QUIPS/SM/)	New

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Hawaiian Electric Industries, Inc.	None
Hawaiian Electric Company, Inc.	Cumulative Preferred Stock

Indicate by check mark whether the registrant (1) has filed all reports

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required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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	Aggregate market value of the voting stock held by nonaffiliates of the registrants on March 13, 2002	Number of shares of common stock outstanding of the registrants on March 13, 2002
	-----	-----
Hawaiian Electric Industries, Inc.	\$1,526,683,388.88	36,023,676 (Without par value)
Hawaiian Electric Company, Inc.	na	12,805,843 (\$6 2/3 par value)

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DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K into which the document is incorporated
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Annual Reports to Stockholder(s) of the following registrants for the fiscal year ended December 31, 2001:	
Hawaiian Electric Industries, Inc.	Parts I, II, III
Hawaiian Electric Company, Inc. (except for pages 2, 53 and 55).....	Parts I, II, III
Portions of Proxy Statement of Hawaiian Electric Industries, Inc., dated March 13, 2002, for the Annual Meeting of Stockholders.....	Part III

This combined Form 10-K represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own behalf. Neither registrant makes any representations as to the information relating to the other registrant.

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms -----	Definitions -----
1935 Act	Public Utility Holding Company Act of 1935
AES Hawaii	AES Hawaii, Inc., formerly known as AES Barbers Point, Inc.
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of HEI Diver parent company of American Savings Investment Services Corp. (and

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	since March 15, 2001, Bishop Insurance Agency of Hawaii, Inc.) ASB Corporation, AdCommunications, Inc., American Savings Mortgage Co. Realty Corporation
BIF	Bank Insurance Fund
BoA	Bank of America, FSB
BLNR	Board of Land and Natural Resources of the State of Hawaii
Btu	British thermal unit
CDUP	Conservation District Use Permit
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Chevron	Chevron Products Company, a fuel oil supplier
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries including, without limitation, Hawaiian Electric Company, Inc., Maui Company, Limited, Hawaii Electric Light Company, Inc., HECO Capital Trust II, HEI Diversified, Inc., American Savings Bank, F. subsidiaries, Pacific Energy Conservation Services, Inc., HEI Dist Inc., ProVision Technologies, Inc., HEI Properties, Inc., HEI Leas Management, Inc., Hawaiian Electric Industries Capital Trust I, Ha Industries Capital Trust II, Hawaiian Electric Industries Capital Preferred Funding, LP, The Old Oahu Tug Service, Inc. (formerly Ha Barge Corp.), HEI Power Corp. and its subsidiaries and Malama Paci subsidiaries
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs, State of Hawaii
CT	Combustion turbine
DLNR	Department of Land and Natural Resources of the State of Hawaii
D&O	Decision and order
DOD	Department of Defense - federal
DOH	Department of Health of the State of Hawaii
DSM	Demand-side management
DTCC	Dual-train combined-cycle
EAPRC	East Asia Power Resources Corporation
ECA	Energy cost adjustment
Enserch	Enserch Development Corporation
EPA	Environmental Protection Agency - federal
ERL	Environmental Response Law of the State of Hawaii
FDIC	Federal Deposit Insurance Corporation

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GLOSSARY OF TERMS (continued)

Terms	Definitions
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FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FHLB	Federal Home Loan Bank
FICO	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
Hamakua Partners	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HRD	Hawi Renewable Development, Inc.
HCPC	Hilo Coast Power Company, formerly Hilo Coast Processing Company
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
HECO	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Maui Electric Company, Limited, Hawaiian Electric Light Company, Inc., HECO Capital Trust I and HECO Capital Trust II
HECO's	Portions of Hawaiian Electric Company, Inc.'s 2001 Annual Report to Stockholders
Annual Report	filed as HECO Exhibit 13, which portions are incorporated by reference

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	Form 10-K by reference
HECO's Consolidated Financial Statements	Hawaiian Electric Company, Inc.'s Consolidated Financial Statements, incorporated into Parts I, II and IV of this Form 10-K by reference to 52 of HECO's Annual Report
HECO's MD&A	Hawaiian Electric Company, Inc.'s Management's Discussion and Analysis Financial Condition and Results of Operations, incorporated into Part IV of this Form 10-K by reference to pages 4 to 18 of HECO's Annual Report
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., HEI Diversified, Inc., Pacific Energy Conservation Services, Inc., HEI District Cooling, Inc., ProVision Technologies, Inc., HEI Property Leasing, Inc., Hycap Management, Inc., Hawaiian Electric Industries Capital Trust I, Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III, The Old Oahu Tug Service, Inc. (formerly Hawaiian Electric Corp.), HEI Power Corp. and Malama Pacific Corp.
HEI's Annual Report	Hawaiian Electric Industries, Inc.'s 2001 Annual Report to Stockholders filed as HEI Exhibit 13 and incorporated into this Form 10-K by reference
HEI's Consolidated Financial Statements	Hawaiian Electric Industries, Inc.'s Consolidated Financial Statements incorporated into Parts I, II and IV of this Form 10-K by reference to 64 of HEI's Annual Report
HEI's MD&A	Hawaiian Electric Industries, Inc.'s Management's Discussion and Analysis Financial Condition and Results of Operations incorporated into Part IV of this Form 10-K by reference to pages 4 to 25 of HEI's Annual Report
HEIDI	HEI Diversified, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.

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GLOSSARY OF TERMS (continued)

Terms -----	Definitions -----
HEIII	HEI Investments, Inc. (formerly HEI Investment Corp.), a wholly-owned subsidiary of HEI Power Corp.
HEIPC	HEI Power Corp., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. parent company of several subsidiaries. On October 23, 2001, the HEI Board of Directors adopted a formal plan to exit the international power business by HEI Power Corp. and its subsidiaries.
HEIPC Group	HEI Power Corp. and its subsidiaries
HEIPI	HEI Properties, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HITI	Hawaiian Interisland Towing, Inc.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
IPP	Independent power producer
IRP	Integrated resource plan
Kalaeloa	Kalaeloa Partners, L.P.
KCP	Kawaihae Cogeneration Partners
KDC	Keahole Defense Coalition
kv	kilovolt
KIP	Kalaeloa Investment Partners
KPP	Kahua Power Partners LLC
KWH	Kilowatthour

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LSFO	Low sulfur fuel oil
MBtu	Million British thermal unit
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MPC	Malama Pacific Corp., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and parent company of several real estate subsidiaries. On September 1, 1999, the HEI Board of Directors adopted a plan to exit the residential real estate development business engaged in by Malama Pacific Corp. and its subsidiaries.
MSFO	Medium sulfur fuel oil
MW	Megawatt
na	Not applicable
NOV	Notice of Violation
OPA	Federal Oil Pollution Act of 1990
OTS	Office of Thrift Supervision, Department of Treasury
PCB	Polychlorinated biphenyls

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GLOSSARY OF TERMS (continued)

Terms -----	Definitions -----
PECS	Pacific Energy Conservation Services, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PSD permit	Prevention of Significant Deterioration/Covered Source permit
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act
QTL	Qualified Thrift Lender
RCRA	Resource Conservation and Recovery Act of 1976
Registrant	Hawaiian Electric Industries, Inc. or Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
see	When used with reference to pages in the HEI Annual Report, HECO Annual Report, HECO Consolidated Financial Statements, HEI's MD&A, HECO's Consolidated Financial Statements or HEI's MD&A, "see" means that the referenced information is incorporated by reference to those documents as Exhibits to this Form 10-K
SAIF	Savings Association Insurance Fund
SEC	Securities and Exchange Commission
SOP	Statement of Position
ST	Steam turbine
state	State of Hawaii
Tesoro	Tesoro Hawaii Corp. dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp. (HTB), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. On September 1, 1999, HTB sold YB and substantially all of HTB's operating assets and changed its name to TOOTS.
UIC	Underground Injection Control
UST	Underground storage tank
YB	Young Brothers, Limited, which was sold on November 10, 1999, was formerly a wholly-owned subsidiary of Hawaiian Tug & Barge Corp.

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FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and its 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 "expects," "anticipates," "intends," "plans," "believes," "predicts," "estimates" or similar expressions. In addition, any statements concerning future financial performance (including future revenues, expenses, earnings or losses or growth rates), ongoing business strategies or prospects and possible future actions, which may be provided by management, 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 assumptions about HEI and its subsidiaries, the performance of the industries in which they do business and economic 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 in forward-looking statements include, but are not limited to, the following:

- .. the effects of international, national and local economic conditions, including the condition of the Hawaii tourist and construction industries and the Hawaii housing market;
- .. the effects of weather and natural disasters;
- .. the effects of terrorist acts and the war on terrorism;
- .. the timing and extent of changes in interest rates;
- .. the risks inherent in changes in the value of and market for securities available for sale;
- .. product demand and market acceptance risks;
- .. increasing competition in the electric utility and banking industries;
- .. capacity and supply constraints or difficulties;
- .. fuel oil price changes and the continued availability of the electric utilities' energy cost adjustment clauses;
- .. new technological developments;
- .. federal, state and international governmental and regulatory actions, including changes in laws, rules and regulations applicable to HEI and its subsidiaries; decisions by the Hawaii Public Utilities Commission in rate cases and other proceedings and by other agencies and courts on land use, environmental and other permitting issues; required corrective actions (such as with respect to environmental conditions, capital adequacy and business practices); and changes in taxation;
- .. the effects of HEI and Hawaiian Electric Company, Inc. (HECO) securities rating changes by securities rating agencies;
- .. the results of financing efforts;
- .. the ultimate net proceeds from the disposition of assets and settlement

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of liabilities of discontinued or sold operations;

- .. the ultimate outcome of tax positions taken, including with respect to discontinued operations;
- .. the risks inherent in holding for sale financial instruments whose market values may change; and
- .. other risks or uncertainties described elsewhere in this report and in other periodic reports previously and subsequently filed by HEI and/or HECO with the Securities and Exchange Commission.

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made.

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PART I

ITEM 1. BUSINESS

HEI

HEI was incorporated in 1981 under the laws of the State of Hawaii and is a holding company with its principal subsidiaries engaged in the electric utility, banking and other businesses operating primarily in the State of Hawaii. HEI's predecessor, HECO, was incorporated under the laws of the Kingdom of Hawaii (now the State of Hawaii) on October 13, 1891. As a result of a 1983 corporate reorganization, HECO became an HEI subsidiary and common shareholders of HECO became common shareholders of HEI.

HECO and its operating subsidiaries, Maui Electric Company, Limited (MECO) and Hawaii Electric Light Company, Inc. (HELCO), are regulated electric public utilities providing the only electric public utility service on the islands of Oahu, Maui, Lanai, Molokai and Hawaii. HECO also owns all the common securities of HECO Capital Trust I and HECO Capital Trust II (Delaware statutory business trusts), which were formed to effect the issuances of \$50 million of 8.05% cumulative quarterly income preferred securities in March 1997 and \$50 million of 7.30% cumulative quarterly income preferred securities in December 1998, respectively, for the benefit of HECO, MECO and HELCO.

Besides HECO, HEI also owns directly or indirectly the following subsidiaries: HEI Diversified, Inc. (HEIDI) (a holding company) and its subsidiary, American Savings Bank, F.S.B. (ASB), and the subsidiaries of ASB; Pacific Energy Conservation Services, Inc. (PECS); ProVizion Technologies, Inc.; HEI Properties, Inc. (HEIPI); HEI Leasing, Inc.; Hycap Management, Inc. and its subsidiary; HEI District Cooling, Inc. (currently inactive); Hawaiian Electric Industries Capital Trust I; Hawaiian Electric Industries Capital Trust II and III (at all times inactive entities); The Old Oahu Tug Service, Inc. (TOOTS); HEI Power Corp. (HEIPC) and its subsidiaries (discontinued operations); and Malama Pacific Corp. (MPC) and its subsidiaries (discontinued operations).

ASB, acquired in 1988, was the third largest financial institution in the State of Hawaii and had 70 retail branches as of December 31, 2001. On December 6, 1997, ASB acquired substantially all of the Hawaii deposits of Bank of America, FSB (BoA), most of its Hawaii branches and certain of its Hawaii-based loans. The acquisition increased ASB's assets by \$1.8 billion and its deposits by \$1.7 billion. In March 1998, ASB formed a subsidiary, ASB Realty Corporation, which elects to be taxed as a real estate investment trust. On March 15, 2001, a

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subsidiary of ASB acquired Bishop Insurance Agency of Hawaii, Inc., which primarily markets commercial property and casualty insurance products as an insurance agency.

HEIDI was also the parent company of HEIDI Real Estate Corp., which was formed in February 1998. In September 1999, HEIDI Real Estate Corp.'s name was changed to HEIPI, and HEIDI transferred ownership of HEIPI to HEI. HEIPI currently holds passive investments.

PECS was formed in 1994 and currently is a contract services company providing limited support services in Hawaii. ProVision Technologies, Inc. was formed in October 1998 to sell, install, operate and maintain on-site power generation equipment and auxiliary appliances in Hawaii and the Pacific Rim. HEI Leasing, Inc. was formed in February 2000 to own passive investments and real estate subject to leases. Hycap Management, Inc., including its subsidiary HEI Preferred Funding, LP (a limited partnership in which Hycap Management, Inc. is the sole general partner), and Hawaiian Electric Industries Capital Trust I (a Delaware statutory business trust in which HEI owns all the common securities) were formed to effect the issuance of \$100 million of 8.36% HEI-obligated trust preferred securities in 1997. HEI District Cooling, Inc. was formed in August 1998 to develop, build, own, lease, operate and/or maintain, either directly or indirectly, central chilled water cooling system facilities, and other energy related products and services for commercial and residential buildings, but is currently inactive.

Hawaiian Tug & Barge Corp. (HTB) was acquired in 1986 and provided ship assist and charter towing services and owned Young Brothers, Limited (YB), a regulated intrastate public carrier of waterborne freight among the Hawaiian

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Islands. In November 1999, HTB sold substantially all of its operating assets and the stock of YB for a nominal gain, changed its name to TOOTS and ceased operations.

For information about the Company's discontinued operations, see Note 14 to HEI's Consolidated Financial Statements, which is incorporated herein by reference to pages 60 to 61 of HEI's Annual Report.

For financial information about the Company's industry segments, see Note 2 to HEI's Consolidated Financial Statements, which is incorporated herein by reference to pages 40 to 41 of HEI's Annual Report.

For additional information about the Company, see HEI's MD&A, HEI's "Quantitative and Qualitative Disclosures about Market Risk" and HEI's Consolidated Financial Statements, incorporated herein by reference to pages 4 to 25, 25 to 29 and 30 to 64, respectively, of HEI's Annual Report.

ELECTRIC UTILITY

HECO AND SUBSIDIARIES AND SERVICE AREAS

HECO, MECO and HELCO are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Maui, Lanai and Molokai; and Hawaii, respectively. HECO was incorporated under the laws of the Kingdom of Hawaii (now State of Hawaii) in 1891. HECO acquired MECO in 1968 and HELCO in 1970. In 2001, the electric utilities' revenues amounted to approximately 75% of HEI's consolidated revenues and the electric utilities' operating income amounted to approximately 76% of HEI's consolidated operating income.

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The islands of Oahu, Maui, Lanai, Molokai and Hawaii have a combined population currently estimated at 1,164,000, or approximately 95% of the population of the State of Hawaii, and comprise a service area of 5,766 square miles. The principal communities served include Honolulu (on Oahu), Wailuku and Kahului (on Maui) and Hilo and Kona (on Hawaii). The service areas also include numerous suburban communities, resorts, U.S. Armed Forces installations and agricultural operations.

The state has granted HECO, MECO and HELCO nonexclusive franchises, which authorize the utilities to construct, operate and maintain facilities over and under public streets and sidewalks. HECO's franchise covers the City & County of Honolulu, MECO's franchises cover the County of Maui and the County of Kalawao, and HELCO's franchise covers the County of Hawaii. Each of these franchises will continue in effect for an indefinite period of time until forfeited, altered, amended or repealed.

For additional information about HECO, see HEI's MD&A, HEI's "Quantitative and Qualitative Disclosures about Market Risk" and HEI's Consolidated Financial Statements, incorporated herein by reference to pages 4 to 25, 25 to 29 and 30 to 64, respectively, of HEI's Annual Report, and HECO's MD&A, HECO's "Quantitative and Qualitative Disclosures about Market Risk" and HECO's Consolidated Financial Statements incorporated herein by reference to pages 4 to 18, 19 to 20 and 21 to 52, respectively, of HECO's Annual Report.

SALES OF ELECTRICITY

HECO, MECO and HELCO provide the only electric public utility service on the islands they serve. The following table sets forth the number of electric customer accounts as of December 31, 2001, 2000 and 1999 and electric sales revenues for each of the years then ended:

(dollars in thousands)	2001		2000		1999
	Customer accounts	Electric sales revenues	Customer accounts	Electric sales revenues	Customer accounts
HECO	280,911	\$ 882,308	278,260	\$ 880,663	275,467
MECO	58,840	203,847	57,601	192,823	56,410
HELCO	65,241	193,209	63,778	192,174	62,478
	404,992	\$1,279,364	399,639	\$1,265,660	394,355

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Revenues from the sale of electricity in 2001 were from the following types of customers in the proportions shown:

	HECO	MECO	HELCO	Total
Residential.....	31%	35%	41%	33%
Commercial.....	33	35	40	34
Large light and power.....	35	29	19	32
Other.....	1	1	-	1

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-----	-----	-----	-----
100%	100%	100%	100%
=====	=====	=====	=====

HECO and its subsidiaries derived approximately 10%, 10% and 9% of their operating revenues from the sale of electricity to various federal government agencies in 2001, 2000 and 1999, respectively.

Formerly one of HECO's larger customers, the Naval Base at Barbers Point, Oahu, closed in 1999 with redevelopment of the base to occur through 2020. Considering (1) that the base closure will necessitate relocation of essential flight operations and support personnel to another base on Oahu and (2) the Naval Air Station Barbers Point Community Redevelopment Plan, HECO anticipates that the closure is likely to result in an overall increase in demand for electricity over time.

In 1995, HECO and the U.S. General Services Administration (GSA) entered into a Basic Ordering Agreement (GSA-BOA) under which HECO would arrange for the financing and installation of energy conservation projects at federal facilities in Hawaii. Under the GSA-BOA, HECO completed an air conditioning upgrade project and provided design work for solar water heating at a federal office building in downtown Honolulu in 1997 and 1998. In 2001 and 2002, HECO and the U.S. Department of Agriculture's Hawaii Fruit Fly Production Facility signed contracts for HECO to perform an energy and environmental study and detailed design for water reclamation, process automation and energy efficiency upgrades.

In 1996, HECO and the Department of Defense (DOD) entered into an umbrella Basic Ordering Agreement (DOD-BOA). In December 2001, a new DOD-BOA was signed. Under the DOD-BOAs energy audits, feasibility design studies and construction projects have been completed or are in progress. Completed projects include construction of an 1800-ton central chiller plant at the Pearl Harbor Naval Shipyard, construction of a central chiller plant at Schofield Barracks and installation of solar water heating and retrofit lighting at three Navy housing facilities. Projects in progress and scheduled for completion in 2002 include a \$10 million energy conservation project at the Pearl Harbor Naval Shipyard and a \$2 million residential solar water heating project at the Army's Helemano housing.

In 1997, HECO and the U.S. Postal Service (USPS) signed a Shared Energy Savings Contract. Under the Contract, HECO performed feasibility studies at 11 USPS sites on Oahu. An energy efficiency project at the USPS's primary mail processing facility on Oahu is currently in progress.

Executive Order 13123, issued in 1999, mandates that each federal agency develop and implement a program to reduce energy consumption by 35% by the year 2010 to the extent that these measures are cost effective. The 35% reduction will be measured relative to the agency's 1985 energy use. HECO continues to work with various federal agencies to implement demand-side management (DSM) programs that will help them achieve their energy reduction objectives. Neither HEI nor HECO management can predict with certainty the impact of Executive Order 13123 on HEI's or HECO's future financial condition, results of operations or liquidity.

SELECTED CONSOLIDATED ELECTRIC UTILITY OPERATING STATISTICS

-----	-----	-----
2001	2000	1999
-----	-----	-----

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KWH sales (millions)				
Residential.....	2,665.2	2,627.2	2,550.5	2,
Commercial.....	3,016.1	2,923.5	2,781.5	2,
Large light and power.....	3,636.5	3,666.9	3,598.3	3,
Other.....	52.6	54.1	54.7	
	9,370.4	9,271.7	8,985.0	8,
KWH net generated and purchased (millions)				
Net generated.....	6,042.4	6,247.0	6,115.1	5,
Purchased.....	3,861.6	3,572.0	3,391.7	3,
	9,904.0	9,819.0	9,506.8	9,
Losses and system uses (%).....				
	5.2	5.4	5.3	
Energy supply (yearend)				
Generating capability--MW.....	1,673	1,673	1,651	
Firm purchased capability--MW.....	530	532	472	
	2,203	2,205	2,123	
Gross peak demand--MW /1/.....				
	1,614	1,574	1,527	
Btu per net KWH generated.....	10,675	10,818	10,789	1
Average fuel oil cost per Mbtu (cents).....	539.3	538.5	329.7	
Customer accounts (yearend)				
Residential.....	352,132	347,316	342,957	33
Commercial.....	50,974	50,434	49,549	4
Large light and power.....	542	547	550	
Other.....	1,344	1,342	1,299	
	404,992	399,639	394,355	38
Electric revenues (thousands)				
Residential.....	\$ 425,287	\$ 421,129	\$ 356,631	\$ 34
Commercial.....	436,751	422,977	345,808	32
Large light and power.....	409,977	414,067	336,434	33
Other.....	7,349	7,487	6,454	
	\$1,279,364	\$1,265,660	\$1,045,327	\$1,00
Average revenue per KWH sold (cents)				
Residential.....	15.96	16.03	13.98	
Commercial.....	14.48	14.47	12.43	
Large light and power.....	11.27	11.29	9.35	
Other.....	13.98	13.84	11.80	
Average revenue per KWH sold.....	13.65	13.65	11.63	
Residential statistics				
Average annual use per customer account (KWH)	7,620	7,618	7,490	
Average annual revenue per customer account....	\$ 1,216	\$ 1,221	\$ 1,047	\$
Average number of customer accounts.....	349,782	344,882	340,528	33

/1/ Sum of the peak demands on all islands served, noncoincident and nonintegrated.

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GENERATION STATISTICS

The following table contains certain generation statistics as of December 31, 2001 and for the year ended December 31, 2001. The capability available for operation at any given time may be less than the generating capability shown because of capability restrictions or temporary outages for inspection, maintenance, repairs or unforeseen circumstances.

	Island of Oahu- HECO	Island of Maui- MECO	Island of Lanai- MECO	Island of Molokai- MECO

Generating and firm purchased capability (MW) at December 31, 2001 /1/				
Conventional oil-fired steam units.....	1,160.0	37.6	-	-
Diesel.....	-	96.1	10.4	9.9
Combustion turbines (peaking units)....	103.0	-	-	-
Combustion turbines.....	-	42.4	-	2.2
Combined-cycle unit.....	-	58.0	-	-
Firm contract power /2/.....	406.0	16.0	-	-
	-----	-----	-----	-----
	1,669.0	250.1	10.4	12.1
	=====	=====	=====	=====
Gross peak demand (MW).....	1,233.0	191.0	5.2	6.5
Reserve margin.....	35.4%	30.9%	101.9%	87.6%
Annual load factor.....	73.5%	70.7%	65.2%	71.5%
KWH net generated and purchased (millions).....	7,643.3	1,142.7	28.4	39.1
	-----	-----	-----	-----

- /1/ HECO units at normal ratings; MECO and HELCO units at reserve ratings.
- /2/ Nonutility generators (oil-fired except as noted)--HECO: 180 MW (Kalaeloa), 180 MW (AES Hawaii, coal-fired) and 46 MW (refuse-fired); MECO: 16 MW (HC&S, primarily bagasse-fired); HELCO: 28 MW (PGV, geothermal), 22 MW (HCPC, coal-fired) and 58.5 MW (Hamakua Partners).
- /3/ Noncoincident and nonintegrated.

INTEGRATED RESOURCE PLANNING AND REQUIREMENTS FOR ADDITIONAL GENERATING CAPACITY

As a result of a proceeding initiated in 1990, the Public Utilities Commission of the State of Hawaii (PUC) issued an order in 1992 requiring the energy utilities in Hawaii to develop integrated resource plans (IRPs). The goal of integrated resource planning is the identification of demand- and supply-side resources and the integration of these resources for meeting near- and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost. In its 1992 order, the PUC adopted a "framework," which established both the process and the guidelines for developing IRPs. The PUC's framework directs that each plan cover a 20-year planning horizon with a five-year program implementation schedule and states that the planning cycle

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will be repeated every three years. Under the framework, the PUC may approve, reject or require modifications of the utilities' IRPs.

The framework also states that utilities are entitled to recover all appropriate and reasonable integrated resource planning and implementation costs, including the costs of planning and implementing DSM programs. Under appropriate circumstances, the utilities have been allowed in the past to recover lost margins resulting from DSM programs and earn shareholder incentives. The PUC has approved IRP cost recovery provisions for HECO, MECO

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and HELCO. Pursuant to the cost recovery provisions, the electric utilities have been allowed to recover through a surcharge the costs for approved DSM programs (including DSM program lost margins and shareholder incentives), and other incremental IRP costs incurred by the utilities and approved by the PUC, to the extent the costs are not included in their base rates.

In October 2001, HECO and the Consumer Advocate finalized agreements, subject to PUC approval, under which HECO's three commercial and industrial DSM programs and two residential DSM programs would be continued until HECO's next rate case (which HECO commits under the agreements to file within three years using a 2003 or 2004 test year). The agreements for the temporary continuation of HECO's existing DSM programs are in lieu of HECO continuing to seek approval of new five-year DSM programs. Any DSM programs to be in place after HECO's next rate case will be determined as part of the case. Under the agreements, HECO will cap the recovery of lost margins and shareholder incentives if such recovery would cause HECO to exceed its current authorized return on rate base. HECO also agrees it will not pursue the continuation of lost margins recovery through a surcharge mechanism or shareholder incentives in future rate cases. Consistent with the agreements, in October 2001, MECO and HELCO filed requests to continue their four existing DSM programs. In November 2001, the PUC issued two decisions and orders (D&O) that, subject to certain reporting requirements and other conditions, approved the agreements regarding the temporary continuation of HECO's five existing DSM programs until HECO's next rate case. In November 2001 (as amended in December 2001), the PUC also issued two D&Os that, subject to certain reporting requirements and other conditions, approved the agreements regarding the temporary continuation of MECO's and HELCO's DSM programs until one year after rates are established in HECO's next rate case. The D&Os also provided for the continued recovery of lost margins and shareholder incentives by MECO and HELCO until rates are established in HECO's next rate case. The D&Os allow MECO and HELCO to request an extension of time for the recovery of lost margins and shareholder incentives for up to one year after rates are established in HECO's next rate case. All of the electric utilities' existing DSM programs are energy efficiency programs designed to reduce the consumption of electricity.

In August 2000, pursuant to a stipulation filed by the electric utilities and the parties in the IRP cost proceedings, the PUC issued an order allowing the electric utilities to begin recovering the 1995 through 1999 incremental IRP costs (over a 12 month period for HECO and a 24 month period for HELCO and MECO), subject to refund with interest, pending the PUC's final D&O approving recovery of each respective year's incremental IRP costs. The Consumer Advocate has objected to the recovery of certain incremental IRP costs incurred during the 1995-1998 period, and the electric utilities have filed responses. Schedules have been established for the filing of positions with respect to the 1999, 2000 and 2001 IRP costs. On September 1, 2000, the electric utilities began recovering 1995 through 1999 incremental IRP costs through a surcharge on customer bills. HECO completed the recovery of its 1995 through 1999 incremental IRP costs in August 2001. MECO and HELCO completed the recovery of their 1995-1996 incremental IRP costs in August 2001. MECO and HELCO are scheduled to

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complete the recovery of their 1997-1999 incremental IRP costs by August 2002.

The electric utilities began recovering their 2000 incremental IRP costs, subject to refund with interest pending a final D&O, in November 2001. HECO completed the recovery of its 2000 incremental IRP costs in November 2001. MECO and HELCO are scheduled to complete the recovery of their 2000 incremental IRP costs by August 2002. As of December 31, 2001, the amount of revenues the electric utilities recorded for IRP cost recoveries, subject to refund with interest, amounted to \$11.9 million. HECO and MECO expect to begin recovering their incremental 2001 IRP costs, subject to refund with interest pending a final D&O, following the filing of actual 2001 costs (which is expected to occur in late March or early April 2002).

In early 2001, the PUC issued its final D&O in the HELCO 2000 test year rate case, in which the PUC concluded that it is appropriate for HELCO to recover its IRP cost through base rates (and included an estimated amount for such costs in HELCO's test year revenue requirements) and to discontinue recovery of incremental IRP costs through the separate surcharge. HELCO will continue to recover its DSM program costs, lost margins and

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shareholder incentives approved by the PUC in a separate surcharge and also expects to be permitted to recover its incremental IRP costs incurred in 2000, which were incurred prior to the final D&O in its rate case through its surcharge.

The utilities have characterized their proposed IRPs as planning strategies, rather than fixed courses of action, and the resources ultimately added to their systems may differ from those included in their 20-year plans. Under the IRP framework, the utilities are required to submit annual evaluations of their plans (including a revised five-year program implementation schedule) and to submit new plans on a three-year cycle, subject to changes approved by the PUC. Prior to proceeding with the DSM programs, separate PUC approval proceedings must be completed, in which the PUC further reviews the details of the proposed programs and the utilities' proposals for the recovery of DSM program expenditures, lost margins and shareholder incentives.

HECO's IRP. HECO filed its second IRP with the PUC in January 1998 and updated the status of its DSM and Supply Side Action Plans in July 1999. In January 2001, the parties to the proceeding filed a stipulation for PUC approval to expedite the proceeding and the PUC approved the stipulation, closed the docket and ordered HECO to submit its IRP annual evaluation report and program implementation schedule by October 2002 and its next IRP by October 2005, as stipulated. The PUC also ordered HECO to immediately notify it in writing if HECO requires additional generation prior to the 2009 time frame.

On the supply side, HECO's second IRP focused on the planning for the next generating unit addition in the 2009 time frame--a 107 MW simple-cycle diesel-fired combustion turbine, which would be part of a 318 MW diesel-fired 2-on-1 combined-cycle unit. Phases 2 and 3 of the combined-cycle unit would be installed in 2013 and 2016, respectively. In addition, pursuant to HECO's generation asset management program, all existing generating units are currently planned to be operated (future environmental considerations permitting) beyond the 20-year IRP planning period (1998-2017).

On the demand side, in November 2001, the PUC issued two D&Os allowing HECO to temporarily continue its five energy efficiency DSM programs until its next rate case. The five energy efficiency DSM programs are designed to reduce the rate of increase in Oahu's energy use, defer construction of new generating units, minimize the state's use of oil, and achieve savings for utility customers who

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participate in the programs. The energy efficiency DSM programs include incentives for customers to install efficient lighting, refrigeration, water-heating and air-conditioning equipment and industrial motors. HECO's second IRP includes two load management programs (i.e., a Commercial and Industrial Capacity Buy-Back Program and a Residential Direct Load Control Program). In July 2000, the PUC approved HECO's request to withdraw its Residential Direct Load Control Program application. In November 2001, HECO filed a withdrawal of application for its Commercial and Industrial Capacity Buyback Program, and a PUC decision is pending. HECO plans to evaluate load management DSM programs in its next rate case proceeding and in its 2005 IRP.

MECO's IRP. MECO filed its second IRP with the PUC in May 2000. A stipulated prehearing order was approved by the PUC in October 2000. The parties filed individual Statements of Position in May 2001. MECO plans to work with the parties to the proceeding and attempt to reach a stipulation for PUC approval to expedite the proceeding, close the docket, and establish a schedule for MECO's next IRP.

MECO's second IRP identified changes in key forecasts and assumptions since the development of MECO's initial IRP. On the supply side, MECO's second IRP focused on the planning for the installation of approximately 150 MW of additional generation through the year 2020 on the island of Maui, including 38 MW of generation at its Maalaea power plant site in increments from 2000-2005, 10 MW from the acquisition of a wind resource in 2003 and 100 MW at its new Waena site in increments from 2007-2018, beginning with a 20 MW combustion turbine in 2007. Approximately 4 MW of additional generation through the year 2020 is planned for each of the islands of Lanai and Molokai. MECO completed the installation of the second 20 MW increment at Maalaea in September 2000, and the final increment of 18 MW is expected to be installed in 2005 (assuming receipt of the necessary air permit, for which an application was submitted in December 2001, in or before 2003).

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On the demand side, in November 2001 the PUC issued a D&O allowing MECO to continue temporarily its four existing energy efficiency DSM programs, which are similar in design to HECO's programs. MECO's IRP included plans for a new energy efficiency DSM program and two new load management DSM programs. MECO does not plan to proceed with a new energy efficiency DSM program at this time, and MECO is in the process of evaluating the load management DSM programs, and will determine at a later date the need for and timing of filing load management DSM program applications.

HELCO's IRP. In September 1998, HELCO filed with the PUC its second IRP, which was updated in March 1999 and revised in June 1999. A schedule for the proceeding was approved by the PUC, and the parties to the proceeding completed two rounds of discovery. HELCO plans to work with the parties to the proceeding and, similar to HECO's IRP, attempt to reach a stipulation for PUC approval to expedite the proceeding, close the docket, and establish a schedule for HELCO's next IRP.

The second IRP identified changes in key forecasts and assumptions since the development of HELCO's initial IRP. On the supply side, HELCO's second IRP focused on the planning for generating unit additions after near-term additions. The near-term additions proposed in HELCO's second IRP included installing two 20 MW combustion turbines (CTs) at its Keahole power plant site (which additions have been delayed) and proceeding with a power purchase agreement (PPA) with Hamakua Energy Partners, L.P. (Hamakua Partners, formerly Encogen Hawaii, L.P.) for a 60 MW (net) naphtha-fired diesel-fired dual-train combined-cycle (DTCC) (which agreement has been completed). The first CT of the Hamakua Partners facility was installed in August 2000, and the second CT and heat recovery steam

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turbine generator (ST) were installed in December 2000. (See "HELCO power situation" below.) HELCO's second IRP also included completing a 56 MW (net) DTCC unit at Keahole in 2006 (by adding an 18 MW ST to the two CTs), retiring a number of its older, smaller units after new generation has been added and adding another 60.7 MW diesel-fired DTCC unit at a new West Hawaii site in phases in the 2009-2016 time frame.

On the demand side, in December 2001 the PUC issued a D&O allowing HELCO to continue temporarily its four existing energy efficiency DSM programs, which are similar in design to HECO's programs.

NEW CAPITAL PROJECTS

The capital projects of the electric utilities may be subject to various approval and permitting processes, including obtaining PUC approval of the project, air permits from the Department of Health of the State of Hawaii (DOH) and/or the U.S. Environmental Protection Agency (EPA) and land use permits from the Hawaii Board of Land and Natural Resources (BLNR). Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits could result in project delays, increased project costs and/or project abandonments. Extensive project delays and significantly increased project costs could result in a portion of the project costs being excluded from rates. If a project is abandoned, the project costs are generally written-off to expense, unless the PUC determines that all or part of the costs may be deferred for later recovery in rates.

HELCO POWER SITUATION

Background. In 1991, HELCO began planning to meet increased electric generation demand forecasted for 1994. HELCO's plans were to install at its Keahole power plant two 20 MW combustion turbines (CT-4 and CT-5), followed by an 18 MW heat recovery steam turbine generator (ST-7), at which time these units would be converted to a 56 MW (net) DTCC unit. In January 1994, the PUC approved expenditures for CT-4, which HELCO had planned to install in late 1994.

The timing of the installation of HELCO's phased DTCC unit at the Keahole power plant site has been revised on several occasions due to delays, described below, in (a) obtaining approval from the BLNR of a Conservation District Use Permit (CDUP) amendment and (b) obtaining from the DOH and the EPA a Prevention of Significant Deterioration/Covered Source permit (PSD permit) for the Keahole power plant site. The delays are also attributable to lawsuits, claims and petitions filed by independent power producers (IPPs) and other parties challenging these permits and objecting to the expansion, alleging among other things that (1) operation of the expanded Keahole site

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would not comply with land use regulations (including noise standards) and HELCO's land patent; (2) HELCO cannot operate the plant within current air quality standards; (3) HELCO could alternatively purchase power from IPPs to meet increased electric generation demand; and (4) HELCO's three-year construction deadline expired in April 1999 and HELCO's request for an extension must be heard in a contested case hearing.

CDUP amendment. The Third Circuit Court of the State of Hawaii (the Circuit

Court) ruled in 1997 that because the BLNR had failed to render a valid decision on HELCO's application to amend its land use permit before the statutory deadline in April 1996, HELCO was entitled to use its Keahole site for the expansion project (HELCO's "default entitlement"). Final judgments of the

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Circuit Court related to this ruling are on appeal to the Hawaii Supreme Court, which in 1998 denied motions to stay the Circuit Court's final judgment pending resolution of the appeals.

The Circuit Court's final judgment provided that HELCO must comply with the conditions in its application (part 2 of the final judgment), and that the standard conditions in Hawaii Administrative Rules (HAR) Section 13-2-21, the rules of the Department of Land and Natural Resources of the State of Hawaii (DLNR), apply to the extent the standard conditions are not incompatible with the default provision of HRS Section 183-41 (part 3 of the final judgment). In August 1999, certain plaintiffs filed a joint motion to enforce parts 2 and 3 of the final judgment (relating to applicable conditions) and to stay part 1 of the final judgment (the default entitlement) until such time as the applicable conditions were identified and it was determined whether HELCO had met or could meet the applicable conditions. At a September 1999 hearing, the Circuit Court ruled that the BLNR must issue a written decision by November 30, 1999 on certain issues raised in the administrative petition filed by the Keahole Defense Coalition (KDC) in August 1998, including specific determinations of which conditions are not inconsistent with HELCO's ability to proceed under the default entitlement. At a BLNR meeting on October 22, 1999, the BLNR determined that all 15 standard land use conditions in HAR Section 13-2-21(a) applied to HELCO's default entitlement and that the conditions in HELCO's pre-existing CDUP and amendments continue to apply with respect to those existing permits. The BLNR specifically did not address at that time the question of HELCO's compliance with each of those conditions. The BLNR issued a written decision on November 19, 1999.

Certain plaintiffs filed two motions in the Circuit Court attempting to implement their interpretation of the BLNR's ruling. On November 2, 1999, those plaintiffs filed a second joint motion to enforce part 2 and part 3 of the final judgment. In that motion, they alleged that the Keahole project cannot meet the conditions relating to compatibility with the surrounding area and improvement of the existing physical and environmental aspects of the subject area. Furthermore, they claimed that the project would be a prohibited use that cannot be placed in the conservation district, relying on zoning rules implemented by the BLNR in 1994 in furtherance of Act 270, which prohibited fossil fuel fired generating units in a conservation district. However, the Circuit Court had earlier ruled that Act 270 does not apply to HELCO's application, which was filed prior to the effective date of Act 270. Plaintiffs asked that HELCO be enjoined from placing further structures and improvements on the Keahole site and be ordered to remove all existing structures and improvements.

In November 1999, the same plaintiffs filed a third joint motion asking that the Circuit Court void HELCO's default entitlement on the basis that HELCO forfeited its default entitlement by allegedly electing, through HELCO's construction of the pre-PSD portions of the project, to build a project different from that described in its application. They also requested that HELCO be enjoined from continuing construction activity at the site and ordered to restore the Keahole site to its pre-August 1992 condition. These two motions were denied by the Circuit Court in December 1999 and the denials were reflected in an Order issued in February 2000. In June 2000, the same plaintiffs filed a fifth joint motion to enforce judgment, generally restating the claims in the second and fourth motions. At a hearing in August 2000, the main issue was how the three-year construction period in the standard land use conditions would be applied to the Keahole project, and there was discussion as to whether the BLNR's August 16, 2000 order (see "BLNR petitions" herein) had addressed that issue and the related issue of whether HELCO was in compliance with that condition. The Circuit Court took the matter under advisement, but at a subsequent hearing on September 18, 2000 the Circuit Court ruled that, as a matter of law, absent any legal or equitable extension

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authorized by the BLNR pursuant to legal authority, the three-year construction deadline expired on April 26, 1999. The Circuit Court also denied KDC's and the individual plaintiff's request for an injunction barring further construction. In response to this ruling, HELCO filed a request for extension of the construction deadline with the BLNR on October 20, 2000.

On October 27, 2000, KDC and another plaintiff filed a motion requesting the Circuit Court to impose a stay on any further activities by HELCO pursuant to HELCO's default entitlement until such time as the Hawaii Supreme Court acts on the pending appeals. At the hearing on December 11, 2000, the Circuit Court granted the motion in part, ordering a stay on the project until such time as an extension of the construction deadline is granted by the BLNR, at which time the Circuit Court would consider lifting the stay.

On January 12, 2001, HELCO filed a motion for supplemental final judgment, with the intent of reducing the Circuit Court's September 18, 2000 ruling to a final judgment that would be appealable. A hearing was held on February 5, 2001, at which time the Circuit Court denied the motion because all matters relating to the issue had not been resolved. The Circuit Court clarified that it would retain jurisdiction over any appeals from the BLNR's decision regarding HELCO's request for an extension of the construction deadline, and that HELCO would be able to appeal the September 18, 2000 ruling after those appeals were resolved.

In March 2001, an individual plaintiff filed a motion for post-judgment relief with the Circuit Court. Citing testimony in support of the project given by a former BLNR member at the March 2001 public hearing on HELCO's air permit, the individual alleged that the testimony established grounds to conclude that the former BLNR member was unduly influenced by evidence of the need for the project that the BLNR had improperly admitted during the contested case hearing in 1995-1996 and that the BLNR member voted to approve HELCO's application on that basis. In July 2001, the Circuit Court issued an order and directed the individual to file with the Supreme Court a motion to remand the default entitlement judgment "in order that [the Circuit Court] may make a further determination." The individual filed the motion for remand in July 2001. The Supreme Court denied the motion in December 2001.

For other developments regarding these issues, particularly HELCO's request for extension of the construction deadline, see "BLNR petitions" herein.

PSD permit. In 1997, the EPA approved a revised draft permit and the DOH issued -----

a final PSD permit for HELCO's DTCC unit. Nine appeals of the issuance of the permit were filed with the EPA's Environmental Appeals Board (EAB) in December 1997. In November 1998, the EAB denied the appeals on most of the grounds stated, but remanded the proceedings and directed the DOH to reopen the permit for limited purposes. Following another public hearing in March 2001, a final air permit was reissued by DOH in July 2001. Six appeals were filed by petitioners with the EAB, but those appeals were denied and the final air permit became effective on November 27, 2001. On December 4, 2001, the petitioners filed a Motion for Reconsideration with the EAB, but that motion was denied on January 29, 2002.

KDC declaratory judgment action. In February 1997, KDC and three individuals -----

filed a lawsuit in the Circuit Court against HELCO, the director of the DOH, and the BLNR, seeking declaratory rulings with regard to five counts alleging that, with regard to the Keahole project, one or more of the defendants had violated, or could not allow the plant to operate without violating, the State Clean Air Act, the State Noise Pollution Act, conditions of HELCO's conditional use permit, covenants of HELCO's land patent and Hawaii administrative rules

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regarding standard conditions applicable to land permits. The Complaint was amended in March 1998 to add a sixth count, claiming that an amendment to a provision of the land patent (relating to the conditions under which the State could repurchase the land) is void and that the original provision should be reinstated.

The Circuit Court issued various rulings in 1999. Proceedings regarding issues not definitively resolved through those rulings or otherwise were eventually suspended pending any further administrative action by the DOH and BLNR. Of the issues not definitively resolved, Count II, relating to the State Noise Pollution Act, may adversely affect HELCO's ability to construct and operate CT-4 and CT-5.

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In February 1999, the DOH notified the Circuit Court and the parties of a change in its interpretation of the noise rules it promulgated under the State Noise Pollution Act. The change in interpretation would apply different noise standards to the Keahole plant (which standards the DOH claims to be a 55 dBA daytime and 45 dBA nighttime standard) rather than the previously-applied noise standard (a 70 dBA standard).

In response to the new position announced by the DOH, in February 1999 HELCO filed a declaratory judgment action against the DOH, alleging that the noise rules were invalid on constitutional grounds. In March 1999, the Circuit Court granted KDC's motion to dismiss HELCO's complaint and Plaintiffs' motion for reconsideration on Count II and ruled that the applicable noise standard was 55 dBA daytime and 45 dBA nighttime. The Circuit Court specifically reserved ruling on HELCO's claims or potential claims based on estoppel and on the constitutionality of the noise rules "as applied" to HELCO's Keahole plant. In March 1999, the Circuit Court also granted in part and denied in part HELCO's motion for leave to file a cross-claim and a third-party complaint, stating that HELCO may file such motions on the "as applied" and "estoppel" claims once the DOH actually applies the 55/45 dBA noise standard to the Keahole plant.

HELCO filed a notice of appeal on its unconstitutionality claim in August 1999 and KDC filed a notice of cross-appeal in September 1999. All briefs were filed with the Hawaii Supreme Court by April 2000. The Supreme Court has not yet acted on the appeal.

The DOH has not issued any formal enforcement action applying the 55/45 dBA standard to the Keahole plant. Meanwhile, while not waiving possible claims or defenses that it might have against the DOH, HELCO has installed noise mitigation measures on the existing diesel units and CT-2 at Keahole and is exploring possible noise mitigation measures, which can be implemented if necessary, for CT-4 and CT-5. Should the DOH find HELCO in violation of the noise rules under Count II, the BLNR would be called to act on the impact of such violation, if any, on the CDUP (Count III) and the land patent (Count IV).

At the request of KDC and others, a status conference was held on December 18, 2000. The judge urged all parties to diligently pursue action on any open issues in the appropriate court or agency having jurisdiction. If and when the DOH and BLNR/DLNR act on all issues relating to Counts II through IV, and depending upon their rulings, the KDC lawsuit may be moot.

BLNR petitions. In August 1998, KDC filed with the BLNR a Petition for

Declaratory Ruling, alleging that the standard conditions in HAR Section 13-2-21 apply to HELCO's default entitlement, that the letter issued to HELCO by the DLNR in January 1998 was erroneous because it failed to incorporate all conditions applicable to the existing permits, and that three separate Notices

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of Violation (NOVs) issued by DOH to HELCO in 1992 and 1998 for violation of clean air rules constitute violations under the existing permits and render such permits null and void. The petition requested that the BLNR enjoin HELCO from using the Keahole property under the default entitlement. At a meeting in October 1999, BLNR determined that none of the standard land use conditions were inconsistent with HELCO's ability to proceed under its default entitlement and, therefore, each of the standard land use conditions applied to the expansion. The BLNR did not, at that time, determine whether HELCO had complied with the applicable conditions. The BLNR also determined that specific conditions imposed by the BLNR on HELCO's original CDUP and amendments thereto continued to apply to the existing plant but not to the expansion under the default entitlement. An order to this effect was issued in November 1999.

In February 2000, KDC and an individual plaintiff filed with the BLNR a Request to Nullify "Default Entitlement," alleging that HELCO's default entitlement was void because (1) HELCO cannot satisfy all conditions and laws, (2) HELCO forfeited its default entitlement because it redesigned certain facilities it has already constructed to support existing CT-2 rather than CT-4 and CT-5, and (3) the BLNR should exercise its right-to-repurchase clause in HELCO's land patent. In February 2000, the BLNR denied KDC's request. A written decision on the February 2000 rulings was issued in August 2000.

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At a hearing in September 2000, the Circuit Court ruled that, as a matter of law, absent any legal or equitable extension authorized by the BLNR pursuant to legal authority, the three-year construction deadline expired on April 26, 1999. HELCO filed a request for extension with the BLNR on October 20, 2000. By staff report dated January 20, 2001, the DLNR recommended that an extension be granted through January 26, 2004 and that the matter be handled administratively by the BLNR and not through a contested case hearing, subject to a condition that HELCO apply to the Land Use Commission within one year for a reclassification of the land. However, in January 2001, the BLNR decided that the extension issue should be decided through a contested case hearing, which was held in September 2001. In a document dated November 5, 2001, the hearings officer recommended that the BLNR approve HELCO's request for extension of the construction deadline. The recommendation did not state a time period for the extension, but concluded that an extension is warranted, "under such conditions as the Board may deem advisable." In a document dated November 7, 2001, the hearings officer issued rulings on the opponents' proposed findings of fact, conclusions of law, and motions. Each of the parties filed exceptions to the recommendation and rulings in November 2001. HELCO's exceptions requested that the November 7, 2001 rulings not be adopted, as many of them are arguably inconsistent with the November 5, 2001 recommendation. Oral arguments before the BLNR were conducted in January 2002. The BLNR has not yet issued a decision in this matter.

IPP Complaints filed with the PUC and other IPP information. Three IPPs-

Kawaihae Cogeneration Partners (KCP), Enserch Development Corporation (Enserch) and Hilo Coast Power Company (HCPC)-filed separate complaints against HELCO with the PUC in 1993, 1994, and 1997, respectively, alleging that they are entitled to PPAs to provide HELCO with additional capacity. KCP and Enserch each claimed that their proposed facilities would be a substitute for HELCO's planned 56 MW (net) DTCC unit at Keahole.

In 1994 and 1995, the PUC allowed HELCO to continue to pursue construction of and commit expenditures for the combustion turbines (CT-4 and CT-5) and the heat recovery steam turbine generator (ST-7), but stated in its 1995 order that "no part of the project may be included in HELCO's rate base unless and until the project is in fact installed, and is used and useful for utility purposes." The PUC also ordered HELCO to continue negotiating with the IPPs and held that the

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facility to be built (i.e., either HELCO's or one of the IPP's) should be the one that can be most expeditiously put into service at "allowable cost."

The Enserch and HCPC complaints have been resolved by HELCO's entry into two PPAs, a 30-year contract with Enserch's project affiliate (now known as Hamakua Partners) and a five-year contract (subject to extension for one-year periods unless terminated prior to an extension period) with HCPC, which contracts were approved by the PUC and which were necessary to ensure reliable service to customers on the island of Hawaii. In the opinion of management, these PPAs do not supplant the need for CT-4 and CT-5. The PPA with HCPC can be terminated by HELCO before the end of the five-year period, for a fee.

On October 29, 1999, the Circuit Court ruled that the lease between Waimana and the Department of Hawaiian Home Lands for the site on which KCP's plant was proposed to be built was invalid. In addition, KCP's air permit apparently expired on January 31, 2000. In light of these and other issues, management believes that KCP's pending proposal for a PPA is not viable and, therefore, will not impact the installation of CT-4 and CT-5.

Pre-PSD work and notices of violation. The costs for the CT-4 project (and, to a

lesser extent, the CT-5 project) included the costs of certain facilities that benefit the existing Keahole power plant, but were originally scheduled to be installed at the same time as the new generating units. HELCO proceeded with the construction of the facilities that could be constructed prior to receipt of the PSD permits for CT-4 and CT-5 (pre-PSD facilities) after receipt of the CDUP amendment (as a result of the Circuit Court orders). (See "CDUP amendment" herein.)

Pre-PSD facilities. The pre-PSD facilities include a

shop/warehouse/administration building (completed in 1998), fire protection system upgrades (completed in September 1999), and a new water treatment system (completed in December 1999 and supplying the demineralized water needs of the existing CT at Keahole). (See Note 11 to HECO's Consolidated Financial Statements.)

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EPA NOV. In September 1998, the EPA issued an NOV to HELCO stating that

HELCO violated the Hawaii State Implementation Plan by commencing construction activities at the Keahole generating station without first obtaining a final air permit. By law, 30 days after the NOV, the EPA may issue an order requiring compliance with applicable laws, assessing penalties and/or commencing a civil action seeking an injunction; however, no order has yet been issued. In 1999, HELCO put the EPA on notice that certain construction activities not affected by the NOV would continue, and received approval to proceed with certain construction activities. With the issuance of the final air permit effective November 27, 2001, the NOV no longer affects the timing or extent of future construction activities at Keahole.

Contingency planning. In June 1995, HELCO filed with the PUC its generation

resource contingency plan detailing alternatives and mitigation measures to address the delays that have occurred in adding new generation. Actions under the plan (such as deferring the retirements of older, smaller units) have helped HELCO maintain its reserve margin and reduce the risk of near-term capacity shortages. In January 1996, the PUC opened a proceeding to evaluate HELCO's contingency resource plan and HELCO's efforts to insure system reliability.

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HELCO has filed reports with the PUC from time to time updating the contingency plan and the status of implementing the plan. HELCO filed its final update in April 2001. The PUC then issued an order finding that updates were no longer necessary, and closing the docket.

The first increments of new generation to be available to HELCO were added in August and December 2000 (Hamakua Partners' Phase 1 and Phase 2, respectively, of its planned 60 MW DTCC facility). Despite delays in adding new generation, HELCO's mitigation measures (including the extension of power purchases from HCPC) should provide HELCO with sufficient generation reserve margin to cover its projected monthly system peaks with units on scheduled maintenance until additional new generation is added in 2002 (CT-4 and CT-5), and should provide HELCO with sufficient reserve margin in the event of further delays in adding new generation. As new generation is added, HELCO will retire certain older, smaller generating units.

Management's evaluation; costs incurred. See Note 11 to HECO's Consolidated

Financial Statements.

NONUTILITY GENERATION

The Company has supported state and federal energy policies which encourage the development of alternate energy sources that reduce the use of fuel oil. The Company's alternate energy sources range from wind, geothermal and hydroelectric power, to energy produced by the burning of bagasse (sugarcane waste) and municipal waste, landfill methane gas and coal.

HECO PPAs. HECO currently has three major PPAs. In March 1988, HECO entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based cogeneration subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended in August 1989, provides that, for a period of 30 years beginning September 1992, HECO will purchase 180 MW of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant, which became operational in September 1992, utilizes a "clean coal" technology. The facility is designed to sell sufficient steam to be a "Qualifying Facility" (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA).

In October 1988, HECO entered into an agreement with Kalaeloa Partners, L.P. (Kalaeloa), a limited partnership whose sole general partner was an indirect, wholly-owned subsidiary of ASEA Brown Boveri, Inc. (ABB), which has guaranteed certain of Kalaeloa's obligations and, through affiliates, contracted to design, build, operate and maintain the facility. The agreement with Kalaeloa, as amended, provides that HECO will purchase 180 MW of firm capacity for a period of 25 years beginning in May 1991. The Kalaeloa facility, which was completed in the second quarter of 1991, is a combined-cycle operation, consisting of two oil-fired combustion turbines burning low sulfur fuel oil (LSFO) and a steam turbine that utilizes waste heat from the combustion turbines. The facility is designed to sell sufficient steam to be a QF. As of February 28, 1997, the ownership of Kalaeloa was restructured so that 1% was owned by the ABB subsidiary as the general partner and 99% was owned by Kalaeloa Investment Partners

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(KIP) as the limited partner. KIP is a limited partnership comprised of PSEG Hawaiian Management, Inc. and PSEG Hawaiian Investment, Inc. (nonregulated affiliates of Public Service Enterprise Group Incorporated) and Harbert Power Corporation. Subsequently, HECO consented to, and the PUC approved of, the transfer of the general partner partnership interest from the ABB subsidiary to an entity affiliated with the owners of KIP.

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HECO also entered into a PPA in March 1986 and a firm capacity amendment in April 1991 with the City and County of Honolulu with respect to a 64 MW refuse-fired plant (H-POWER). The H-POWER facility began to provide firm energy in 1990 and currently supplies HECO with 46 MW of firm capacity. The firm capacity amendment provides that HECO will purchase firm capacity until mid-2015.

HECO purchases energy on an as-available basis from three nonutility generators. The largest are diesel-fired qualifying cogeneration facilities at the two oil refineries (10 MW and 18 MW) on Oahu. The other nonutility generator is an approximately 3 MW combustion turbine fired by methane gas from a landfill.

The PUC has approved and allowed rate recovery for the firm capacity and purchased energy costs related to HECO's three major PPAs that provide a total of 406 MW of firm capacity, representing 24% of HECO's total generating and firm purchased capacity on the island of Oahu as of December 31, 2001. The PUC also has approved and allowed rate recovery for the purchased energy costs related to HECO's as-available energy PPAs.

MECO and HELCO power purchase agreements. As of December 31, 2001, MECO and HELCO had PPAs for 16 MW and 112 MW of currently available firm capacity, respectively.

MECO has a PPA with Hawaiian Commercial & Sugar Company (HC&S) for 16 MW of firm capacity. The HC&S generating units primarily burn bagasse (sugar cane waste) along with secondary fuels of oil or coal. In March 1998, an HC&S unit failed and HC&S lost 10 MW of generating capacity. HC&S replaced the unit and put it into operation in the second quarter of 2000. HC&S, however, has since struggled to meet its contractual obligations to MECO in 2000 and 2001 due to operational constraints that led to several claims of force majeure by HC&S. The constraints have been primarily due to an extended drought condition on Maui that impacts HC&S' irrigation pumping load for its sugar cane operations. There has also been a higher than normal reduction in energy produced due to other equipment outages. With the completion of some maintenance activities and the easing of drought conditions, HC&S has resumed more normal energy sales to MECO. On January 23, 2001, MECO rescinded a December 27, 1999 PPA termination notice that it had sent to HC&S and agreed with HC&S that neither party would issue to the other a notice of termination prior to the end of 2002. Given the two-year notice required for termination, the PPA will remain in effect at least through December 31, 2004, and from year-to-year thereafter, subject to termination after such date on not less than two years' prior notice. In the intervening time, negotiations for a new PPA are expected.

HELCO has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility expiring on December 31, 2027. In mid-1998, PGV's output began to decline from 30 MW to approximately 24 MW. By late 1999, PGV completed the addition of a new geothermal resource well and restoration of two reinjection wells. In December 1999, PGV began delivering 27 MW to 28 MW of firm capacity. In January 2000, PGV began delivering 30 MW of firm capacity using a temporary well connection. PGV made the installation permanent, and returned to providing 30 MW of firm capacity in February 2000. PGV's output has been in decline since the middle of 2000. The loss of generation has been attributed to poor quality steam (i.e., high liquid water content and debris) emanating from its source wells. PGV is considering further equipment upgrades and additional wells in order to recover 30 MW output. PGV expects this work to be completed in 2002.

In December 1994, at a time when HELCO's contract with HCPC was set for delivery of 18 MW, HCPC filed a Chapter 11 bankruptcy petition. In July 1995, the bankruptcy court approved an amended and restated PPA with HCPC for 22 MW of firm capacity and the dismissal of HCPC from bankruptcy. That agreement

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terminated on December 31, 1999. On October 4, 1999, HELCO entered into a PPA with HCPC effective January 1, 2000 through December 31, 2004, subject to early termination by HELCO after two years, whereby HELCO continues to

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purchase 22 MW of firm capacity from HCPC's coal-fired facility. The PPA extends for one-year periods thereafter, unless terminated prior to an extension period. The PPA was amended on November 5, 1999. The PUC approved the PPA, as amended, on December 7, 1999. See the "HELCO Power Situation" section above.

In October 1997, HELCO entered into an agreement with Encogen, a limited partnership whose general partners were wholly-owned special-purpose subsidiaries of Enserch and Jones Capital Corporation. Enserch Corporation and J.A. Jones, Inc., the parent companies of Enserch and Jones Capital Corporation, respectively, guaranteed certain of Encogen's obligations. The agreement provides that HELCO will purchase up to 60 MW (net) of firm capacity for a period of 30 years. The DTCC facility, which primarily burns naphtha, consists of two oil-fired combustion turbines and a steam turbine that utilizes waste heat from the combustion turbines. The facility is designed to sell sufficient steam to be a QF. The PUC approved the agreement on July 14, 1999. On November 8, 1999, HELCO entered into a PPA Novation with Encogen and Hamakua Partners, which recognizes the transfer of the obligations of Encogen under the PPA to Hamakua Partners. Hamakua Partners was formed as result of the sale of the general partner and limited partner partnership interests of Enserch to entities affiliated with TECO Energy Inc., which is a Florida-based energy company and parent company of Tampa Electric Company, a regulated electric utility. TECO Energy Inc. has replaced the guarantee of Enserch Corporation of certain of Hamakua Partners' obligations. On August 12, 2000, Hamakua Partners began providing HELCO with firm capacity from the first phase of a two-phase construction completion schedule. On December 31, 2000, Hamakua Partners began providing firm capacity from the entire facility, following completion of the second phase of construction. In June 2001, Hamakua Partners demonstrated 60 MW output from the facility. Since then, the output has deteriorated due to technical problems in the steam turbine, and as of January 2002, output from Hamakua Partners is limited to 56 MW. Hamakua Partners expects to resolve the technical difficulties with the steam turbine and return to 60 MW output by June 2002. See the "HELCO Power Situation" section above.

HELCO purchases energy on an as-available basis from a number of nonutility generators. The largest include an 11 MW run-of-the-river hydroelectric facility and a 7 MW wind facility. Apollo Energy Corporation (Apollo), the owner of the wind facility, has an existing contract to provide HELCO with as-available windpower through June 29, 2002 (and extending thereafter until terminated by HELCO or Apollo). Apollo filed a petition for hearing with the PUC on April 28, 2000, alleging that it had unsuccessfully attempted to negotiate a new power purchase agreement with HELCO. Apollo had offered to repower its existing 7 MW facility by the end of 2000 and to install additional wind turbines, up to a total allowed capacity of 15 MW, by the end of 2001. The parties agreed to limit to four issues the matters being presented to the PUC for guidance: whether Apollo is entitled to capacity payments; whether Apollo is entitled to a minimum purchase rate; whether certain performance standards should apply; and whether HELCO's proposed dispute resolution provision should apply. A hearing on these issues was held on October 3-5, 2000. On May 30, 2001, the PUC issued a D&O in which it ordered HELCO and Apollo to continue to negotiate a PPA, consistent with the terms of the D&O, and to submit by August 13, 2001 either a finalized PPA or status reports informing the PUC of matters preventing finalization of a PPA. HELCO and Apollo were unable to agree to a PPA by August 13, 2001, and each submitted status reports. Apollo now wants to be allowed to supply up to 20 MW of power. The parties have continued to negotiate following August 13, 2001, but

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have not reached agreement, and have submitted letters to the PUC updating the status of negotiations.

On August 17, 1999, HELCO entered into a PPA with Kahua Power Partners LLC (KPP) for the purchase of as-available energy from KPP's proposed 10 MW windfarm. The PPA was amended by Amendment No. 1 dated April 4, 2000. The PUC approved the PPA, as amended, on June 1, 2001. KPP has not begun construction of its windfarm.

On January 8, 2001, HELCO entered into a PPA with Hawi Renewable Development, Inc. (HRD) for the purchase of approximately 3 MW of as-available energy from HRD's proposed 5 MW windfarm. An amendment to the PPA is expected to be completed in the first half 2002, after which the PPA, as amended, will be submitted to the PUC for

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approval. HELCO may purchase energy from HRD by the end of 2002, assuming receipt of a timely PUC approval and completion of construction as scheduled. The PUC has approved and allowed rate recovery for the firm capacity and purchased energy costs for MECO's and HELCO's approved firm capacity and as-available energy PPAs.

FUEL OIL USAGE AND SUPPLY

The rate schedules of the Company's electric utility subsidiaries include energy cost adjustment (ECA) clauses under which electric rates (and consequently the revenues of the electric utility subsidiaries generally) are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. See discussion below under "Rates," and "Regulation of electric utility rates" and "Electric utility revenues" in HECO's MD&A.

HECO's steam power plants burn LSFO. HECO's combustion turbine peaking units burn No. 2 diesel fuel (diesel). MECO's and HELCO's steam power plants burn medium sulfur fuel oil (MSFO) and their combustion turbine and diesel engine generating units burn diesel. The LSFO supplied to HECO is primarily derived from Indonesian and other Far East crude oils processed in Hawaii refineries. The MSFO supplied to MECO and HELCO is derived from U.S. domestic crude oil processed in Hawaii refineries.

In December 1997, HECO executed contracts for the purchase of LSFO and the use of certain fuel distribution facilities with Chevron Products Company (Chevron) and Tesoro Hawaii Corp. dba BHP Petroleum Americas Refining Inc. (Tesoro). These fuel supply and facilities operations contracts have a term of seven years commencing January 1, 1998. The PUC approved the contracts and permits the inclusion of costs incurred under these contracts in HECO's ECA clauses. HECO pays market-related prices for fuel supplies purchased under these agreements.

HECO, MECO and HELCO executed joint fuel supply contracts with Chevron and Tesoro for the purchase of diesel and MSFO supplies and for the use of certain petroleum distribution facilities for a period of seven years commencing January 1, 1998. The PUC approved these contracts and permits the electric utilities to include fuel costs incurred under these contracts in their respective ECA clauses. The electric utilities pay market-related prices for diesel and MSFO supplied under these agreements.

The diesel supplies acquired by the Lanai Division of MECO are purchased under a contract with a local petroleum wholesaler, Lanai Oil Co., Inc. On March 1, 2000, the PUC approved an amended contract with a term extending through December 31, 2001, and further extending through December 31, 2003 unless

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terminated as of the end of 2001. This agreement has been extended through December 31, 2003.

See the fuel oil commitments information set forth in the "Fuel contracts" section in Note 11 to HECO's Consolidated Financial Statements.

The following table sets forth the average cost of fuel oil used by HECO, MECO and HELCO to generate electricity in the years 2001, 2000 and 1999:

	HECO		MECO		HELCO		Consolidated	
	\$/Barrel	(cent)/MBtu	\$/Barrel	(cent)/MBtu	\$/Barrel	(cent)/MBtu	\$/Barrel	(cent)/MBtu
2001	31.90	508.3	40.00	670.0	31.96	514.8	33.49	530.0
2000	31.63	503.1	38.91	651.0	35.37	577.1	33.44	530.0
1999	18.68	297.4	25.65	430.2	22.97	373.7	20.46	320.0

The average per-unit cost of fuel oil consumed to generate electricity for HECO, MECO and HELCO reflects a different volume mix of fuel types and grades. In 2001, over 99% of HECO's generation fuel consumption consisted of LSFO. The balance of HECO's fuel consumption was diesel. Diesel made up approximately 75% of MECO's and

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21% of HELCO's fuel consumption. MSFO made up the remainder of the fuel consumption of MECO and HELCO. In general, MSFO is the least costly fuel, diesel is the most expensive fuel and the price of LSFO falls between the two on a per-barrel basis. The prices of LSFO, MSFO and diesel fell in early 2001, reached a peak in the June-July period, then trended lower through the remainder of 2001. Compared to the price levels prevailing in 2000, the 2001 prices for LSFO and diesel averaged approximately 5% lower and the prices for MSFO averaged approximately 12% lower. The prices in January 2002 continued the downward trend.

In June 1999, HELCO and MECO exercised an option to extend for two years commencing January 1, 2000 their existing contracts with Hawaiian Interisland Towing, Inc. (HITI) for the shipment of MSFO and diesel supplies from their fuel supplier's facilities on Oahu to storage locations on the islands of Hawaii and Maui, respectively. The PUC had approved these contracts and issued a final order in June 1994 that permitted HELCO and MECO to include the fuel transportation and related costs incurred under the original contracts in their respective ECA clauses. Freight rates charged under the contracts are related to published indices for industrial commodities prices and labor costs. As a result of a formal competitive bidding process, successor ocean transportation contracts between MECO and HELCO and HITI were executed in December 2000 for service commencing January 1, 2002. These contracts provide for the employment of a new double-hull bulk petroleum barge at freight rates approximately the same as under the prior agreements for an initial term of 5 years with options for three additional five-year extensions. On December 10, 2001, the PUC approved these contracts and permits the recovery of freight costs incurred in MECO's and HELCO's ECA clauses.

HITI never takes title to the fuel oil or diesel fuel, but does have custody and control while the fuel is in transit from Oahu. If there were an oil spill in transit, HITI is contractually obligated to indemnify HELCO and/or MECO. HITI

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has liability insurance coverage for oil spill related damage of \$1 billion. State law provides a cap of \$700 million on liability for releases of heavy fuel oil transported interisland by tank barge. HELCO and/or MECO may be responsible for any clean-up and/or fines that HITI or its insurance carrier does not cover.

The prices that HECO, MECO and HELCO pay for purchased energy from nonutility generators are generally linked to the price of oil. The AES Hawaii energy prices vary primarily with an inflation indicator. The energy prices for Kalaeloa, which purchases LSFO from Tesoro, vary primarily with world LSFO prices. The H-POWER, HC&S, PGV and HCPC energy prices are based on the Companies' respective PUC-filed short-run avoided energy cost rates (which vary with their respective composite fuel costs), subject to minimum floor rates specified in their approved PPAs. The Hamakua Partners energy prices vary primarily with HELCO's diesel costs.

The Company estimates that 76% of the net energy generated and purchased by HECO and its subsidiaries in 2002 will be generated from the burning of oil. Increases in fuel oil prices are passed on to customers through the electric utility subsidiaries' ECA clauses. Failure by the Company's oil suppliers to provide fuel pursuant to the supply contracts and/or substantial increases in fuel prices could adversely affect consolidated HECO's and the Company's financial condition, results of operations and/or liquidity. HECO, however, maintains an inventory of fuel oil in excess of one month's supply. HELCO and MECO maintain approximately a one month's supply of both MSFO and diesel. The PPAs with AES Hawaii and Hamakua Partners require that they maintain certain minimum fuel inventory levels.

TRANSMISSION SYSTEMS

HECO has 138 kilovolt (kv) transmission and 46 kv subtransmission lines. HELCO has 69 kv transmission and 34.5 kv subtransmission lines. MECO has 69 kv transmission and 23 kv subtransmission lines on Maui, 34.5 kv transmission lines on Molokai and 12 kv distribution lines on Lanai. The electric utilities' overhead and underground transmission and subtransmission lines, as well as their distribution lines, are uninsured because the amount of insurance available is limited and the premiums are extremely high.

Lines are added when needed to serve increased loads and/or for reliability reasons. In some design districts on Oahu, lines must be placed underground. By state law, the PUC generally must determine whether new 46 kv,

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69 kv or 138 kv lines can be constructed overhead or must be placed underground. The process of acquiring permits and regulatory approvals for new lines can be contentious, time consuming (leading to project delays) and costly. HECO system. HECO serves Oahu's electricity requirements with firm capacity generating units located in West Oahu (1,057 MW); Waiiau, adjacent to Pearl Harbor (499 MW); and Honolulu (113 MW). HECO's nonfirm power sources (approximately 32 MW) are located primarily in West Oahu. HECO transmits power to its service areas on Oahu through approximately 217 miles of overhead and underground 138 kv transmission lines (of which approximately 6 miles are underground) and approximately 570 miles of overhead and underground 46 kv subtransmission lines. See "Oahu transmission system" in HECO's MD&A.

HELCO system. HELCO serves the island of Hawaii's electricity requirements with firm capacity generating units located in West Hawaii (40 MW) and East Hawaii (221 MW). HELCO's nonfirm power sources total 26 MW. HELCO transmits power to its service area on the island of Hawaii through approximately 468 miles of 69 kv overhead lines and approximately 173 miles of 34.5 kv overhead lines.

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MECO system. MECO serves its electricity requirements with firm capacity generating units located on the island of Maui (250 MW), Molokai (12 MW) and Lanai (10 MW). MECO has no nonfirm power sources. MECO transmits power to its service area on the islands of Maui, Molokai and Lanai through approximately 128 miles of 69 kv overhead lines and approximately 10 miles of 34.5 kv overhead lines.

RATES

HECO, MECO and HELCO are subject to the regulatory jurisdiction of the PUC with respect to rates, issuance of securities, accounting and certain other matters. See "Regulation and other matters--Electric utility regulation."

All rate schedules of HECO and its subsidiaries contain ECA clauses as described previously. Under current law and practices, specific and separate PUC approval is not required for each rate change pursuant to automatic rate adjustment clauses previously approved by the PUC. Rate increases, other than pursuant to such automatic adjustment clauses, require the prior approval of the PUC after public and contested case hearings. PURPA requires the PUC to periodically review the ECA clauses of electric and gas utilities in the state, and such clauses, as well as the rates charged by the utilities generally, are subject to change.

See "Regulation of electric utility rates," "Recent rate requests" and "Electric utility revenues" in HECO's MD&A.

PUBLIC UTILITIES COMMISSION OF THE STATE OF HAWAII

Dennis Yamada is the Chairman of the PUC and has served on the PUC since 1994. In December 2001, Wayne Kimura became a commissioner on the PUC, replacing a commissioner who resigned in October 2001. Commissioner Kimura was formerly with the State Department of Accounting and General Services as State Comptroller. In January 2002, Janet Kawelo became a commissioner on the PUC, replacing a commissioner who resigned at the end of December 2001. Commissioner Kawelo was previously the Deputy Director for the State Department of Land and Natural Resources. Commissioners Kimura and Kawelo are serving as commissioners subject to Senate confirmation.

MOST RECENT RATE REQUESTS

Hawaiian Electric Company, Inc.

.. In December 1993, HECO filed a request to increase rates based on a 1995 test year. HECO requested a 4.1% increase (as revised), or \$28.2 million in annual revenues, based on a 13.25% return on average common equity (ROACE). In December 1995, HECO received a final D&O authorizing a 1.3%, or \$9.1 million, increase in annual revenues, based on a 1995 test year and an 11.4% ROACE.

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.. HECO has not initiated a rate case for several years, but in 2001 it committed to initiate a rate case within three years, using a 2003 or 2004 test year, as part of the agreement described in "Other regulatory matters" in HECO's MD&A.

Hawaii Electric Light Company, Inc.

.. In March 1995, HELCO filed a request to increase rates based on a 1996 test year. In February 1996, HELCO revised its requested increase to 6.2%, or \$8.9

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million in annual revenues, based on a 12.5% ROACE. In March 1996, HELCO received an interim D&O authorizing a 4.8%, or \$6.8 million, increase in annual revenues, based on an 11.65% ROACE. In April 1997, HELCO received a final D&O which made the interim increase final.

.. In March 1998, HELCO filed a request to increase rates 11.5%, or \$17.3 million in annual revenues, based on a 1999 test year and a 12.5% ROACE, primarily to recover costs relating to (1) an agreement to buy power from Hamakua Partners and (2) adding two combustion turbines (CT-4 and CT-5) at HELCO's Keahole power plant. Due to the EAB's denial of HELCO's motion for reconsideration of the EAB's November 25, 1998 decision (see "HELCO power situation--PSD permits" above) and a delay in adding the Hamakua Partners plant from 1999 to 2000, HELCO's test year 1999 rate increase application was withdrawn in March 1999.

.. See "Recent rate requests--Hawaii Electric Light Company, Inc." in HECO's MD&A for a discussion of the PUC's final D&O on HELCO's rate increase based on a 2000 test year.

Maui Electric Company, Limited

.. In February 1995, MECO filed a request to increase rates based on a 1996 test year. MECO's final requested increase was 3.8%, or \$5.0 million in annual revenues, based on an 11.5% ROACE. In January 1996, MECO received an interim D&O authorizing an increase of 2.8%, or \$3.7 million in annual revenues, based on an 11.5% ROACE, effective February 1, 1996. In April 1997, MECO received a final D&O authorizing a 2.9%, or \$3.9 million increase in annual revenues, \$0.2 million more annually than the interim increase and based on an 11.5% ROACE.

.. In May 1996, MECO filed a request to increase rates 13%, or \$18.9 million in annual revenues, based on a 1997 test year and a 12.9% ROACE, primarily to recover the costs related to the anticipated 1997 addition of new generating unit M17. In November 1996, MECO filed a motion with the PUC to approve a stipulation between MECO and the Consumer Advocate which would provide MECO with an increase in annual revenues of \$1.5 million, based on an 11.65% ROACE. In May 1997, the stipulated increase was revised to \$1.3 million after considering the final decision in the 1996 test year case. The primary reason for the stipulation was a delay in the expected in-service date for MECO's generating unit M17 until late 1998, because of delays in obtaining the necessary PSD permit from the DOH/EPA. In December 1997, MECO received a final D&O authorizing no additional increase in annual revenues, based on an 11.12% ROACE.

.. See "Recent rate requests--Maui Electric Company, Limited" in HECO's MD&A for a discussion of MECO's rate increase based on a 1999 test year.

REGULATORY ASSET RELATED TO BARBERS POINT TANK FARM PROJECT COSTS

See Note 6 to HECO's Consolidated Financial Statements.

COMPETITION

In December 1996, the PUC instituted a proceeding to identify and examine the issues surrounding electric competition and to determine the impact of competition on the electric utility infrastructure in Hawaii. See "Competition" in HECO's MD&A. Management cannot predict what changes, if any, may result from these efforts or what impact, if any, the changes may have on the Company's or consolidated HECO's financial condition, results of operations or liquidity.

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In the order initiating the proceeding, the PUC recognized that Hawaii's stand-alone island energy systems are different from the interconnected systems of the contiguous states, but also recognized the need to determine how to respond in Hawaii to changes occurring in the industry. The PUC set forth a preliminary enumeration of the issues, including feasible forms of competition, the regulatory compact, public interest benefits, long-term integrated resource planning, appropriate treatment of potential stranded costs and the identification of the objectives and the establishment of a time frame for the introduction of competition in the electric industry. There are 19 parties in the proceeding including the Consumer Advocate, HECO, HELCO, MECO, the Department of Business, Economic Development & Tourism of the State of Hawaii (DBEDT), the Counties of Maui, Hawaii and Kauai, the Department of Defense (the DOD, HECO's largest customer), various IPPs and others. Following a number of meetings, and the submission and presentation to the collaborative group of preliminary Statements of Position (SOPs), the parties individually submitted final SOPs that were compiled and sent to the PUC in October 1998.

HECO's position in the proceeding was that retail competition is not feasible in Hawaii, but that some of the benefits of competition can be achieved through (1) competitive bidding for new generation, (2) performance-based ratemaking (PBR), and (3) innovative pricing provisions (including rate restructuring, expanded time-of-use rates, customer migration rates such as standby charges, flexible pricing to encourage economic development and to compete with customer generation options, new service options and two-part rates incorporating real-time pricing). HECO suggested in its SOP that these proposals be implemented through applications for PUC approval in a series of separate proceedings to be initiated by HECO. HECO pointed out in its SOP that the conditions making electric industry restructuring feasible elsewhere generally are not present in Hawaii. Among other considerations, none of the island electric systems is interconnected, the island electricity markets are relatively small and there are barriers to entry by new generation suppliers.

While the other parties' SOPs generally support competitive bidding for new generation, there is no consensus as to whether or as to the extent Hawaii's electricity markets should be restructured to introduce further competition. For example, the Consumer Advocate agreed that full scale retail generation competition was not now feasible in Hawaii, but proposed immediate rate unbundling and customer education, followed by rulemaking proceedings (1) to open transmission and distribution access on a limited basis (such as when new generation is needed) and determine the degree of any stranded cost recovery through nonbypassable access charges, (2) to permit conservation and energy management services to be provided to retail customers on a competitive basis, and (3) to implement competition for other customer services (metering and billing), as determined to be appropriate. The DOD also recognized that retail generation competition was not now feasible, and proposed rate unbundling, the establishment of cost-based rates, the offering of additional rate options, PBR, and investigation of the unbundling and separate pricing of customer services. DBEDT proposed (1) rate unbundling, (2) competition for customer services and energy efficiency services, and (3) if additional analysis by the PUC confirms the feasibility of retail generation competition on Oahu, open transmission and distribution access for generators, divestiture of generation and customer service functions by utilities, and the formation of independent system operators.

In May 1999, the PUC approved HECO's standard form contract for customer retention that allows HECO to provide a rate option for customers who would otherwise reduce their energy use from HECO's system by using energy from a nonutility generator. Based on HECO's current rates, the standard form contract provides a 2.77% and an 11.27% discount on base energy rates for "Large Power" and "General Service Demand" customers, respectively. In March 2000, the PUC approved a similar standard form contract which, based on HELCO's current rates, provides a 10.00% discount on HELCO's base energy rates for "Large

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Power" and "General Service Demand" customers.

In December 1999, HECO, HELCO and MECO filed an application with the PUC seeking permission to implement PBR in future rate cases. The proposed PBR would have allowed adjustments in HECO and its subsidiaries' rates (for up to five years after a rate case) based on an index-based price cap, an earnings sharing mechanism and a service quality mechanism. In early 2001, the PUC dismissed the electric utilities' PBR proposal without prejudice,

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indicating it declines at this time to change its current cost of service/rate of return methodology for determining electric utility rates.

In January 2000, the PUC submitted a status report on its competition investigation to the 2000 Legislature, at the Legislature's request. In the report, the PUC stated that competitive bidding for new power supplies (i.e., wholesale generation competition) is a logical first step to encourage competition in the state's electric industry and that it plans to proceed with an examination of the feasibility of competitive bidding. The PUC also indicated its plans to review specific policies to encourage renewable energy resources in the power generation mix. The report states that "further steps" by the PUC "will involve the development of specific policies to encourage wholesale competition and the continuing examination of other areas suitable for the development of competition."

ELECTRIC AND MAGNETIC FIELDS

Research on potential adverse health effects from exposure to electric and magnetic fields (EMF) continues. To date, no definite relationship between EMF and health risks has been clearly demonstrated. In 1996, the National Academy of Sciences examined more than 500 studies and stated that "the current body of evidence does not show that exposure to EMFs presents a human-health hazard." An extensive study released in 1997 by the National Cancer Institute and the Children's Cancer Group found no evidence of increased risk for childhood leukemia from EMF. In 1999, the National Institute of Environmental Health Sciences Director's Report concluded that while EMF could not be found to be "entirely safe," the evidence of a health risk was "weak" and did not warrant "aggressive" regulatory actions. Consequently, HECO and its subsidiaries are monitoring the research and continue to participate in utility industry funded studies on EMF and, where technically feasible and economically reasonable, continue to reduce EMF in the design and installation of new transmission and distribution facilities. Management cannot predict the impact, if any, the EMF issue may have on HECO, HELCO and MECO in the future.

EXEMPTION FROM REAL PROPERTY TAXES FOR HECO, HELCO AND MECO

In April 2001, the Governor of the State of Hawaii signed into law Act 64, which provides for the sharing of the Public Service Company (PSC) tax revenues between the state and counties of the state. This legislation is consistent with a settlement agreement that was entered into in January 2001 by the state, the counties and the utility companies doing business in Hawaii. The sharing of the PSC tax revenues took effect on July 1, 2001.

In accordance with the settlement agreement, the utilities subject to the PSC tax pay the same amount of PSC taxes they would have under the old law, which imposed taxes on electric revenues at rates ranging from 5.885% to 8.2%. However, the state now receives the taxes calculated at a 4% rate and counties now receive the revenues from the taxes in excess of 4%. In order to share in these revenues, the counties must provide by ordinance for a real property tax exemption for real property used by a public utility in its public utility

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business and owned by the public utility (or leased to it by a lease under which the public utility is required to pay the taxes) and must not have denied the exemption to the utility with regard to such property. The counties have waived and released claims for real property tax due and payable before July 1, 2001. Consequently, all the complaints and tax appeals filed by the utilities against the state in Tax Appeal Court before January 11, 2001 have been dismissed. Under the settlement agreement, however, the County of Hawaii will keep the approximately \$0.1 million real property tax installment HELCO paid under protest on August 20, 2000.

The counties of Oahu, Hawaii and Maui have passed the enabling statutes in accordance with the settlement agreement or have existing statutes which exempt HECO, HELCO and MECO from the real property tax in their respective counties of operation.

LEGISLATION

Congress and the Hawaii legislature periodically consider legislation that could have positive or negative effects on the utilities and their customers. For example, Congress is considering an energy plan that could increase the domestic supply of oil as well as increase support for energy conservation programs and mandate the use of renewables by utilities. The 2002 Hawaii legislature is considering measures that would undertake a comprehensive

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audit of the state's electric utility regulatory policies, energy policies and support for reducing Hawaii's dependence on imported petroleum for electrical generation. Management cannot at this time predict the impact of these proposals or the likelihood of their eventual passage and enactment into law.

The Hawaii legislature did not consider deregulation in its 2001 session, but passed a law that requires electric utilities to establish "renewables portfolio standard" goals of 7% by December 31, 2003, 8% by December 31, 2005 and 9% by December 31, 2010. HECO, HELCO and MECO are permitted to aggregate their renewable portfolios in order to achieve these goals. Any electric utility whose percentage of sales of electricity represented by renewable energy does not meet these goals will have to report to the PUC and provide an explanation for not meeting the renewables portfolio standard. The PUC could then grant a waiver from the standard or an extension of time for meeting the standard. The PUC may also provide incentives to encourage electric utilities to exceed the standards or meet the standards earlier, or both, but as yet no such incentives have been proposed. The new law also requires that electric utilities offer net energy metering to solar, wind turbine, biomass or hydroelectric generating systems (or hybrid systems) with a capacity up to 10 kilowatts (i.e., a customer-generator may be a net user or supplier of energy and will make payments to or receive credits from the electric utility accordingly).

BANK--AMERICAN SAVINGS BANK, F.S.B.

GENERAL

ASB was granted a federal savings bank charter in January 1987. Prior to that time, ASB had operated since 1925 as the Hawaii division of American Savings & Loan Association of Salt Lake City, Utah. As of December 31, 2001, ASB was the third largest financial institution in the State of Hawaii with total assets of \$6.0 billion and deposits of \$3.7 billion.

HEI agreed with the Office of Thrift Supervision's (OTS) predecessor regulatory agency that ASB's regulatory capital would be maintained at a level of at least

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6% of ASB's total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI's obligation to contribute additional capital was limited to a maximum aggregate amount of approximately \$65.1 million. At December 31, 2001, HEI's maximum obligation to contribute additional capital has been reduced to approximately \$28.3 million because of additional capital contributions of \$36.8 million by HEI to ASB since the acquisition, exclusive of capital contributions made in connection with ASB's acquisition of most of the Hawaii operations of BoA (see below). ASB is subject to OTS regulations on dividends and other distributions applicable to financial institutions regulated by the OTS.

Effective December 6, 1997, ASB acquired certain loans and other assets and assumed certain deposits and other liabilities of the Hawaii operations of BoA pursuant to a Purchase and Assumption Agreement executed on May 26, 1997, as amended. ASB used the purchase method of accounting to account for the transaction. In this transaction, ASB assumed liabilities with an estimated fair value of \$1.7 billion and paid a \$0.1 billion premium on certain transferred deposit liabilities. The estimated fair value of tangible and intangible assets acquired, including cash of \$0.8 billion, amounted to \$1.8 billion. ASB recorded the excess of the purchase price over the estimated fair value of the identifiable net assets acquired of \$72 million as goodwill and recorded the core deposit premium of approximately \$20 million as an intangible asset. The accounting treatment for goodwill and other intangible assets will change for 2002 and subsequent years. See "Business combinations, goodwill and other intangible assets" in Note 1 of HEI's Consolidated Financial Statements.

ASB's earnings depend primarily on its net interest income--the difference between the interest income earned on interest-earning assets (loans receivable and investment and mortgage/asset-backed securities) and the interest expense incurred on interest-bearing liabilities (deposit liabilities and borrowings, including advances from the Federal Home Loan Bank (FHLB) of Seattle).

For additional information about ASB, see the sections under "Bank" in HEI's MD&A, HEI's "Quantitative and Qualitative Disclosures about Market Risk" and Note 4 to HEI's Consolidated Financial Statements.

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The following table sets forth selected data for ASB for the years indicated:

	Years ended December	
	2001	2000

Common equity to assets ratio		
Average common equity divided by average total assets/1/.....	6.65%	6.22%
Return on assets		
Net income for common stock divided by average total assets/1/,/2/.....	0.81	0.68
Return on common equity		
Net income for common stock divided by average common equity/1/,/2/....	12.3	11.0
Tangible efficiency ratio		
Total general and administrative expenses divided by net interest income and other income.....	56	57

/1/ Average balances calculated using the average daily balances during 2001 (except for return on common equity, which is calculated using the average month-end balance) and the average month-end balances during 2000 and 1999.

/2/ Net income includes amortization of goodwill and core deposit intangibles. In 2002 and subsequent years, net income will include amortization of goodwill and core deposit intangibles.

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years, goodwill will no longer be amortized, but will be tested for impairment at least an

CONSOLIDATED AVERAGE BALANCE SHEET

The following table sets forth average balances of ASB's major balance sheet categories for the years indicated. Average balances have been calculated using the daily average balances during 2001 and the average month-end balances during 2000 and 1999.

(in thousands)	Years ended December 31,		
	2001	2000	1999
Assets			
Investment securities.....	\$ 308,712	\$ 287,906	\$ 218,628
Mortgage/asset-backed securities.....	2,345,630	2,058,706	1,894,953
Loans receivable, net.....	2,963,521	3,215,879	3,191,847
Other.....	391,040	380,609	414,153
	\$ 6,008,903	\$ 5,943,100	\$ 5,719,581
Liabilities and stockholder's equity			
Deposit liabilities.....	\$ 3,638,136	\$ 3,537,312	\$ 3,706,750
Other borrowings.....	1,778,766	1,880,952	1,505,109
Other.....	117,366	80,262	84,540
Stockholder's equity.....	474,635	444,574	423,182
	\$ 6,008,903	\$ 5,943,100	\$ 5,719,581

In 2001, mortgage/asset-backed securities increased and loans receivable decreased largely because ASB exchanged loans for \$393 million of mortgage/asset-backed securities.

ASSET/LIABILITY MANAGEMENT

See HEI's "Quantitative and Qualitative Disclosures about Market Risk" in HEI's Annual Report.

INTEREST INCOME AND INTEREST EXPENSE

The following table sets forth average balances, interest and dividend income, interest expense and weighted-average yields earned and rates paid, for certain categories of interest-earning assets and interest-bearing liabilities

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for the years indicated. Average balances for each year have been calculated using the average month-end or daily average balances during the year.

(dollars in thousands)	Years ended December	
	2001	2000

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Loans		
Average balances.....	\$ 2,963,521	\$ 3,215,879
Interest income	231,858	254,502
Weighted-average yield.....	7.82%	7.91%
Mortgage/asset-backed securities		
Average balances.....	\$ 2,345,630	\$ 2,058,706
Interest income	152,181	152,340
Weighted-average yield.....	6.49%	7.40%
Investments/1/		
Average balances.....	\$ 308,712	\$ 287,906
Interest and dividend income	15,612	16,733
Weighted-average yield.....	5.06%	5.81%
Total interest-earning assets		
Average balances.....	\$ 5,617,863	\$ 5,562,491
Interest and dividend income	399,651	423,575
Weighted-average yield.....	7.11%	7.61%
Deposits		
Average balances.....	\$ 3,638,136	\$ 3,537,312
Interest expense.....	116,531	119,192
Weighted-average rate.....	3.20%	3.37%
Borrowings		
Average balances.....	\$ 1,778,766	\$ 1,880,952
Interest expense.....	97,054	119,683
Weighted-average rate.....	5.46%	6.36%
Total interest-bearing liabilities		
Average balances.....	\$ 5,416,902	\$ 5,418,264
Interest expense.....	213,585	238,875
Weighted-average rate.....	3.94%	4.41%
Net balance, net interest income and interest rate spread		
Net balance.....	\$ 200,961	\$ 144,227
Net interest income.....	186,066	184,700
Interest rate spread.....	3.17%	3.20%

/1/ Includes stock in the FHLB of Seattle.

The following table shows the effect on net interest income of (1) changes in interest rates (change in weighted-average interest rate multiplied by prior year average portfolio balance) and (2) changes in volume (change in average portfolio balance multiplied by prior period rate). Any remaining change is allocated to the above two categories on a pro rata basis.

(in thousands)	Increase (decrease) due to		
	Rate	Volume	Total
Year ended December 31, 2001 vs. 2000			

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Income from interest-earning assets			
Loan portfolio.....	\$ (2,867)	\$ (19,777)	\$ (22,644)
Mortgage/asset-backed securities.....	(19,981)	19,822	(15,159)
Investments.....	(2,269)	1,148	(1,121)
	(25,117)	1,193	(23,924)
Expense from interest-bearing liabilities			
Deposits.....	(6,041)	3,380	(2,661)
FHLB advances and other borrowings.....	(16,352)	(6,277)	(22,629)
	(22,393)	(2,897)	(25,290)
Net interest income.....	\$ (2,724)	\$ 4,090	\$ 1,366

Year ended December 31, 2000 vs. 1999

Income from interest-earning assets			
Loan portfolio.....	\$ 8,073	\$ 1,863	\$ 9,936
Mortgage/asset-backed securities.....	18,944	11,115	30,059
Investments.....	(449)	4,050	3,601
	26,568	17,028	43,596
Expense from interest-bearing liabilities			
Deposits.....	4,408	(5,554)	(1,146)
FHLB advances and other borrowings.....	9,544	23,309	32,853
	13,952	17,755	31,707
Net interest income.....	\$ 12,616	\$ (727)	\$ 11,889

OTHER INCOME

In addition to net interest income, ASB has various sources of other income, including fee income from servicing loans, fees on deposit accounts, rental income from premises and other income. Other income totaled approximately \$45.0 million in 2001, \$27.3 million in 2000 and \$29.9 million in 1999. The increase in other income for 2001 was primarily due to a \$8.0 million gain on sale of investment and mortgage/asset-backed securities, increases in fees from ATM and debit cards and increases in revenues from sales of annuity products.

LENDING ACTIVITIES

General. Loans and mortgage/asset-backed securities of \$5.2 billion represented 86.7% of total assets at December 31, 2001, compared to \$5.3 billion, or 88.5%, and \$5.2 billion, or 88.7%, at December 31, 2000 and 1999, respectively. ASB's loan portfolio consists primarily of conventional residential mortgage loans, which are neither insured by the Federal Housing Administration nor guaranteed by the Veterans Administration.

The following tables set forth the composition of ASB's loan and mortgage/asset-backed securities portfolio:

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(dollars in thousands)	December 31,					
	2001		2000			
	Balance	% of total	Balance	% of total	Ba	
Real estate loans/1/						
Conventional (1-4 unit residential)	\$2,242,329	43.02%	\$2,719,754	51.49%	\$2,72	
Commercial real estate.....	196,515	3.77	156,177	2.95	17	
Construction and development.....	52,043	1.00	38,913	0.74	4	
	2,490,887	47.79	2,914,844	55.18	2,93	
Less						
Deferred fees and discounts.....	(17,946)	(0.34)	(21,588)	(0.41)	(2	
Undisbursed loan funds.....	(22,910)	(0.45)	(17,559)	(0.33)	(1	
Allowance for loan losses.....	(26,085)	(0.50)	(24,800)	(0.47)	(2	
Total real estate loans, net.....	2,423,946	46.50	2,850,897	53.97	2,87	
Other loans						
Loans on deposits.....	7,288	0.14	8,021	0.15	1	
Consumer and other loans.....	245,199	4.70	230,330	4.36	23	
Commercial loans.....	197,333	3.79	134,784	2.55	10	
	449,820	8.63	373,135	7.06	35	
Less						
Deferred fees and discounts.....	-	-	-	-	-	
Undisbursed loan funds.....	(5)	-	(58)	-	(1	
Allowance for loan losses.....	(16,139)	(0.31)	(12,649)	(0.24)	(1	
Total other loans, net.....	433,676	8.32	360,428	6.82	33	
Mortgage/asset-backed securities, net of discounts.....	2,354,849	45.18	2,070,827	39.21	1,97	
Total loans and mortgage/asset-backed securities, net.....	\$5,212,471	100.00%	\$5,282,152	100.00%	\$5,18	

/1/ Includes renegotiated loans.

(dollars in thousands)	December 31,		
	1998		
	Balance	% of total	Balanc
Real estate loans/1/			

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Conventional (1-4 unit residential).....	\$2,654,408	53.79%	\$2,498,17
Commercial real estate.....	198,530	4.03	216,50
Construction and development.....	35,274	0.72	32,56
	2,888,212	58.54	2,747,24
Less			
Deferred fees and discounts..	(21,229)	(0.43)	(16,05)
Undisbursed loan funds.....	(14,685)	(0.30)	(13,72)
Allowance for loan losses..	(27,944)	(0.57)	(20,45)
	2,824,354	57.24	2,697,02
Other loans			
Loans on deposits.....	16,836	0.34	17,47
Consumer and other loans.....	236,396	4.79	258,76
Commercial loans.....	94,045	1.91	88,31
	347,277	7.04	364,55
Less			
Deferred fees and discounts.....	(7)	-	(1
Undisbursed loan funds.....	(16,592)	(0.34)	(16,21
Allowance for loan losses.....	(11,835)	(0.24)	(9,50
	318,843	6.46	338,82
Mortgage/asset-backed securities, net of discounts..	1,791,353	36.30	1,865,02
	\$4,934,550	100.00%	\$4,900,87

/1/ Includes renegotiated loans.

Origination, purchase and sale of loans. Generally, loans originated and purchased by ASB are secured by real estate located in Hawaii. As of December 31, 2001, approximately \$35.2 million of loans purchased from other lenders were secured by properties located in the continental United States. For additional information, including information concerning the geographic distribution of ASB's mortgage/asset-backed securities portfolio and the geographic concentration of credit risk, see Note 13 to HEI's Consolidated Financial Statements.

The amount of loans originated during 2001, 2000, 1999, 1998 and 1997 were \$1.0 billion, \$0.5 billion, \$0.6 billion, \$0.6 billion and \$0.3 billion, respectively. The demand for loans is primarily dependent on the Hawaii real estate market and loan refinancing activity. The increase in loan originations during 2001 was primarily due to the low interest rate environment, which resulted in higher loan refinancings. The increase in loans originated in 1998 from 1997 was due primarily to higher refinancings. The decrease in loans originated in 2000 from 1999 was due in part to a rise in interest rates and a slow Hawaii real estate market.

Residential mortgage lending. ASB is permitted to lend up to 100% of the appraised value of the real property securing a loan. Its general policy is to require private mortgage insurance when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For nonowner-occupied residential properties, the loan-to-value ratio may not exceed 90% of the lower of the appraised value or purchase price

at origination.

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Construction and development lending. ASB provides both fixed and adjustable rate loans for the construction of one-to-four residential unit and commercial properties. Construction and development financing generally involves a higher degree of credit risk than long-term financing on improved, occupied real estate. Accordingly, all construction and development loans are priced higher than loans secured by completed structures. ASB's underwriting, monitoring and disbursement practices with respect to construction and development financing are designed to ensure sufficient funds are available to complete construction projects. As of December 31, 2001, 2000 and 1999, construction and development loans represented 1.8%, 1.2% and 1.3%, respectively, of ASB's gross loan portfolio. Although construction and development loans are a small part of ASB's current loan portfolio, during 2001, ASB enhanced its commercial real estate lending capabilities to diversify its loan portfolio and plans to increase construction and development lending in the future. See "Loan portfolio risk elements."

Multifamily residential and commercial real estate lending. Permanent loans secured by multifamily properties (generally apartment buildings), as well as commercial and industrial properties (including office buildings, shopping centers and warehouses), are originated by ASB for its own portfolio as well as for participation with other lenders. In 2001, 2000 and 1999, loan originations on these types of properties accounted for approximately 8.3%, 4.2% and 1.1%, respectively, of ASB's total mortgage loan originations. During 2001, ASB enhanced its commercial real estate lending capabilities and plans to increase commercial real estate lending in the future. The objective of commercial real estate lending is to diversify ASB's loan portfolio.

Consumer lending. ASB offers a variety of secured and unsecured consumer loans. Loans secured by deposits are limited to 90% of the available account balance. ASB also offers VISA cards, automobile loans, general purpose consumer loans, home equity lines of credit, checking account overdraft protection and unsecured lines of credit. In 2001, 2000 and 1999, gross loan originations of these types accounted for approximately 18.3%, 19.1% and 23.4%, respectively, of ASB's total loan originations.

Corporate banking/commercial lending. ASB is authorized to make both secured and unsecured corporate banking loans to business entities. This lending activity is designed to diversify ASB's asset structure, shorten maturities, provide rate sensitivity to the loan portfolio and attract business checking deposits. As of December 31, 2001, 2000 and 1999, corporate banking loans represented 6.9%, 4.2% and 3.6%, respectively, of ASB's total net loan portfolio.

Loan origination fee and servicing income. In addition to interest earned on loans, ASB receives income from servicing loans, for late payments and from other related services. Servicing fees are received on loans originated and subsequently sold by ASB through a securitization process and also on loans for which ASB acts as collection agent on behalf of third-party purchasers.

ASB generally charges the borrower at loan settlement a loan origination fee of 1% of the amount borrowed. See "Loan origination and commitment fees" in Note 1 to HEI's Consolidated Financial Statements.

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of secured loans. In a foreclosure action, the property securing the delinquent debt is

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sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified in a real estate owned account until it is sold. ASB's real estate acquired in settlement of loans represented 0.24%, 0.15% and 0.08% of total assets at December 31, 2001, 2000 and 1999, respectively.

In addition to delinquent loans, other significant lending risk elements include: (1) loans which accrue interest and are 90 days or more past due as to principal or interest, (2) loans accounted for on a nonaccrual basis (nonaccrual loans), and (3) loans on which various concessions are made with respect to interest rate, maturity, or other terms due to the inability of the borrower to service the obligation under the original terms of the agreement (renegotiated loans). ASB had no loans that were 90 days or more past due on which interest was being accrued as of the dates presented in the table below. The level of nonaccrual and renegotiated loans represented 1.5%, 1.5%, 2.3%, 3.1%

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and 2.4%, of ASB's total net loans outstanding at December 31, 2001, 2000, 1999, 1998 and 1997, respectively. The following table sets forth certain information with respect to nonaccrual and renegotiated loans as of the dates indicated:

(in thousands)	December 31,		
	2001	2000	1999
Nonaccrual loans--			
Real estate			
1-4 unit residential	\$22,495	\$26,738	\$43,750
Income property....	10,129	15,132	18,747
Total real estate.....	32,624	41,870	62,497
Commercial.....	1,965	2,872	2,192
Consumer.....	3,018	2,844	3,777
Total nonaccrual loans.....	\$37,607	\$47,586	\$68,466
Renegotiated loans not included above--			
Real estate			
1-4 unit residential....	\$ -	\$ 48	\$ 876
Commercial.....	2,681	-	-
Income property.....	3,874	-	5,154
Total renegotiated loans.....	\$ 6,555	\$ 48	\$ 6,030

ASB's policy generally is to place mortgage loans on a nonaccrual status (i.e., interest accrual is suspended) when the loan becomes 90 days or more past due or on an earlier basis when there is a reasonable doubt as to its collectability. Loans on nonaccrual status amounted to \$37.6 million (1.3% of total loans), \$47.6 million (1.4% of total loans), \$68.4 million (2.1% of total loans), \$85.5 million (2.6% of total loans) and \$71.8 million (2.3% of total loans) at December 31, 2001, 2000, 1999, 1998 and 1997, respectively.

In 1998, the increase in nonaccrual loans was a result of Hawaii's weak economy

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and was primarily due to a \$10.3 million increase in nonaccruing, smaller balance residential loans. In 2000 and 1999, the \$20.9 million and \$17.0 million, respectively, decrease in nonaccrual loans was primarily due to increased charge-offs and lower delinquencies. In 2001, the decrease in nonaccrual loans of \$10.0 million was primarily due to lower delinquencies in residential loans and an income property loan taken into real estate owned.

At December 31, 2001, ASB had one renegotiated income property loan and eight renegotiated commercial loans. The income property loan is currently making timely monthly principal and interest payments while the commercial loans are making timely monthly interest only payments.

Allowance for loan losses. ASB maintains an allowance for loan losses that it believes is adequate to absorb estimated inherent losses on all loans. The level of allowance for loan losses is based on a continuing assessment of existing risks in the loan portfolio, historical loss experience, changes in collateral values, and current and anticipated economic conditions. ASB uses a risk rating system to evaluate its business and commercial real estate loans. Loans are rated based on the degree of risk at origination and periodically thereafter, as appropriate. A credit review department performs an evaluation of these loan portfolios to ensure compliance with the internal risk rating system and timeliness of rating changes. Adverse changes in any of the risk factors could result in higher charge-offs and loan loss provisions. When loans are deemed impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate and the fair value of the collateral securing the loan. Impairment losses are charged to the provision for loan losses and included in the allowance for loan losses.

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The following table presents the changes in the allowance for loan losses for the years indicated:

(dollars in thousands)	Years ended December 31,			
	2001	2000	1999	
Allowance for loan losses, beginning of year.....	\$37,449	\$35,348	\$39,779	\$29,779
Provision for loan losses.....	12,500	13,050	16,500	13,050
Allowance for losses on loans acquired from BoA.....	-	-	-	-
Net charge-offs				
Real estate loans.....	3,414	6,727	15,215	15,215
Other loans.....	4,311	4,222	5,716	2,916
Total net charge-offs.....	7,725	10,949	20,931	3,931
Allowance for loan losses, end of year.....	\$42,224	\$37,449	\$35,348	\$39,779
Ratio of provision for loan losses during the year to average loans outstanding.....	0.42%	0.41%	0.52%	

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Ratio of net charge-offs during the year to average loans outstanding.....	0.26%	0.34%	0.66%
	=====		

In 2001, ASB's allowance for loan losses increased by \$4.8 million primarily due to lower net charge-offs as a result of lower delinquencies. In 2000, ASB's allowance for loan losses increased by \$2.1 million primarily due to lower net charge-offs as a result of lower delinquencies. In 1999, ASB's allowance for loan losses decreased by \$4.4 million due to higher charge-offs. In 1999, management disposed of nonperforming loans at a loss, which resulted in higher charge-offs. ASB increased its allowance for loan losses by \$9.8 million in 1998 to establish additional specific loss allowances and in response to a rising trend of delinquencies caused by Hawaii's weak economy.

INVESTMENT ACTIVITIES

In recent years, ASB's investment portfolio consisted primarily of stock of the FHLB of Seattle, federal agency obligations and mortgage/asset-backed securities. ASB owns private-issue mortgage/asset-backed securities as well as mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA). At December 31, 2001, the various securities rating agencies rated all of the private-issue mortgage/asset-backed securities as investment grade. ASB did not maintain a portfolio of securities held for trading during 2001, 2000 or 1999.

As of December 31, 2001, ASB's held-to-maturity investment portfolio consisted of a \$84.2 million investment in FHLB stock. As of December 31, 2000, ASB's held-to-maturity investment portfolio, excluding mortgage/asset-backed securities, consisted of a \$78.7 million investment in FHLB stock and a \$13.1 million investment in collateralized debt obligations. As of December 31, 1999, ASB's held-to-maturity investment portfolio consisted of a \$73.8 million investment in FHLB stock, a \$71.5 million investment in collateralized debt obligations and a \$41.5 million investment in federal agency obligations. The weighted-average rate on investments during 2001, 2000 and 1999 was 7.28%, 5.62% and 6.81%, respectively. The amount that ASB is required to invest in FHLB stock is determined by regulatory requirements. See "Regulation and other matters--Bank regulation--Federal Home Loan Bank System."

See "Disposition of certain debt securities" in Note 4 to HEI's Consolidated Financial Statements.

On January 1, 2001, ASB reclassified a significant amount of securities from held-to-maturity to available-for-sale (see "Derivative instruments and hedging activities" in Note 1 to HEI's Consolidated Financial Statements). Securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity (see "Material estimates and critical accounting policies-Consolidated-Investment securities" in HEI's MD&A). At December 31, 2001, ASB had mortgage-backed securities issued by FHLMC, GNMA and FNMA valued at \$1.5 billion and private-issue mortgage/asset-backed securities valued at \$0.9 billion in its available-for-sale investment portfolio.

DEPOSITS AND OTHER SOURCES OF FUNDS

General. Deposits traditionally have been the principal source of ASB's funds for use in lending, meeting liquidity requirements and making investments. ASB also derives funds from the receipt of interest and principal on outstanding

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loans receivable and mortgage/asset-backed securities, borrowings from the FHLB of Seattle, securities sold under agreements to repurchase and other sources. ASB borrows on a short-term basis to compensate for seasonal or other reductions in deposit flows. ASB also may borrow on a longer-term basis to support expanded lending or investment activities. Advances from the FHLB and securities sold under agreements to repurchase continue to be a significant source of funds that have higher cost of funds than deposits.

Deposits. ASB's deposits are obtained primarily from residents of Hawaii. In 2001 and 2000, ASB had average deposits of \$3.6 billion and \$3.5 billion, respectively. Net savings inflow in 2001 and 2000 was \$94.9 million and \$93.0 million, respectively, which compares favorably to the net savings outflow of \$374.1 million in 1999. The net savings outflows in 1999 were partly due to competition from the equity market and management's decision not to pursue high-priced certificates of deposit. In addition, during 1999, \$235.2 million of collateralized deposits were reclassified to securities sold under agreements to repurchase. In the three years ended December 31, 2001, ASB had no deposits placed by or through a broker.

The following table illustrates the distribution of ASB's average deposits and average daily rates by type of deposit for the years indicated. Average balances have been calculated using the average daily balances during 2001 and the average month-end balances during 2000 and 1999.

(dollars in thousands)	Years ended December 31,				
	2001			2000	
	Average balance	% of total deposits	Weighted average rate %	Average balance	% of total deposits
Passbook accounts.....	\$1,049,441	28.9%	1.91%	\$1,058,763	29.9%
Negotiable order of withdrawal accounts.....	699,997	19.2	0.59	642,074	18.2
Money market accounts.....	310,048	8.5	2.40	306,950	8.7
Certificate accounts.....	1,578,650	43.4	5.38	1,529,525	43.2
Total deposits.....	\$3,638,136	100.0%	3.20%	\$3,537,312	100.0%

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(dollars in thousands)	Year ended December 31, 1999		
	Average balance	% of total deposits	average daily rate %
Passbook accounts.....	\$1,120,545	30.2%	
Negotiable order of withdrawal accounts.....	621,140	16.8	
Money market accounts.....	333,190	9.0	
Certificate accounts.....	1,631,875	44.0	
Total deposits.....	\$3,706,750	100.0%	

At December 31, 2001, ASB had \$344 million in certificate accounts of \$100,000 or more, maturing as follows:

(in thousands)	Amount
Three months or less.....	\$165,662
Greater than three months through six months.....	43,055
Greater than six months through twelve months.....	56,008
Greater than twelve months.....	79,618

	\$344,343
	=====

Deposit-insurance premiums and regulatory developments. The Savings Association

Insurance Fund (SAIF) insures the deposit accounts of ASB and other thrifts. The Bank Insurance Fund (BIF) insures the deposit accounts of commercial banks. The Federal Deposit Insurance Corporation (FDIC) administers the SAIF and BIF. In December 1997, ASB acquired BIF-assessable deposits as well as SAIF-assessable deposits from BoA. Congress is currently considering legislation which would merge the SAIF and the BIF. This legislation is supported by the FDIC.

In December 1996, the FDIC adopted a risk-based base rate schedule for SAIF deposits, effective January 1, 1997, that was identical to the existing risk-based base rate schedule for BIF deposits: zero to 27 cents per \$100 of deposits. Added to this base rate schedule through 1999 was the assessment to fund the Financing Corporation's (FICO's) interest obligations, which assessment was initially set at 6.48 cents per \$100 of deposits for SAIF deposits and 1.3 cents per \$100 of deposits for BIF deposits (subject to quarterly adjustment). By law, the FICO's assessment rate on deposits insured by the BIF had to be one-fifth the rate on deposits insured by the SAIF until January 1, 2000. Effective January 1, 2000, the assessment rate for funding FICO interest payments became identical for SAIF and BIF deposits at a rate of 2.12 cents per \$100 of deposits. As a "well capitalized" thrift, ASB's base deposit insurance premium effective for the December 31, 2001 quarterly payment is zero and its assessment for funding FICO interest payments is 1.82 cents per \$100 of SAIF and BIF deposits, on an annual basis, based on deposits as of September 30, 2001.

Borrowings. ASB obtains advances from the FHLB of Seattle provided certain standards related to creditworthiness have been met. Advances are secured by a blanket pledge of certain notes held by ASB and the mortgages securing them. To the extent that advances exceed the amount of mortgage loan collateral pledged to the FHLB of Seattle, the excess must be covered by qualified marketable securities held under the control of and at the FHLB of Seattle or at an approved third party custodian. FHLB advances generally are available to meet seasonal and other withdrawals of deposit accounts, to expand lending and to assist in the effort to improve asset and liability management. FHLB advances are made pursuant to several different credit programs offered from time to time by the FHLB of Seattle.

At December 31, 2001, 2000 and 1999, advances from the FHLB amounted to \$1.0 billion, \$1.2 billion and \$1.2 billion, respectively. The weighted-average rates on the advances from the FHLB outstanding at December 31, 2001, 2000 and 1999 were 5.41%, 6.67% and 6.25%, respectively. The maximum amount outstanding at any month-end during 2001, 2000 and 1999 was \$1.2 billion, \$1.3 billion and \$1.2 billion, respectively. Advances from

the FHLB averaged \$1.2 billion, \$1.3 billion and \$1.0 billion during 2001, 2000 and 1999, respectively, and the approximate weighted-average rate thereon was 5.98%, 6.55% and 6.07%, respectively.

Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the consolidated statements of financial condition. The securities underlying the agreements to repurchase continue to be reflected in the asset accounts (see Note 4 "Securities sold under agreements to repurchase" to HEI's Consolidated Financial Statements). At December 31, 2001, 2000 and 1999, the entire outstanding amounts under these agreements of \$683 million (including accrued interest of \$4.9 million), \$597 million (including accrued interest of \$5.5 million) and \$661 million (including accrued interest of \$3.0 million), respectively, were to purchase identical securities. The weighted-average rates on securities sold under agreements to repurchase outstanding at December 31, 2001, 2000 and 1999 were 2.81%, 6.32% and 5.58%, respectively. The maximum amount outstanding at any month-end during 2001, 2000 and 1999 was \$722 million, \$657 million and \$661 million, respectively. Securities sold under agreements to repurchase averaged \$629 million, \$625 million and \$540 million during 2001, 2000 and 1999, respectively, and the approximate weighted-average interest rate thereon was 4.50%, 5.98% and 5.24%, respectively.

The following table sets forth information concerning ASB's advances from the FHLB and other borrowings at the dates indicated:

(dollars in thousands)	December 31,		
	2001	2000	1999
Advances from the FHLB.....	\$1,032,752	\$1,249,252	\$1,180,000
Securities sold under agreements to repurchase.....	683,180	596,504	661,000
Total borrowings.....	\$1,715,932	\$1,845,756	\$1,841,000
Weighted-average rate.....	4.37%	6.56%	6.07%

COMPETITION

The primary factors in competing for deposits are interest rates, the quality and range of services offered, marketing, convenience of locations, hours and perceptions of the institution's financial soundness and safety. Competition for deposits comes primarily from other savings institutions, commercial banks, credit unions, money market and mutual funds and other investment alternatives. In Hawaii, there were 2 thrifts, 8 FDIC-insured banks and 100 credit unions at June 30, 2001. Additional competition for deposits comes from various types of corporate and government borrowers, including insurance companies. To meet competition, ASB offers a variety of savings and checking accounts at competitive rates, convenient business hours, convenient branch locations with interbranch deposit and withdrawal privileges at each branch and convenient automated teller machines. ASB also conducts advertising and promotional campaigns.

The primary factors in competing for first mortgage and other loans are

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interest rates, loan origination fees and the quality and range of lending services offered. Competition for origination of first mortgage loans comes primarily from other savings institutions, mortgage banking firms, commercial banks, insurance companies and real estate investment trusts. ASB believes that it is able to compete for such loans primarily through the interest rates and loan fees it charges, the type of mortgage loan programs it offers and the efficiency and quality of the services it provides its borrowers and the real estate business community.

In recent years, there has been significant bank and thrift merger activity in Hawaii. Management cannot predict the impact, if any, of these mergers on the Company's future competitive position, results of operations, financial condition or liquidity.

Credit Union Developments. The 1934 Federal Credit Union Act states that credit union membership "shall be limited to groups having a common bond of occupation or association" or to groups in a well-defined geographical

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area. In 1982, the National Credit Union Administration expanded its definition of "common bond" to allow "multiple common bonds"--i.e., small businesses that lacked enough workers to form their own credit unions were allowed to join existing credit unions so long as each group of employees had its own "bond." Government officials estimate that this rule allowed credit unions to add approximately 15 million people to their membership rolls. In February 1998, the Supreme Court decided that this expanded definition of "common bond" was impermissible, holding that the 1934 law required all members of a credit union to share a single common bond. In August 1998, the Credit Union Membership Access Act became law, which, among other things, amended the 1934 law to retroactively authorize credit union membership based on multiple common bonds, as long as each of the relevant groups has (with some exceptions) fewer than 3,000 members. The Credit Union Membership Access Act also facilitates the ability of insured credit unions to convert to mutual savings banks or savings associations, and requires that insured credit unions meet capital standards similar to those enacted for banks and thrifts in 1991.

In December 1998, the National Credit Union Administration voted to adopt final rules to implement the Credit Union Membership Access Act. The new rules appear to favor the creation of larger credit unions by facilitating the merger of credit unions with fewer than 3,000 members. Under a Regulatory Flexibility Program to go into effect on March 1, 2002, the National Credit Union Administration will allow certain credit unions to expand the services offered to members. It is too early to evaluate whether these developments will result in increased competition for ASB by credit unions.

See "Certain factors that may affect future results and financial condition-Bank-Regulation of ASB--Federal Thrift Charter" in HEI's MD&A for a discussion of the Gramm-Leach-Bliley Act of 1998.

OTHER

HEI INVESTMENTS, INC.

In January 2000, HEI Investment Corp. (HEIIC), incorporated in May 1984 primarily to make passive investments in corporate securities and other long-term investments, changed its name to HEI Investments, Inc. (HEIII). HEIII is not an "investment company" under the Investment Company Act of 1940 and has no direct employees. In February 2000, HEIII became a subsidiary of HEIPC.

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HEIII's long-term investments currently consist primarily of investments in leveraged leases. Since 1985, HEIII (then called HEIIC) has had a 15% ownership interest in an 818 MW coal-fired generating unit in Georgia, which is subject to a leveraged lease agreement. In 1987, HEIIC purchased commercial buildings on leasehold properties located in the continental United States, along with the related lease rights and obligations. These leveraged, purchase-leaseback investments include two major buildings housing operations of Hershey Foods in Pennsylvania and five supermarkets leased to The Kroger Co. in various states.

On March 6, 2000, a subsidiary of HEIII, HEIPC Philippines Holding Co., Inc., acquired a 50% interest in EPHE Philippines Energy Company, Inc., which was the owner of approximately 91.7% of the common stock of East Asia Power Resources Corporation (EAPRC), a Philippines holding company primarily engaged in the electric generation business in Manila and Cebu. The Company wrote off this investment as of December 31, 2000 and subsequently classified the write-off in discontinued operations. See Note 14 to HEI's Consolidated Financial Statements.

HEI PROPERTIES, INC.

HEIDI Real Estate Corp., originally a subsidiary of HEIDI, was formed in February 1998. In September 1999, its name was changed to HEIPI and HEIDI transferred ownership of HEIPI to HEI. HEIPI currently holds an investment in Utech Venture Capital Corporation and an investment in HMS Hawaii, a Hawaii limited partnership.

HEI LEASING, INC.

HEI Leasing, Inc. was formed in February 2000 to own passive investments and real estate subject to leases. It currently holds no investments or real estate subject to leases.

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THE OLD OAHU TUG SERVICE, INC.

On November 10, 1999, HTB changed its name to TOOTS. Prior to that date, HTB was the parent of YB. In November 1999, HTB sold substantially all of its operating assets and the stock of YB and ceased operations. HTB and its wholly-owned subsidiary, YB, had been acquired by HEI in 1986. HTB had provided marine transportation services in Hawaii and the Pacific area, including charter tug and barge and harbor tug operations. YB, which is a regulated interisland cargo carrier, transports general freight and containerized cargo by barge on a regular schedule between all major ports in Hawaii.

DISCONTINUED OPERATIONS

For information concerning the Company's discontinued international power operations conducted by HEIPC and its subsidiaries and its discontinued residential real estate development business conducted by MPC and its subsidiaries, see "Certain factors that may affect future results and financial condition-Consolidated-Discontinued operations and asset dispositions" in HEI's MD&A and Note 14 to HEI's Consolidated Financial Statements.

REGULATION AND OTHER MATTERS

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HOLDING COMPANY REGULATION

HEI and HECO are holding companies within the meaning of the Public Utility Holding Company Act of 1935 (1935 Act). However, under current rules and regulations, they are exempt from the comprehensive regulation of the SEC under the 1935 Act except for Section 9(a)(2) (relating to the acquisition of securities of other public utility companies) through compliance with certain annual filing requirements under the 1935 Act for holding companies which own utility businesses that are intrastate in character. The exemption afforded HEI and HECO may be revoked if the SEC finds that such exemption "may be detrimental to the public interest or the interest of investors or consumers." HEI and HECO may own or have interests in foreign utility operations without adversely affecting this exemption so long as the requirements of other exemptions under the 1935 Act are satisfied. HEI has obtained the PUC certification which is a prerequisite to obtaining an exemption for foreign utility operations and to the Company's maintenance of its exemption under the 1935 Act if it acquires such ownership interests. In 1996, HEI filed with the SEC a Form U-57, "Notification of Foreign Utility Company Status," on behalf of HEI Power Corp. Guam (for the HEIPC Group's Guam project). In 1998, HEI filed two Forms U-57 on behalf of Baotou Tianjiao Power Co., Ltd. (for the HEIPC Group's China project) and on behalf of Cagayan Electric Power & Light Co., Inc. (for the HEIPC Group's investment in that entity). In March 2000, HEI filed a Form U-57 on behalf of EAPRC (for the HEIPC Group's investment in that entity). With the discontinuance of HEIPC's international power operations, no further Form U-57 filings are contemplated.

Legislation has been introduced in Congress in the past that would repeal the 1935 Act, leaving the regulation of utility holding companies to be governed by other federal and state laws. Management cannot predict if similar legislation will be proposed or enacted in the future or the final form it might take.

HEI is subject to an agreement entered into with the PUC (the PUC Agreement) when HECO became a subsidiary of HEI. The PUC Agreement, among other things, requires HEI to provide the PUC with periodic financial information and other reports concerning intercompany transactions and other matters. It prohibits the electric utilities from loaning funds to HEI or its nonutility subsidiaries and from redeeming common stock of the electric utility subsidiaries without PUC approval. Further, the PUC could limit the ability of the electric utility subsidiaries to pay dividends on their common stock. See "Restrictions on dividends and other distributions" and "Electric utility regulation" (regarding the PUC review of the relationship between HEI and HECO).

As a result of the acquisition of ASB, HEI and HEIDI are subject to OTS registration, supervision and reporting requirements as savings and loan holding companies. In the event the OTS has reasonable cause to believe that the continuation by HEI or HEIDI of any activity constitutes a serious risk to the financial safety, soundness, or stability of ASB, the OTS is authorized under the Home Owners' Loan Act of 1933, as amended, to impose certain

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restrictions in the form of a directive to HEI and any of its subsidiaries, or HEIDI and any of its subsidiaries. Such possible restrictions include limiting (i) the payment of dividends by ASB; (ii) transactions between ASB, HEI or HEIDI, and the subsidiaries or affiliates of ASB, HEI or HEIDI; and (iii) the activities of ASB that might create a serious risk that the liabilities of HEI and its other affiliates, or HEIDI and its other affiliates, may be imposed on ASB. Theoretically, this authority would allow the OTS to prohibit dividends, limit affiliate transactions or otherwise restrict activities as a result of losses suffered by HEI, HEIDI or their other subsidiaries, and thus conceivably may be an indirect means of limiting affiliations between ASB and affiliates

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engaged in nonfinancial activities. See "Restrictions on dividends and other distributions."

OTS regulations also generally prohibit savings and loan holding companies and their nonthrift subsidiaries from engaging in activities other than those which are specifically enumerated in the regulations. Such restrictions, if applicable to HEI and HEIDI, would significantly limit the kinds of activities in which HEI and HEIDI and their subsidiaries may engage. However, the OTS regulations provide for an exemption which is available to HEI and HEIDI if ASB satisfies the qualified thrift lender (QTL) test discussed below. See "Bank regulation--Qualified thrift lender test." ASB must continue to meet the qualified thrift lender test in order to avoid restrictions on the activities of HEI and HEIDI and their subsidiaries. The failure of ASB to satisfy the QTL test could result in a need to divest ASB. ASB met the QTL test at all times during 2001.

HEI and HEIDI are prohibited, directly or indirectly, or through one or more subsidiaries, from (i) acquiring control of, or acquiring by merger or purchase of assets, another insured institution or holding company thereof, without prior written OTS approval; (ii) acquiring more than 5% of the voting shares of another savings association or savings and loan holding company which is not a subsidiary; or (iii) acquiring or retaining control of a savings association not insured by the FDIC. No director or officer of HEI or HEIDI, or person beneficially owning more than 25% of such holding company's voting shares, may, except with the prior approval of the OTS, (a) also serve as director, officer, or employee of any insured institution or (b) acquire control of any savings association not a subsidiary of such holding company.

ASB Realty Corporation, a subsidiary of ASB, is licensed as a nondepository financial services loan company under the Hawaii Code of Financial Institutions. As a result of its direct or indirect voting control of ASB Realty Corporation, each of HEI, HEIDI and ASB has registered as a "Financial Institution Holding Company" and an "Institution-Affiliated Party" under the Hawaii Code. As a Financial Institution Holding Company, HEI, HEIDI and ASB are subject to examination by the Hawaii Commissioner of Financial Institutions (Hawaii Commissioner) to determine whether their respective conditions or activities are jeopardizing the safety and soundness of ASB Realty Corporation's operations. However, the Hawaii Commissioner is authorized to conduct such an examination only if the Hawaii Commissioner has good cause to believe that the holding company is experiencing financial adversity which might have a material negative impact on the safety and soundness of ASB Realty Corporation.

The Hawaii Commissioner has authority to issue a cease and desist order to ASB Realty Corporation, ASB, HEIDI and HEI, if, for example, the Commissioner has reasonable grounds to believe that such entity is violating or about to violate the Hawaii Code or is engaged in or about to engage in illegal, unauthorized, unsafe or unsound practices. In appropriate circumstances, the Commissioner may also have authority to order ASB Realty Corporation to correct any impairment of its capital and surplus and to prohibit ASB, HEIDI and HEI from participating in the affairs of ASB Realty Corporation.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS

HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, the principal sources of its funds are dividends or other distributions from its operating subsidiaries, borrowings and sales of equity. The rights of HEI and, consequently, its creditors and shareholders, to participate in any distribution of the assets of any of its subsidiaries is subject to the prior claims of the creditors and preferred stockholders of such subsidiary, except to the extent that claims of HEI in its capacity as a creditor are recognized.

The abilities of certain of HEI's subsidiaries to pay dividends or make other distributions to HEI are subject to contractual and regulatory restrictions. Under the PUC Agreement, in the event that the consolidated common stock equity of the electric utility subsidiaries falls below 35% of total electric utility capitalization, the electric utility subsidiaries would be restricted, unless they obtained PUC approval, in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed to relinquish any right the PUC may have to review the dividend policies of the electric utility subsidiaries. The consolidated common stock equity of HEI's electric utility subsidiaries was 52% of their total capitalization (including the current maturities of long-term debt, but excluding short-term borrowings) as of December 31, 2001. As of December 31, 2001, HECO and its subsidiaries had net assets of \$877 million, of which approximately \$441 million were not available for transfer to HEI without regulatory approval.

The ability of ASB to make capital distributions to HEI and other affiliates is restricted under federal law. Subject to a limited exception for stock redemptions that do not result in any decrease in ASB's capital and would improve ASB's financial condition, ASB is prohibited from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, ASB would be deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized. See "Bank regulation--Prompt corrective action."

As a Tier-1 institution (one that meets its capital requirements and has not been notified by the OTS that it is in need of more than normal supervision), ASB may make capital distributions in amounts up to one-half of ASB's surplus capital (the amount of its capital in excess of its capital requirement) at the beginning of a calendar year, plus its year-to-date net income for that calendar year. ASB, as a Tier-1 institution, may exceed the foregoing limits if ASB provides a thirty-day advance notice to the OTS and receives no objection within thirty days. However, even in the case of distributions within the permissible limits, a thirty-day advance notice to the OTS is required.

HEI and its subsidiaries are also subject to debt covenants, preferred stock resolutions and the terms of guarantees that could limit their respective abilities to pay dividends. The Company does not expect that the regulatory and contractual restrictions applicable to HEI or its direct and indirect subsidiaries will significantly affect the operations of HEI or its ability to pay dividends on its common stock.

ELECTRIC UTILITY REGULATION

The PUC regulates the rates, issuance of securities, accounting and certain other aspects of the operations of HECO and its electric utility subsidiaries. See the previous discussions under "Electric utility--Rates" and "Electric utility--Rate requests," and "Regulation of electric utility rates" and "Recent rate requests" in HECO's MD&A.

Any adverse decision or policy made or adopted by the PUC, or any prolonged delay in rendering a decision, could have a material adverse effect on consolidated HECO's and the Company's financial condition, results of operations or liquidity.

The PUC has ordered the electric utility subsidiaries to develop plans for the

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integration of demand- and supply-side resources available to meet consumer energy needs efficiently, reliably and at the lowest reasonable cost. See the previous discussion under "Electric utility--Integrated resource planning and requirements for additional generating capacity."

On December 30, 1996, the PUC issued an order instituting a proceeding to identify and examine the issues surrounding electric competition and to determine the impact of competition on the electric utility infrastructure in Hawaii. See the previous discussion under "Electric utility--Competition."

Certain transactions between HEI's electric public utility subsidiaries (HECO, MECO and HELCO) and HEI and affiliated interests, are subject to regulation by the PUC. All contracts (including summaries of unwritten agreements), made on or after July 1, 1988 of \$300,000 or more in a calendar year for management, supervisory,

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construction, engineering, accounting, legal, financial and similar services and for the sale, lease or transfer of property between a public utility and affiliated interests must be filed with the PUC to be effective, and the PUC may issue cease and desist orders if such contracts are not filed. All such affiliated contracts for capital expenditures (except for real property) must be accompanied by comparative price quotations from two nonaffiliates, unless the quotations cannot be obtained without substantial expense. Moreover, all transfers of \$300,000 or more of real property between a public utility and affiliated interests require the prior approval of the PUC and proof that the transfer is in the best interest of the public utility and its customers. If the PUC, in its discretion, determines that an affiliated contract is unreasonable or otherwise contrary to the public interest, the utility must either revise the contract or risk disallowance of the payments for ratemaking purposes. In ratemaking proceedings, a utility must also prove the reasonableness of payments made to affiliated interests under any affiliated contract of \$300,000 or more by clear and convincing evidence. An "affiliated interest" is defined by statute and includes officers and directors of a public utility, every person owning or holding, directly or indirectly, 10% or more of the voting securities of a public utility, and corporations which have in common with a public utility more than one-third of the directors of that public utility.

In January 1993, to address community concerns expressed at the time, HECO proposed that the PUC initiate a review of the relationship between HEI and HECO and the effects of that relationship on the operations of HECO. The PUC opened a docket and initiated such a review to determine whether the HEI-HECO relationship, HEI's diversified activities, and HEI's policies, operations and practices had resulted in or were having any negative effects on HECO, its electric utility subsidiaries and ratepayers. In May 1994, the PUC selected a consultant, Dennis Thomas and Associates, to perform the review. In early 1995, Dennis Thomas and Associates issued its report (the Thomas report) to the PUC. The Thomas report concluded that "on balance, diversification has not hurt electric ratepayers." Other major findings were that (1) no utility assets have been used to fund HEI's nonutility investments or operations, (2) management processes within the electric utilities operate without interference from HEI and (3) HECO's access to capital did not suffer as a result of HEI's involvement in nonutility activities and that diversification did not permanently raise or lower the cost of capital incorporated into the rates paid by HECO's utility customers. The Thomas report also included a number of recommendations, most of which the Company has implemented. In December 1996, the PUC issued an order that adopted the Thomas report in its entirety, ordered HECO to continue to provide the PUC with status reports on its compliance with the PUC agreement (pursuant to which HEI became the holding company of HECO)

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and closed the investigation and proceeding. The PUC has not required that the Company implement all of the recommendations in the Thomas report. In the order, the PUC also stated that it adopted the recommendation of the DOD that HECO, MECO and HELCO present a comprehensive analysis of the impact that the holding company structure and investments in nonutility subsidiaries have on a case-by-case basis on the cost of capital to each utility in future rate cases and remove such effects from the cost of capital. In its rate increase application filed in the first quarter of 1998, MECO provided an affidavit of a consultant retained by Dennis Thomas and Associates for the review. The consultant stated that "the methodology used to establish the allowed rate of return for electric utility operations inherently avoids any bias which might be introduced by HEI's diversified activities," and further stated that the findings of the comprehensive review conducted for the Thomas report with respect to the availability and cost of capital to HEI and its utility subsidiaries would not be expected to be materially different from those adopted by the PUC in December 1996. The consultant reached similar conclusions in an affidavit provided with HELCO's rate increase application filed in October 1999, which conclusions were updated by an affidavit provided with HELCO's rebuttal testimonies filed in June 2000. See also "Holding company regulation."

HECO and its subsidiaries are not subject to regulation by the Federal Energy Regulatory Commission under the Federal Power Act, except under Sections 210 through 212 (added by Title II of PURPA and amended by the Energy Policy Act of 1992), which permit the Federal Energy Regulatory Commission to order electric utilities to interconnect with qualifying cogenerators and small power producers, and to wheel power to other electric utilities. Title I of PURPA, which relates to retail regulatory policies for electric utilities, and Title VII of the Energy Policy Act

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of 1992, which creates "exempt wholesale generators" (EWGs) as a category that is exempt from the 1935 Act and addresses transmission access, also apply to HECO and its subsidiaries. The Company cannot predict the extent to which cogeneration, EWGs or transmission access will reduce its electrical loads, reduce its current and future generating and transmission capability requirements or affect its financial condition, results of operations or liquidity.

Because they are located in the State of Hawaii, HECO and its subsidiaries are exempt by statute from limitations set forth in the Powerplant and Industrial Fuel Act of 1978 on the use of petroleum as a primary energy source.

BANK REGULATION

ASB, a federally chartered savings bank, and its holding companies are subject to the regulatory supervision of the OTS and, in certain respects, the FDIC and the Hawaii Commissioner of Financial Institutions. See above under "Holding company regulation." In addition, ASB must comply with Federal Reserve Board reserve requirements and OTS liquidity requirements. See "Liquidity and capital resources--Bank" in HEI's MD&A.

Deposit insurance coverage. The Federal Deposit Insurance Act, as amended by the Federal Deposit Insurance Corporation Insurance Act of 1991 (FDICIA), and regulations promulgated by the FDIC, govern insurance coverage of deposit amounts. Generally, the deposits maintained by a depositor in an insured institution are insured to \$100,000, with the amount of all deposits held by a depositor in the same capacity (even if held in separate accounts) aggregated for purposes of applying the \$100,000 limit. For example, all deposits held in a depositor's individual capacity are aggregated with each other but not with

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deposits maintained by such depositor and his or her spouse in a qualifying joint account, these latter joint deposits being separately insured to an aggregate of \$100,000. An individual's interest in deposits at the same institution in any combination of certain retirement accounts and employee benefit plans will be added together and insured up to \$100,000 in the aggregate.

Institutions that are "well capitalized" under the FDIC's prompt corrective action regulations are generally able to provide "pass-through" insurance coverage (i.e., insurance coverage that passes through to each owner/beneficiary of the applicable deposit) for the deposits of most employee benefit plans (i.e., \$100,000 per individual participating, not \$100,000 per plan). Consequently, the FDIC deposit insurance regulations require financial institutions to provide employee benefit plan depositors information, not otherwise available, on the institution's capital category and whether "pass-through" deposit insurance is available. As of December 31, 2001, ASB was "well capitalized."

Congress is currently considering legislation which would increase the limit on insured accounts. Under this legislation, insurance coverage limits on individual accounts would increase to \$130,000. This increase is supported by the FDIC and opposed by the Bush Administration and Federal Reserve Chairman Alan Greenspan.

Federal thrift charter. See "Certain factors that may affect future results and financial condition-Bank-Regulation of ASB--Federal Thrift Charter" in HEI's MD&A.

Recent legislation. The Gramm-Leach-Bliley Act of 1998 (the Act) imposes on financial institutions an obligation to protect the security and confidentiality of its customers' nonpublic personal information and, on February 1, 2001, the FDIC and OTS issued final guidelines for the establishment of standards for safeguarding such information effective from July 1, 2001. The Act also requires public disclosure of certain agreements entered into by insured depository institutions and their affiliates in fulfillment of the Community Reinvestment Act of 1977, and the filing of an annual report with the appropriate regulatory agencies. On January 10, 2001, the FDIC and the OTS issued final rules implementing these provisions of the Act, effective from April 1, 2001. Although the Act will continue to impose additional compliance costs on ASB, ASB believes that any ongoing compliance costs will not be significant.

The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the 2001 Act) imposes on financial institutions a wide variety of additional obligations with respect to such matters as collecting information, monitoring relationships and reporting suspicious activities. Among other things, the 2001 Act requires the U.S. Treasury to issue regulations establishing minimum requirements for verifying the identity of persons seeking to open an account, maintaining records of the information used for such verification, and consulting lists of known or

suspected terrorists or terrorist organizations. Although ASB has "know your customer" policies in place, it will not be able to assess the additional cost (if any) of complying with the new regulations until they are issued. The 2001 Act also requires financial institutions to establish anti-money laundering programs and, with respect to correspondent and private banking accounts of non-U.S. persons, to implement appropriate due diligence policies to detect money laundering activities carried out through such accounts. ASB is monitoring the steps being taken by the regulatory agencies to implement these

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and other provisions of the 2001 Act.

Capital requirements. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the OTS has set three capital standards for thrifts, each of which must be no less stringent than those applicable to national banks. As of December 31, 2001, ASB was in compliance with all of the minimum standards with a core capital ratio of 6.6% (compared to a 4.0% requirement), a tangible capital ratio of 6.6% (compared to a 1.5% requirement) and risk-based capital ratio of 13.4% (based on risk-based capital of \$426.5 million, \$171.9 million in excess of the 8.0% requirement).

Effective April 1, 1999, the OTS revised its risk-based capital standards as part of the effort by the OTS, FDIC, the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency to implement the provisions of the Riegle Community Development and Regulatory Improvement Act of 1994, which requires these agencies to work together to make uniform their respective regulations and guidelines implementing common statutory or supervisory policies. These OTS revisions affect the risk-based capital treatment of: (1) construction loans on presold residential properties; (2) junior liens on 1- to 4-family residential properties; (3) investments in mutual funds; and (4) the core capital leverage ratio for institutions which do not have a composite rating of "1" under the Uniform Financial Institution Rating System (i.e., the CAMELS rating system). Under the new rules, an institution with a composite rating of "1" under the CAMELS rating system must maintain core capital in an amount equal to at least 3% of adjusted total assets. All other institutions must maintain a minimum core capital of 4% of adjusted total assets, and higher capital ratios may be required if warranted by particular circumstances. As of December 31, 2001, ASB met the minimum core capital requirement applicable to it of 4% of adjusted total assets.

On March 15, 2001, the OTS issued proposed rules that would reduce certain capital burdens on thrifts by, among others, permitting one-to four-family residential mortgage loans to qualify for a 50% risk rate in calculating capital charges for so long as such loans have a loan-to-value ratio of less than 90%, are not more than 90 days delinquent and are prudently underwritten. Under existing regulations, the maximum loan-to-value ratio for such loans to qualify for a 50% risk ratio is 80% at origination. In addition, the OTS proposed to eliminate the requirement that a thrift must deduct from total capital the portion of a land loan or non-residential construction loan that exceeds an 80% loan-to-value ratio.

On January 1, 2002, new OTS regulations went into effect with respect to the capital treatment of certain asset-backed securities. Although ASB is still in the process of analyzing the impact of these new regulations, ASB's preliminary view is that the new regulations will probably have a slight positive impact on ASB's risk-based capital ratio.

Affiliate transactions. Significant restrictions apply to certain transactions between ASB and its affiliates, including HEI and its direct and indirect subsidiaries. FIRREA significantly altered both the scope and substance of such limitations on transactions with affiliates and provided for thrift affiliate rules similar to, but more restrictive than, those applicable to banks. For example, ASB is prohibited from making any loan or other extension of credit to an entity affiliated with ASB unless the affiliate is engaged exclusively in activities which the Federal Reserve Board has determined to be permissible for bank holding companies. There are also various other restrictions which apply to certain transactions between ASB and certain executive officers, directors and insiders of ASB. ASB is also barred from making a purchase of or any investment in securities issued by an affiliate, other than with respect to shares of a subsidiary of ASB.

Financial Derivatives and Interest Rate Risk. In 1996, the Board of Governors

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of the Federal Reserve System, the FDIC and the Office of the Comptroller of the Currency issued a joint agency policy statement to bankers to provide

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guidance on sound practices for managing interest rate risk. However, the OTS has elected not to pursue a standardized policy towards interest rate risk and investment and derivatives activities with the other federal banking regulators.

On December 1, 1998, the OTS issued final rules on financial derivatives, effective January 1, 1999. The OTS views these final rules as consistent with, although more detailed than, the 1996 joint policy statement. The purpose of these rules is to update the OTS rules on financial derivatives, which had remained virtually unchanged for over 15 years. Most significantly, the new rules address interest rate swaps, a derivative instrument commonly used by thrifts to manage interest rate risk which was not addressed in the prior OTS rules. Currently ASB does not use interest rate swaps to manage interest rate risk, but may do so in the future. Generally speaking, the new rules permit thrifts to engage in transactions involving financial derivatives to the extent these transactions are otherwise authorized under applicable law and are safe and sound.

The new rules have required ASB to revise its internal procedures for handling financial derivative transactions, including increased involvement of the ASB Board of Directors in authorizing and monitoring such transactions.

Concurrently with the issuance of the new rules of financial derivative transactions, the OTS also adopted on December 1, 1998 Thrift Bulletin 13a (TB 13a) for purpose of providing guidance on the management of interest rate risks, investment securities and derivatives activities. TB 13a also describes the guidelines OTS examiners will use in assigning the "Sensitivity to Market Risk" component rating under the Uniform Financial Institutions Rating System (i.e., the CAMELS rating system). TB 13a became effective on December 1, 1998, and replaces several previous Thrift Bulletins dealing with interest rate risk and securities activities.

On March 15, 2001, the OTS issued proposed rules that would eliminate the interest rate risk component of the OTS's risk-based capital regulations. As a result of waivers granted by the Acting OTS Director, these regulations had never gone into effect and the OTS had relied instead on the interest rate risk guidelines of TB 13a, which would continue in effect even if the risk-based capital regulations were eliminated. If its interest rate risk regulations were eliminated, OTS proposes to apply a 100% risk weight to all stripped, mortgage-related securities regardless of issuer or guarantor.

TB 13a updates the OTS's minimum standards for thrift institutions' interest rate risk management practices with regard to board-approved risk limits and interest rate risk measurement systems, and makes several significant changes. First, under TB 13a, institutions no longer set board-approved limits or provide measurements for the plus and minus 400 basis point interest rate scenarios prescribed by the original TB 13. TB 13a also changes the form in which those limits should be expressed. Second, TB 13a provides guidance on how the OTS will assess the prudence of an institution's risk limits. Third, TB 13a raises the size threshold above which institutions should calculate their own estimates of the interest rate sensitivity of Net Portfolio Value (NPV) from \$500 million to \$1 billion in assets. Fourth, TB 13a specifies a set of desirable features that an institution's risk measurement methodology should utilize. Fifth, TB 13a provides an extensive discussion of "sound practices" for interest rate risk management.

TB 13a also contains guidance on thrifts' investment and derivatives activities

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by describing the types of analysis institutions should perform prior to purchasing securities or financial derivatives. TB13a also provides guidelines on the use of certain types of securities and financial derivatives for purposes other than reducing portfolio risk.

Finally, TB 13a provides detailed guidelines for implementing part of the Notice announcing the revision of the CAMELS rating system, published by the Federal Financial Institutions Examination Council. That publication announced revised interagency policies that, among other things, established the Sensitivity to Market Risk component rating (the "S" rating). TB 13a provides quantitative guidelines for an initial assessment of an institution's level of interest rate risk. Examiners have broad discretion in implementing those guidelines. It also provides guidelines concerning the factors examiners consider in assessing the quality of an institution's risk management systems and procedures.

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Liquidity. Effective July 18 2001, the OTS removed the regulation that required a savings association to maintain an average daily balance of liquid assets of at least 4% of their liquidity base and retained a provision requiring a savings association to maintain sufficient liquidity to ensure safe and sound operations. At December 31, 2001, ASB maintained, in the opinion of management, liquid assets at a level that was sufficient to ensure its safe and sound operation.

Supervision. The adoption of FDICIA in 1991 subjected the banking and thrift industries to heightened regulation and supervision. FDICIA made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions and improvement of accounting standards. FDICIA also limited deposit insurance coverage, implemented changes in consumer protection laws and called for least-cost resolution and prompt corrective action with regard to troubled institutions.

Pursuant to FDICIA, the federal banking agencies promulgated regulations which may affect the operations of ASB and its holding companies. Such regulations address, for example, standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates, and loans to insiders.

Prompt corrective action. FDICIA establishes a statutory framework that is triggered by the capital level of a savings association and subjects it to progressively more stringent restrictions and supervision as capital levels decline. The OTS rules implement the system of prompt corrective action. In particular, the rules define the relevant capital measures for the categories of "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized."

A savings association that is "undercapitalized" or "significantly undercapitalized" is subject to additional mandatory supervisory actions and a number of discretionary actions if the OTS determines that any of the actions is necessary to resolve the problems of the association at the least possible long-term cost to the SAIF. A savings association that is "critically undercapitalized" must be placed in conservatorship or receivership within 90 days, unless the OTS and the FDIC concur that other action would be more appropriate.

Interest rates. FDIC regulations restrict the ability of financial institutions that are undercapitalized to offer interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2001, ASB was "well capitalized" and thus not subject to these interest rate restrictions.

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Qualified thrift lender test. FDICIA amended the QTL test provisions of FIRREA by reducing the percentage of assets thrifts must maintain in "qualified thrift investments" from 70% to 65%, and changing the computation period to require that the percentage be reached on a monthly average basis in 9 out of the previous 12 months. The 1997 Omnibus Appropriations Act expanded the types of loans that constitute "qualified thrift investments" from the traditional category of housing-related loans to include small business loans, education loans, loans made through credit card accounts, as well as a basket of other consumer loans and certain other types of assets not to exceed 20% of total assets. Savings associations that fail to satisfy the QTL test by not holding the required percentage of "qualified thrift investments" are subject to various penalties, including limitations on their activities. Failure to satisfy the QTL test would also bring into operation restrictions on the activities that may be engaged in by HEI, HEIDI and their other subsidiaries and could effectively result in the required divestiture of ASB. At all times during 2001, ASB was in compliance with the QTL test. As of December 31, 2001, 89.4% of ASB's portfolio assets was "qualified thrift investments." See "Holding company regulation."

Federal Home Loan Bank System. ASB is a member of the FHLB System which consists of 12 regional FHLBs. The FHLB System provides a central credit facility for member institutions. Historically, the FHLBs have served as the central liquidity facilities for savings associations and sources of long-term funds for financing housing. The FHLB may only make long-term advances to ASB for the purpose of providing funds for financing residential housing. At such time as an advance is made to ASB or renewed, it must be secured by collateral from one of the following categories: (1) fully disbursed, whole first mortgages on improved residential property, or securities representing a whole interest in such mortgages; (2) securities issued, insured or guaranteed by the U.S. Government or any

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agency thereof; (3) FHLB deposits; and (4) other real estate-related collateral that has a readily ascertainable value and with respect to which a security interest can be perfected. The aggregate amount of outstanding advances secured by such other real estate-related collateral may not exceed 30% of ASB's capital.

ASB, as a member of the FHLB of Seattle, is required to own shares of capital stock in the FHLB of Seattle in an amount equal to the greater of 1% of ASB's aggregate unpaid residential loan principal at the beginning of each year, 0.3% of total assets or 5% of FHLB advances outstanding and any shares held by ASB in excess of its required minimum may be immediately redeemed by ASB. However, as a result of the Gramm-Leach-Bliley Act, each regional FHLB is required to formulate and submit for Federal Housing Finance Board (Board) approval a plan to meet new minimum capital standards to be promulgated by the Board. The Board issued the final regulations establishing the new minimum capital standards on January 30, 2001. As mandated by Gramm-Leach-Bliley, these regulations require each FHLB to maintain a minimum total capital leverage ratio of 5% of total assets and include risk-based capital standards requiring each FHLB to maintain permanent capital in an amount sufficient to meet credit risk and market risk. In June 2001, the FHLB of Seattle formulated a capital plan to meet these new minimum capital standards, which plan has been submitted to the Board for approval. Until this plan has been approved, ASB will be required to continue to own shares of capital stock in the FHLB of Seattle in accordance with the percentages specified above. If the plan is approved, ASB's obligation to own shares of capital stock in the FHLB of Seattle will be governed by the plan. ASB currently owns capital stock in the FHLB of Seattle in excess of the amount required under current regulations. This excess totals approximately \$32.6 million. The new plan would require ASB to own capital stock in the FHLB of

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Seattle in an amount equal to the total of 3.5% of FHLB of Seattle's advances to ASB plus the greater of (i) 5% of the outstanding balance of loans sold to the FHLB of Seattle by ASB or (ii) 0.75% of ASB's mortgage loans and pass through securities. If the plan were approved in its present form and had applied to ASB as of December 31, 2001, the plan would have increased the capital stock ASB is required to own in the FHLB of Seattle by approximately \$11.3 million and would have reduced ASB's excess capital stock in that institution to approximately \$21.3 million. In addition, stock in FHLB of Seattle will be subject to a 5-year notice of redemption as opposed to the currently applicable immediate redemption rights. If adopted, this 5-year notice period would have an adverse effect on ASB's liquidity. The FHLB of Seattle has indicated that it expects the Board to approve the plan by June 30, 2002.

Community Reinvestment. In 1977, Congress enacted the Community Reinvestment Act (CRA) to ensure that banks and thrifts help meet the credit needs of their communities, including low- and moderate-income areas, consistent with safe and sound lending practices. The OTS will consider ASB's CRA record in evaluating an application for a new deposit facility, including the establishment of a branch, the relocation of a branch or office, or the acquisition of an interest in another bank or thrift. ASB received a CRA rating of "outstanding" from the OTS in December 1997 and such rating was reaffirmed in March 2000.

Other laws. ASB is subject to federal and state consumer protection laws which affect lending activities, such as the Truth-in-Lending Law, the Truth-in-Savings Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and several federal and state financial privacy acts. These laws may provide for substantial penalties in the event of noncompliance. ASB believes that its lending activities are in compliance with these laws and regulations.

ENVIRONMENTAL REGULATION

HEI and its subsidiaries are subject to federal and state statutes and governmental regulations pertaining to water quality, air quality and other environmental factors.

Water quality controls. As part of the process of generating electricity, water used for condenser cooling of the electric utility subsidiaries' steam electric generating stations is discharged into ocean waters or into underground injection wells. The subsidiaries are periodically required to obtain permits from the DOH in order to be allowed to discharge the water, including obtaining permit renewals for existing facilities and new permits for new facilities. The electric utility subsidiaries must obtain National Pollutant Discharge Elimination System (NPDES) permits from the

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DOH to allow wastewater and storm water discharges into state and federal waters for their coastal generating stations and Underground Injection Control (UIC) permits for wastewater discharge to underground injection wells for one MECO facility and several HELCO facilities.

The DOH conducted NPDES permit compliance inspections at MECO's Kahului and Maalaea generating stations in July 2001, and at HECO's Waiiau generating station in October 2001. All facilities were found to be in compliance with NPDES permit requirements.

By letter dated February 13, 2001, the DOH disapproved HELCO's current UIC permit renewal application for the Keahole power plant. The disapproval was based on purported inaccuracies in the application, including certain operations that the DOH considers to be related to the EPA's NOV regarding

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pre-PSD construction. In consultation with the DOH, HELCO registered the injection wells as inactive. HELCO intends to permit and reactivate the wells upon resolution of land use issues at the Keahole power plant.

The Federal Oil Pollution Act of 1990 (OPA) governs actual or threatened oil releases in navigable U.S. waters (inland waters and up to three miles offshore) and waters of the U.S. exclusive economic zone (up to 200 miles to sea from the shoreline). Responsible parties under OPA are jointly and severally strictly liable for 1) oil removal costs incurred by the federal government or the state, and 2) damages to natural resources and real or personal property. Responsible parties include vessel owners and operators. OPA imposes fines and jail terms ranging in severity depending on how the release was caused. OPA also requires that responsible parties submit certificates of financial responsibility sufficient to meet the responsible party's maximum limited liability. HECO is currently involved in an ongoing investigation of the Honolulu Harbor area. (See Note 11 to HECO's Consolidated Financial Statements.) Under the terms of the agreement for the sale of YB, HEI and TOOTS have certain environmental obligations arising from conditions existing prior to the sale of YB, including obligations with respect to the Honolulu Harbor investigation. See Note 3 to HEI's Consolidated Financial Statements.

Air quality controls. The generating stations of the utility subsidiaries operate under air pollution control permits issued by the DOH and, in a limited number of cases, by the EPA. The entire electric utility industry is affected by the 1990 Amendments to the Clean Air Act (CAA), recent changes to the National Ambient Air Quality Standard (NAAQS) for ozone, and adoption of a NAAQS for fine particulate matter. Possible changes to the federal New Source Review permitting regulations, as well as new regulatory programs, if enacted, regarding global warming and mandating further reductions of certain air emissions will also pose challenges for the industry. Hawaii utilities may be affected by the air toxics provisions (Title III) of the CAA when the Maximum Allowable Control Technology (MACT) emission standards are proposed for generation units. Hawaii utilities are affected by the CAA's operating permit provisions (Title V). Title V permits have been issued for Honolulu, Waiiau, Maalaea, Miki Basin, Hill-Kanoelehewa, Puna, Shipman, Kahului and Palaaau power plants. Several Title V permit applications are being processed by the DOH and EPA.

Initial source tests in December 1989 and subsequent retesting for HELCO's CT-2 generating unit indicated particulate emissions above permitted levels. Following analysis, HECO (on behalf of HELCO) proposed in November 1990 that the permitted particulate limit be increased. By letter dated April 13, 1992, the EPA concurred that revision is warranted. The DOH issued an NOV on August 17, 1992 for the noncomplying emissions. HECO and HELCO worked with the DOH, the manufacturer and a consultant to determine an appropriate new emission limit for particulates as well as oxides of nitrogen. In accordance with discussions with the DOH, CT-2 continues to operate pending issuance of a revised permit. On January 20, 1998, the DOH issued an NOV to HELCO for noncomplying emissions from March 16, 1993 through December 20, 1994 and from March 22, 1996 through November 6, 1997. HELCO paid fines totaling \$22,100 in the settlement of both the 1992 and 1998 NOV's. Unit CT-2 is currently operating within all existing permit limits by virtue of its having passed its annual source tests since 1997. The DOH has prepared a draft permit for CT-2 with revised limits for emissions of particulates and nitrogen oxides. A public hearing on the CT-2 permit revisions was held on January 7, 2002. HELCO is awaiting issuance of the final permit.

Hazardous waste and toxic substances controls. The operations of the electric utility and former freight transportation subsidiaries are subject to regulations promulgated by the EPA to implement the provisions of the Resource

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Conservation and Recovery Act (RCRA), the Superfund Amendments and Reauthorization Act and the Toxic Substances Control Act. In 2001, the DOH obtained primacy to operate state-authorized RCRA (hazardous waste) programs. The DOH finalized RCRA administrative rules in mid-June 1994, with the rules becoming effective on June 18, 1994. The DOH's state contingency plan and the State of Hawaii Environmental Response Law (ERL) rules were adopted in August 1995.

Whether on a federal or state level, RCRA provisions identify certain wastes as hazardous and set forth measures that must be taken in the transportation, storage, treatment and disposal of these wastes. Some of the wastes generated at steam electric generating stations possess characteristics which make them subject to these EPA regulations. Since October 1986, all HECO generating stations have operated RCRA-exempt wastewater treatment units to treat potentially regulated wastes from occasional boiler waterside and fireside cleaning operations. Steam generating stations at MECO and HELCO also operate similar RCRA-exempt wastewater management systems.

The EPA issued a final regulatory determination on May 22, 2000, concluding that fossil fuel combustion wastes do not warrant regulation as hazardous under Subtitle C of RCRA. This determination retains (or maintains) the existing hazardous waste exemption for these types of wastes. It also allows for more flexibility in waste management strategies. The electric utilities' waste characterization programs continue to demonstrate the adequacy of the existing treatment systems. Waste recharacterization studies indicate that treatment facility wastestreams are nonhazardous.

RCRA underground storage tank (UST) regulations require all facilities with USTs used for storing petroleum products to comply with costly leak detection, spill prevention and new tank standard retrofit requirements. All HECO, HELCO and MECO USTs currently meet these standards and continue in operation.

The DOH conducted solid and hazardous waste compliance inspections under RCRA at HELCO's Hill generating station (including the Kanoelehua base yard) and Puna generating station in April 2000. The DOH issued inspection reports and warning letters to HELCO for the Hill/Kanoelehua facility and the Puna facility in June and July 2000, respectively. HELCO addressed the potential deficiencies at the Hill/Kanoelehua facility and submitted a response to the DOH in July 2000. The DOH issued a return to compliance letter for this facility in late July 2000. HELCO submitted its responses to the DOH's Puna facility's warning letter in September and December 2000. In January 2002, the DOH issued a second warning letter regarding a regulatory interpretation issue related to used oil processing at Puna. Based on follow-up discussions with the DOH, HELCO will submit a permit application to bring closure to the used oil processing issue and submitted a response to the DOH in March 2002. No enforcement action is anticipated.

The EPA conducted RCRA compliance inspections at the Kahului and Maalaea generating stations in June 2001. The Kahului facility is currently considered to be in compliance with RCRA requirements. In August 2001, the EPA issued a Warning Letter to MECO for potential RCRA deficiencies at the Maalaea facility, all of which have been addressed by MECO. MECO submitted its response to the warning letter and additional requested data to the EPA in September 2001. EPA has yet to issue its final response for the Maalaea facility.

The DOH conducted UST inspections at HELCO's Kona and Kanoelehua operations centers (May 1998); MECO's Kahului T&D baseyard (June 1998); and HECO's Waiiau power plant (August 1998), Koolau Baseyard (August 1998) and Kahe power plant (September 1998). Both HELCO facilities were found to be operating in compliance with UST regulations. The DOH subsequently issued NOV's for alleged deficiencies in compliance with UST requirements for MECO's and HECO's facilities. MECO received an NOV in July 1998 for the Kahului baseyard. MECO

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completed corrective measures and submitted certifications of compliance status to the DOH in March 1999. The DOH issued NOVs to HECO for the Koolau and Kahe facilities in December 1998, and for the Waiau facility in January 1999. HECO completed corrective measures and submitted certifications of compliance status to the DOH for Koolau and Kahe in January 1999, and Waiau in February 1999. No additional enforcement actions by the DOH

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are anticipated at this time. In July 1999, the DOH conducted a UST inspection at HECO's Ward Avenue Complex. The DOH conducted another follow-up UST inspection at the Ward Avenue Complex in January 2002. The facility was found to be in compliance with UST requirements in both inspections.

In removing an existing UST system during a tank replacement project in October 1999, HELCO found petroleum contamination beneath the fuel dispenser system at HELCO's Kanoelehua Baseyard. HELCO submitted a release notification letter to the DOH on October 20, 1999. HELCO excavated and disposed of approximately 350 cubic yards of clean soil and 83 cubic yards of impacted soil at the West Hawaii Sanitary Landfill. HELCO submitted a UST closure report to the DOH on January 14, 2000. There remains some subsurface contamination. The DOH subsequently issued a letter in January 2000 requiring the further delineation of contaminated soils and determination of the need for a ground water monitoring well. HELCO submitted a Short Term Release Report to the DOH in April 2000. HELCO conducted additional soil sampling and installed a groundwater monitoring well per DOH requirements. Sample results indicated that the DOH cleanup levels had been met. HELCO submitted a report and a request for "No Further Action" to the DOH on August 8, 2000. The DOH has not yet responded to HELCO's request.

The Emergency Planning and Community Right-to-Know Act under Superfund Amendments and Reauthorization Act Title III requires HECO, MECO and HELCO to report potentially hazardous chemicals present in their facilities in order to provide the public with information on these chemicals so that emergency procedures can be established to protect the public in the event of hazardous chemical releases. All HECO, MECO and HELCO facilities are in compliance with applicable annual reporting requirements to the State Emergency Planning Commission, the Local Emergency Planning Committee and local fire departments. In September 1995, the EPA published a notice of proposed rule making to expand the types of industries required to file annual Toxics Release Inventory reports (i.e., to report facility releases of toxic chemicals). Effective January 1, 1998, the final rule included the steam electric category that was previously exempt from Toxics Release Inventory reporting requirements. The electric utilities implemented actions to comply with reporting requirements. HECO, MECO and HELCO have timely filed release reports since 1998.

The Toxic Substances Control Act regulations specify procedures for the handling and disposal of polychlorinated biphenyls (PCB), a compound found in transformer and capacitor dielectric fluids. HECO and its subsidiaries instituted procedures to monitor compliance with these regulations. In addition, HECO implemented a program to identify and replace PCB transformers and capacitors in the HECO system. All HECO, MECO and HELCO facilities are currently believed to be in compliance with PCB regulations. In 1998, the EPA published the final rule on the PCB disposal amendments. The rule provides flexibility in selecting disposal technologies for PCB wastes and expands the list of available decontamination procedures; provides less burdensome mechanisms for obtaining EPA approval for a variety of activities; clarifies and/or modifies certain provisions where implementation questions have arisen; modifies the requirements regarding the use and disposal of PCB equipment; and addresses outstanding issues associated with the notification and manifesting of PCB wastes and changes in the operation of commercial storage facilities. This rule streamlines procedures and focuses on self-implementing requirements and the elimination of duplication. Some

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activities currently requiring PCB disposal approvals will no longer require those approvals. The EPA believes that this rule will result in substantial cost savings to the regulated community while protecting against unreasonable risk of injury to health and the environment from exposure to PCBs.

The ERL, as amended, governs releases of hazardous substances, including oil, in areas within the state's jurisdiction. Responsible parties under the ERL are jointly, severally and strictly liable for a release of a hazardous substance into the environment. Responsible parties include owners or operators of a facility where a hazardous substance comes to be located and any person who at the time of disposal of the hazardous substance owned or operated any facility at which such hazardous substance was disposed. The DOH issued final rules (or State Contingency Plan) implementing the ERL on August 17, 1995. Potential exposure to liability under the ERL/State Contingency Plan is associated with the release of regulated substances, including oil, to the environment.

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ASB may be subject to the provisions of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and regulations promulgated thereunder. CERCLA imposes liability for environmental cleanup costs on certain categories of responsible parties, including the current owner and operator of a facility and prior owners or operators who owned or operated the facility at the time the hazardous substances were released or disposed. CERCLA exempts persons whose ownership in a facility is held primarily to protect a security interest, provided that they do not participate in the management of the facility. Although there may be some risk of liability for ASB for environmental cleanup costs in the event ASB forecloses on, and becomes the owner of, property with environmental problems, the Company believes the risk is not as great for ASB as it may be for other depository institutions that have a larger portfolio of commercial loans.

SECURITIES RATINGS

As of March 13, 2002, the Standard & Poor's (S&P) and Moody's Investors Service's (Moody's) ratings of HEI's and HECO's securities were as follows:

	S&P

HEI	

Commercial paper.....	A-2
Medium-term notes.....	BBB
HEI-obligated preferred securities of trust subsidiary.....	BB+
HECO	

Commercial paper.....	A-2
Revenue bonds (insured).....	AAA
Revenue bonds (noninsured).....	BBB+
HECO-obligated preferred securities of trust subsidiaries.....	BBB-
Cumulative preferred stock (selected series).....	nr

nr Not rated.

The above ratings are not recommendations to buy, sell or hold any securities;

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such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating. These ratings reflect only the view of the applicable rating agency at the time the ratings are issued, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that any such credit rating will remain in effect for any given period of time or that such rating will not be lowered, suspended or withdrawn entirely by the applicable rating agency if, in such rating agency's judgment, circumstances so warrant. Any such lowering, suspension or withdrawal of any rating may have an adverse effect on the market price or marketability of HEI's and/or HECO's securities, which could increase the cost of capital of HEI and HECO. Neither HEI nor HECO management can predict future rating agency actions or their effects on the future cost of capital of HEI or HECO.

S&P has a "Negative" ratings outlook for HEI and HECO due in part to weakness in the Hawaii economy. Moody's has a "Stable" ratings outlook for HEI and HECO. Management believes that, if HEI's and HECO's commercial paper ratings were downgraded, the Company might not be able to sell commercial paper under current market conditions.

The revenue bonds in the above table are issued by the Department of Budget and Finance of the State of Hawaii for the benefit of HECO and its subsidiaries, but the source of their repayment are the unsecured obligations of HECO and its subsidiaries under loan agreements and notes issued to the Department, including HECO's guarantees of its subsidiaries' obligations. The payment of principal and interest due on several series of these revenue bonds are insured either by MBIA Insurance Corporation or by Ambac Assurance Corporation, and the ratings of those bonds are based on the ratings of the obligations of the bond insurer rather than HECO.

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RESEARCH AND DEVELOPMENT

HECO and its subsidiaries expensed approximately \$2.6 million, \$3.0 million and \$2.4 million in 2001, 2000 and 1999, respectively, for research and development. Contributions to the Electric Power Research Institute accounted for most of the expenses. There were also expenses in the areas of energy conservation, environmental and emissions controls, and expenses for studies relative to technologies that are applicable to HECO, its subsidiaries and their customers.

EMPLOYEE RELATIONS

At December 31, 2001, the Company had 3,189 full-time employees, compared with 3,126 at December 31, 2000. At December 31, 2001 and 2000, HEI had 47 and 49 full-time employees, respectively.

HECO

At December 31, 2001, HECO and its subsidiaries had 1,930 full-time employees, compared with 1,941 at December 31, 2000. In August 2000, certain electric utility employees ratified new collective bargaining agreements covering approximately 62% of the employees of HECO, HELCO and MECO. See "Collective bargaining agreements" in HECO's MD&A.

OTHER

The employees of HEI and its direct and indirect subsidiaries, other than the electric utilities, are not covered by any collective bargaining agreement.

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ITEM 2. PROPERTIES

HEI leases office space from a nonaffiliated lessor in downtown Honolulu under a

lease that expires on March 31, 2006. HEI also subleases office space from HECO
in downtown Honolulu. The properties of HEI's subsidiaries are as follows:

ELECTRIC UTILITY -----

See page 5 for the "Generation statistics" of HECO and its subsidiaries,
including generating and firm purchased capability, reserve margin and annual
load factor.

The electric utilities' overhead and underground transmission and distribution
systems (with the exception of substation buildings and contents) have a
replacement value roughly estimated at \$2 billion and are uninsured because the
amount of transmission and distribution system insurance available is limited
and the premiums are extremely high.

HECO owns and operates three generating plants on the island of Oahu at

Honolulu, Waiiau and Kahe, with an aggregate generating capability of 1,263 MW at
December 31, 2001. The three plants are situated on HECO-owned land having a
combined area of 535 acres and one 3 acre parcel of land under a lease expiring
December 31, 2018. In addition, HECO owns a total of 126 acres of land on which
substations, transformer vaults, distribution baseyards and the Kalaeloa
cogeneration facility are located.

Electric lines are located over or under public and nonpublic properties. Most
of HECO's leases, easements and licenses have been recorded.

HECO owns overhead transmission lines, overhead distribution lines, underground
cables, poles (fully owned or jointly owned) and steel or aluminum high voltage
transmission towers. The transmission system operates at 46,000 and 138,000
volts. The total capacity of HECO's transmission and distribution substations
was 6,585,800 kilovoltamperes at December 31, 2001.

HECO owns buildings and approximately 11.5 acres of land located in Honolulu
which houses its operating, engineering and information services departments
and a warehousing center. It also leases an office building and

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certain office spaces in Honolulu. The lease for the office building expires in
November 2004, with an option to further extend the lease to November 2014. The
leases for certain office spaces expire on various dates through November 30,
2007 with options to extend to various dates through November 30, 2017.

HECO owns 19.2 acres of land at Barbers Point used to situate fuel oil storage
facilities with a combined capacity of 970,700 barrels. HECO also owns fuel oil
tanks at each of its plant sites with a total maximum usable capacity of 844,600
barrels.

MECO owns and operates two generating plants on the island of Maui, at Kahului

and Maalaea, with an aggregate capability of 234.1 MW as of December 31, 2001.
The plants are situated on MECO-owned land having a combined area of 28.6 acres.
MECO also owns fuel oil storage facilities at these sites with a total maximum
usable capacity of 176,355 barrels. MECO also owns 65.7 acres of undeveloped

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land at Waena.

MECO's administrative offices and engineering and distribution departments are located on 9.1 acres of MECO-owned land in Kahului.

MECO also owns and operates smaller distribution systems, generation systems (with an aggregate capability of 22.5 MW as of December 31, 2001) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by MECO.

HELCO owns and operates five generating plants on the island of Hawaii. These

 plants at Hilo (2), Waimea, Kona and Puna have an aggregate generating capability of 153.0 MW as of December 31, 2001 (excluding two small run-of-river hydro units, four 1 MW dispersed generators and one small windfarm). The plants are situated on HELCO-owned land having a combined area of approximately 43 acres. HELCO also owns 6 acres of land in Kona, which is used for a baseyard, and leases 4 acres of land for its baseyard in Hilo under a lease expiring in 2030. The deeds to the sites located in Hilo contain certain restrictions which do not materially interfere with the use of the sites for public utility purposes. HELCO occupies 78 acres of land for the windfarm, pursuant to a long-term operating agreement.

BANK

ASB owns its executive office building in downtown Honolulu and land and an

 operations center in the Mililani Technology Park on Oahu.

The following table sets forth information with respect to branches owned and leased by ASB at December 31, 2001.

	Number of branches	
	Owned	Leased
Oahu.....	10	38
Maui.....	3	5
Kauai.....	3	3
Hawaii.....	2	5
Molokai.....	-	1
	18	52

At December 31, 2001, the net book value of branches and office facilities is approximately \$42 million. Of this amount, \$36 million represents the net book value of the land and improvements for the branches and office facilities owned by ASB and \$6 million represents the net book value of ASB's leasehold improvements. The leases expire on various dates from April 2002 through December 2029 and 24 of the leases have extension provisions.

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Except as identified in "Item 1. Business," there are no known material pending legal proceedings to which HEI or any of its subsidiaries is a party or to which any of their property is subject. Certain HEI subsidiaries are involved in ordinary routine litigation incidental to their respective businesses.

DISCONTINUED OPERATIONS

See Note 14 to HEI's Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

HEI AND HECO:

During the fourth quarter of 2001, no matters were submitted to a vote of security holders of the Registrants.

EXECUTIVE OFFICERS OF THE REGISTRANT (HEI)

The following persons are, or may be deemed, executive officers of HEI. Their ages are given as of February 13, 2002 and their years of company service are given as of December 31, 2001. Officers are appointed to serve until the meeting of the HEI Board of Directors after the next Annual Meeting of Stockholders (which will occur on April 23, 2002) and/or until their successors have been appointed and qualified (or until their earlier resignation or removal). Company service includes service with an HEI subsidiary.

HEI Executive Officers	Business past fi

Robert F. Clarke, age 59	
Chairman of the Board, President and Chief Executive Officer.....	9/98 to
President and Chief Executive Officer.....	1/91 to
Director	4/89 to
(Company service: 14 years)	
Robert F. Mougeot, age 59	
Financial Vice President, Treasurer and Chief Financial Officer.....	11/00 t
Financial Vice President and Chief Financial Officer.....	4/89 to
(Company service: 13 years)	
Peter C. Lewis, age 67	
Vice President - Administration and Corporate Secretary.....	1/99 to
Vice President - Administration.....	10/89 t
(Company service: 33 years)	
Charles F. Wall, age 62	
Vice President and Corporate Information Officer.....	7/90 to
(Company service: 11 years)	
Andrew I. T. Chang, age 62	
Vice President - Government Relations.....	4/91 to
(Company service: 16 years)	

Business
for pas

HEI Executive Officers

(continued)

Curtis Y. Harada, age 46	
Controller.....	1/91 to
(Company service: 12 years)	
T. Michael May, age 55	
President and Chief Executive Officer, Hawaiian Electric Company, Inc.....	9/95 to
Director, Hawaiian Electric Industries, Inc.....	9/95 to
Senior Vice President, Hawaiian Electric Industries, Inc.....	9/95 to
(Company service: 9 years)	
Constance H. Lau, age 49	
President and Chief Executive Officer, American Savings Bank, F.S.B.....	6/01 to
Director, Hawaiian Electric Industries, Inc.....	6/01 to
Chief Operating Officer, American Savings Bank, F.S.B.....	12/99 t
Treasurer, Hawaiian Electric Industries, Inc.....	4/89 to
(Company service: 17 years)	

HEI's executive officers, with the exception of Charles F. Wall and Andrew I. T. Chang, are also officers and/or directors of one or more of HEI's subsidiaries. Mr. May and Ms. Lau are deemed to be executive officers of HEI for purposes of this Item under the definition of Rule 3b-7 of the SEC's General Rules and Regulations under the Securities Exchange Act of 1934.

There are no family relationships between any executive officer of HEI and any other executive officer or director of HEI, or any arrangement or understanding between any executive officer and any person pursuant to which the officer was selected.

PART II

ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

HEI:

The information required by this item is incorporated herein by reference to pages 3, 60 (Note 12, "Regulatory restrictions on net assets") and 64 (Note 16, "Quarterly information (unaudited)") of HEI's Consolidated Financial Statements. Certain restrictions on dividends and other distributions of HEI are described in this report under "Item 1. Business--Regulation and other matters--Restrictions on dividends and other distributions." HEI's common stock is traded on the New York Stock Exchange and the total number of holders of record of HEI common stock as of March 13, 2002, was 16,203.

HEI has issued unregistered common stock during 2001, 2000 and 1999 pursuant to the HEI 1990 Nonemployee Director Stock Plan, amended effective April 27, 1999 (the Subsidiary Director Plan), the HEI 1999 Nonemployee Company Director Stock Grant Plan (the HEI Nonemployee Director Plan), the HECO Utility Group Team Incentive Plan and the HECO Utility Group Team Incentive Plan for Bargaining Unit Employees (collectively, the Team Incentive Plan). Under the Subsidiary Director Plan, 60% of the annual retainer payable to nonemployee subsidiary directors is paid in HEI common stock. Under the HEI Nonemployee Director Plan, in addition to an annual cash retainer of \$20,000, a stock grant of 300 shares

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of HEI common stock is granted to each HEI nonemployee director. Under the Team Incentive Plan, eligible employees of HECO, MECO and HELCO receive awards of HEI common stock based on the attainment of performance goals by the respective companies.

In 2001, 2000 and 1999, under the Subsidiary Director Plan, HEI issued 1,932, 2,268 and 2,004 shares of HEI common stock, respectively, in exchange for the retention of cash that would otherwise have been paid to

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subsidiary directors as retainers in the aggregate amounts of \$72,000, \$84,000 and \$72,000, respectively. In 2001, 2000 and 1999, under the HEI Nonemployee Director Plan, HEI issued 2,700, 3,000 and 3,000 shares of HEI common stock, respectively, with market values at the time of grant in the aggregate amounts of \$101,000, \$111,000 and \$108,000, respectively, to HEI directors in addition to the retainer. In 2001, 2000 and 1999, under the Team Incentive Plan, HEI issued 57,693, 73,552 and 51,974 shares of HEI common stock, respectively, in exchange for cash received by HEI from the electric utility subsidiaries in the aggregate amounts of \$2.1 million, \$2.2 million and \$1.9 million, respectively. HEI did not register the shares issued under the director stock plans since they did not involve a "sale" as defined under Section 2(3) of the Securities Act of 1933, as amended. Participation by nonemployee directors of HEI and subsidiaries in the director stock plans is mandatory and thus does not involve an investment decision. HEI did not register the shares issued under the Team Incentive Plan because their initial sales to HECO, MECO and HELCO were exempt as transactions not involving any public offering under Section 4(2) of the Securities Act of 1933, as amended, and because their subsequent award to eligible employees did not involve a "sale," as defined in Section 2(3) of the Securities Act of 1933, as amended. Awards of HEI common stock under the Team Incentive Plan are made to eligible employees on the basis of their attainment of performance goals established by their respective companies and no cash or other tangible or definable consideration is paid by such employees to their respective companies for the shares. In early 2001, the Team Incentive Plan was terminated.

HECO:

The information required with respect to "Market information" and "holders" is not applicable. Since the corporate restructuring on July 1, 1983, all the common stock of HECO has been held solely by its parent, HEI, and is not publicly traded.

The dividends declared and paid on HECO's common stock for the four quarters of 2001 and 2000 were as follows:

Quarters ended	2001	2000
<hr style="border-top: 1px dashed black;"/>		
March 31.....	\$ -	\$13,952,000
June 30.....	-	17,794,000
September 30.....	17,037,000	18,011,000
December 31.....	19,272,000	18,765,000

The discussion of regulatory restrictions on distributions is incorporated herein by reference to page 42 (Note 12 to HECO's Consolidated Financial Statements, "Regulatory restrictions on distributions to parent") of HECO's

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Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

HEI:

The information required by this item is incorporated herein by reference to page 3 of HEI's Annual Report.

HECO:

The information required by this item is incorporated herein by reference to page 3 of HECO's Annual Report.

ITEM 7. MANagements' Discussion and Analysis of Financial Condition and Results of Operations

HEI:

The information required by this item is set forth in HEI's MD&A, incorporated herein by reference to pages 4 to 25 of HEI's Annual Report.

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HECO:

The information required by this item is set forth in HECO's MD&A, incorporated herein by reference to pages 4 to 18 of HECO's Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

HEI:

The information required by this item is incorporated herein by reference to pages 25 to 29 of HEI's Annual Report.

HECO:

The information required by this item is incorporated herein by reference to pages 19 to 20 of HECO's Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEI:

The information required by this item is incorporated herein by reference to pages 30 to 64 of HEI's Annual Report.

HECO:

The information required by this item is incorporated herein by reference to pages 21 to 52 of HECO's Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

HEI and HECO:

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

HEI:

Information for this item concerning the executive officers of HEI is set forth on pages 50 and 51 of this report. The list of current directors of HEI is incorporated herein by reference to page 65 of HEI's Annual Report. Information on the current directors' business experience and directorships is incorporated herein by reference to pages 5 to 7 of HEI's 2002 Proxy Statement, prepared for the Annual Meeting of Stockholders to be held on April 23, 2002 (HEI's 2002 Proxy Statement). Information on the remuneration of HEI Directors is incorporated herein by reference to pages 8 to 9 of HEI's 2002 Proxy Statement.

HECO:

The following persons are, or may be deemed to be, executive officers of HECO. Their ages are given as of February 13, 2002 and their years of company service are given as of December 31, 2001. Officers are appointed to serve until the meeting of the HECO Board of Directors after the next HECO Annual Meeting (which will occur in April 2002) and/or until their respective successors have been appointed and qualified (or until their earlier resignation or removal). Company service includes service with HECO affiliates.

HECO Executive Officers	Business for pas

Robert F. Clarke, age 59 Chairman of the Board..... (Company service: 14 years)	1/91 to
T. Michael May, age 55 President, Chief Executive Officer and Director..... Chairman of the Board, MECO and HELCO..... (Company service: 9 years)	9/95 to 9/95 to
Robert A. Alm, age 49 Senior Vice President - Public Affairs..... (Company service: 6 months) Robert A. Alm, prior to joining HECO, served as Executive Vice President of Financial Management Group at First Hawaiian Bank from 1/99 to 6/01 and Senior Vice President of Financial Management Group at First Hawaiian Bank from 2/96 to 12/98.	7/01 to
Thomas L. Joaquin, age 58 Senior Vice President - Operations..... Vice President - Power Supply..... (Company service: 28 years)	7/01 to 7/95 to
William A. Bonnet, age 58 Vice President - Government & Community Affairs..... President, Maui Electric Company, Inc..... (Company service: 16 years)	5/01 to 9/96 to
Jackie Mahi Erickson, age 61	

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Vice President - Customer Operations & General Counsel.....	10/98 t
Vice President - General Counsel & Government Relations.....	9/95 to
(Company service: 20 years)	
Charles M. Freedman, age 55	
Vice President - Corporate Relations.....	3/98 to
Vice President - Corporate Excellence.....	7/95 to
(Company service: 10 years)	
Chris M. Shirai, age 54	
Vice President - Energy Delivery.....	12/99 t
Manager, Engineering Department.....	7/96 to
(Company service: 32 years)	

HECO Executive Officers	Business
	for pas

(continued)

Richard A. von Gnechten, age 38	
Financial Vice President.....	12/00 t
Assistant Treasurer and Manager, Financial Services.....	5/00 to
Manager, Customer Service.....	12/96 t
(Company service: 10 years)	
Patricia U. Wong, age 45	
Vice President - Corporate Excellence.....	3/98 to
Manager, Environmental Department.....	10/96 t
Associate General Counsel, Legal Department.....	5/90 to
(Company service: 11 years)	
Lorie Ann K. Nagata, age 43	
Treasurer.....	12/00 t
Manager, Management Accounting.....	5/98 to
Assistant Treasurer.....	3/97 to
Director, Management Accounting.....	12/94 t
(Company service: 19 years)	
Ernest T. Shiraki, age 54	
Controller	5/89 to
(Company service: 32 years)	
Molly M. Egged, age 51	
Secretary.....	10/89 t
(Company service: 21 years)	

HECO's executive officers, with the exception of Robert A. Alm, Jackie Mahi Erickson, Charles M. Freedman, Thomas L. Joaquin, Chris M. Shirai and Patricia U. Wong, are also officers and/or directors of MECO or HELCO. HECO executive officers Robert F. Clarke, T. Michael May and Molly M. Egged are also officers of one or more of the affiliated nonutility HEI companies.

There are no family relationships between any executive officer or director of HECO and any other executive officer or director of HECO, or any arrangement or

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understanding between any director and any person pursuant to which the director was selected.

The list of current directors of HECO is incorporated herein by reference to page 54 of HECO's Annual Report. Information on the business experience and directorships of HECO directors who are also directors of HEI is incorporated herein by reference to pages 5 to 7 of HEI's 2002 Proxy Statement.

Anne M. Takabuki and Barry K. Taniguchi, ages 45 and 54, as of February 13, 2002, respectively, are the only outside directors of HECO who are not directors of HEI. Ms. Takabuki was elected a director of HECO in April 1997 and is Vice President/Secretary and General Counsel of Wailea Golf Resort, Inc. She also serves on the boards of Wailea Golf Resort, Inc. and its affiliated companies, MAGBA, Inc. and Kapiolani Health Foundation and is a

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member of the advisory Board of Directors of MECO. Mr. Taniguchi was elected a director of HECO in April 2001 and is President of KTA Super Stores. He also serves on the boards of ASB, Puna Plantation Hawaii, Limited, and K. Taniguchi, Ltd. and is a member of the advisory Board of Directors of HELCO.

HECO BOARD OF DIRECTORS

Committees of the HECO Board

During 2001, the Board of Directors of HECO had only one standing committee, the Audit Committee, which was comprised of three nonemployee directors: Diane J. Plotts, Chairman, Anne M. Takabuki and Barry K. Taniguchi. The Audit Committee holds such meetings as it deems advisable to review the financial operations of HECO. In 2001, the Audit Committee held five meetings to review with management, the internal auditor and HECO's independent auditors the activities of the internal auditor, the results of the annual audit by the independent auditors and the financial statements which are included in HECO's 2000 Annual Report to Stockholder.

Remuneration of HECO Directors and attendance at meetings

In 2001, Anne M. Takabuki and Barry K. Taniguchi were the only nonemployee HECO directors who were not also directors of HEI. They were each paid a retainer of \$20,000, 60% of which was distributed in the common stock of HEI pursuant to the Subsidiary Director Plan and 40% of which was distributed in cash. The number of shares of stock distributed was based on a share price of \$37.25, which represents the average high and low sales prices of HEI common stock on April 27, 2001, with a cash payment made in lieu of any fractional share. The nonemployee HECO directors who were also nonemployee HEI directors did not receive a separate retainer from HECO. In addition, a fee of \$700 was paid in cash to each nonemployee director (including nonemployee HECO directors who are also nonemployee HEI directors) for each Board and Committee meeting attended by the director. The Chairman of the HECO Audit Committee was paid an additional \$100 for each Committee meeting attended. Employee members of the Board of Directors are not compensated for attendance at any meeting of the Board or Committees of the Board.

In 2001, there were six regular bi-monthly meetings of the HECO Board of Directors, including one joint meeting with the HEI Board of Directors. All incumbent directors attended at least 75% of the combined total number of meetings of the Board and the Committee on which they served.

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ITEM 11. EXECUTIVE COMPENSATION

HEI:

The information required under this item for HEI is incorporated by reference to pages 10 and 13 to 25 of HEI's 2002 Proxy Statement.

HECO:

SUMMARY COMPENSATION TABLE

The following summary compensation table shows the annual and long-term compensation of the chief executive officer of HECO and the four other most highly compensated executive officers of HECO (collectively, the HECO Named Executive Officers) who served at the end of 2001. All compensation amounts presented for T. Michael May are the same amounts presented in HEI's 2002 Proxy Statement.

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation
		Salary (\$)	Bonus/ (1) / (\$)	Other Annual Compensation (\$)	Awards Securities Underlying Options/ (2) / (#)
T. Michael May President and Chief Executive Officer	2001	\$415,000	\$163,257	0	20,000
	2000	408,000	62,971	0	20,000
	1999	372,000	211,652	0	20,000
Thomas L. Joaquin..... Senior Vice President- Operations	2001	202,000	58,597	0	3,000
	2000	189,000	39,880	0	0
	1999	179,000	39,481	0	3,000
Jackie Mahi Erickson..... Vice President-Customer Operations/General Counsel	2001	181,000	47,844	0	3,000
	2000	175,000	44,803	0	0
	1999	163,000	43,666	0	3,000
Chris M. Shirai..... Vice President-Energy Delivery	2001	175,000	43,413	0	3,000
	2000	158,000	40,055	0	0
	1999	110,000	5,081	0	0
William A. Bonnet..... Vice President-Government & Community Affairs	2001	173,000	35,312	0	3,000
	2000	147,000	44,602	0	3,000
	1999	140,000	48,760	0	3,000

na Not applicable (not participants in the plan).

/(1)/ The HECO Named Executive Officers are eligible for an incentive award under the Company's annual Executive Incentive Compensation Plan (EICP).

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- EICP bonus payouts are reflected as compensation for the year earned.
- /(2)/ Options granted earn dividend equivalents as further described below under "Option grants in last fiscal year."
 - /(3)/ Long-Term Incentive Plan (LTIP) payouts are determined in the first half of each year for the three-year cycle ending on December 31 of the previous calendar year. In April 2000, LTIP payouts were made for the 1997-1999 performance cycle and are reflected as LTIP compensation in the table for 1999. In April 2001, no LTIP payouts were made for the 1998-2000 performance cycle because none of the minimum threshold levels was achieved. In February 2002, LTIP payouts were made for the 1999-2001 performance cycle and are reflected as LTIP compensation in the table for 2001.
 - /(4)/ Represents amounts accrued each year by the Company for certain preretirement death benefits provided to the named executive officers. Additional information concerning these death benefits is incorporated by reference to "Other Compensation Plans" on pages 23 to 24 of HEI's 2002 Proxy Statement.

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OPTION GRANTS IN LAST FISCAL YEAR

The following table presents information on the nonqualified stock options to acquire HEI common stock which were granted in 2001 to the executives named in the HECO Summary Compensation Table. The practice of granting stock options, which may include dividend equivalent shares, has been followed each year since 1987.

	OPTION GRANTS IN LAST FISCAL YEAR				Expiration Date
	Number of Securities Underlying Options Granted / (1) / (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/share)		
T. Michael May	20,000	12%	\$35.92		April 23
Thomas L. Joaquin.....	3,000	2	35.92		April 23
Jackie Mahi Erickson.....	3,000	2	35.92		April 23
Chris M. Shirai.....	3,000	2	35.92		April 23
William A. Bonnet.....	3,000	2	35.92		April 23

/(1)/ For the 32,000 option shares granted with an exercise price of \$35.92 per share, additional dividend equivalent shares are granted at no additional cost throughout the four-year vesting period (vesting in equal installments) which begins on the date of grant. Dividend equivalents are computed, as of each dividend record date, both with respect to the number of shares under the option and with respect to the number of dividend equivalent shares previously credited to the participant and not issued during the period prior to the dividend record date. Accelerated vesting is provided in the event a Change-in-Control occurs. No stock appreciation rights have been granted under the Company's stock option plans.

/(2)/ Present value is based on a Binomial Option Pricing Model, which is a variation of the Black-Scholes Option Pricing Model. For the stock options granted on April 23, 2001, with a 10-year option period, an exercise price of \$35.92, and with additional dividend equivalent

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shares granted for the first four years of the option, the Binomial Value adjusted for forfeiture risk is \$8.98 per share. The following assumptions were used in the model: Stock Price: \$35.92; Exercise Price: \$35.92; Term: 10 years; Volatility: 0.1893; Interest Rate: 5.42%; and Dividend Yield: 7.00%. The following were the valuation results: Binomial Option Value: \$4.48; Dividend Credit Value: \$4.50; and Total Value: \$8.98.

AGGREGATED OPTION EXERCISES AND FISCAL YEAREND OPTION VALUES

The following table shows the stock options, including dividend equivalents, exercised by the HECO Named Executive Officers in 2001. Also shown is the number of securities underlying unexercised options and the value of unexercised in the money options, including dividend equivalents, at the end of 2001. HEI, under the Stock Option and Incentive Plan, granted dividend equivalents to all HECO Named Executive Officers as part of their 2001, 1999 and 1997 grants, to Mr. Bonnet as part of his 2000 and 1998 grants and to Mr. May as part of his 2000, 1998 and 1996 grants.

Dividend equivalents permit a participant who exercises a stock option to obtain at no additional cost, in addition to the option shares, the amount of dividends declared on the number of shares of common stock with respect to which the option is exercised during the period between the grant and the exercise of the option. Dividend equivalents are computed as of each dividend record date throughout the four-year vesting period (vesting in equal installments) which begins on the date of grant, both with respect to the number of shares underlying the option and with respect to the number of dividend equivalent shares previously credited to the HECO Named Executive Officer and not issued during the period prior to the dividend record date.

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AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired	Dividend Equivalents	Value Realized	Value Realized On Dividend Equivalents (\$)	Number of Securities Underlying Unexercised Options (Including Dividend Equivalents) at Fiscal Year-End
					On Exercise (#)
T. Michael May.....	-	-	\$ -	\$ -	62,068 / 53,939
Thomas L. Joaquin.....	-	-	-	-	8,780 / 4,972
Jackie Mahi Erickson.....	1,000	-	4,520	-	7,780 / 4,972
Chris M. Shirai.....	-	-	-	-	500 / 3,150
William A. Bonnet.....	3,500	958	9,380	35,542	5,584 / 8,480

/(1)/ Values based on closing price of \$40.28 per share on the New York Stock Exchange on December 31, 2001.

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LONG-TERM INCENTIVE PLAN AWARDS TABLE

A Long-Term Incentive Plan award made to Mr. May in 2001 was the only such award made to the HECO Named Executive Officers. Additional information required under this item is incorporated by reference to "Long-Term Incentive Plan (LTIP) Awards" on pages 15 to 17 of HEI's 2002 Proxy Statement.

PENSION PLAN

The Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries (the Retirement Plan) provides a monthly retirement pension for life. Additional information required under this item is incorporated by reference to "Pension Plans" on pages 17 to 19 of HEI's 2002 Proxy Statement. As of December 31, 2001, the HECO Named Executive Officers had the following number of years of credited service under the Retirement Plan: Mr. May, 9 years; Mr. Bonnet, 16 years; Ms. Erickson, 20 years; Mr. Joaquin, 28 years; and Mr. Shirai, 32 years.

CHANGE-IN-CONTROL AGREEMENTS

Mr. May is the only HECO Named Executive Officer with whom HEI has a currently applicable Change-in-Control Agreement. Additional information required under this item is incorporated by reference to "Change-in-Control Agreements" on pages 19 to 20 of HEI's 2002 Proxy Statement.

EXECUTIVE MANAGEMENT COMPENSATION

The HEI Compensation Committee, composed of six independent nonemployee directors, approves executive compensation for the HECO Named Executive Officers. The information required to be disclosed concerning the Compensation Committee is incorporated herein by reference to page 10 of HEI's 2002 Proxy Statement. The HEI and HECO Boards of Directors review and approve all actions taken by the Committee concerning the HECO Named Executive Officers.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

HEI:

The information required under this item is incorporated by reference to page 12 of HEI's 2002 Proxy Statement.

HECO:

HEI owns all of HECO's common stock, which is HECO's only class of voting securities. HECO has also issued and has outstanding various series of preferred stock, the holders of which, upon certain defaults in dividend payments, have the right to elect a majority of the directors of HECO.

The following table shows the shares of HEI common stock beneficially owned by each HECO director (other than those who are also directors of HEI), by each HECO Named Executive Officer (other than Mr. May, who is a named executive officer of HEI) and by all HECO directors and all HECO executive officers as a group, as of February 13, 2002, based on information furnished by the respective individuals.

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Amount of Common Stock and Nature of Beneficial Ownership

Name of Individual or Group	Sole Voting or Investment Power	Shared Voting or Investment Power / (1) /	Other Beneficial Ownership / (2) /	Stock Options / (3) /
Directors				

Anne M. Takabuki	2,058	-	-	-
Barry K. Taniguchi	-	979	-	-
Other HECO Named				

Executive Officers				

Thomas L. Joaquin	5,728	1,427	31	8,806
Jackie Mahi Erickson	5,644	1,158	2	7,806
Chris M. Shirai	2,558	61	145	500
William A. Bonnet	2,065	-	-	6,651
All directors and executive officers as a group (18 persons)	60,785	3,866	2,821	128,791

* HECO directors Clarke, May, Plotts, Scott and Watanabe, who also serve on the HEI Board of Directors, are not shown separately, but are included in the total for all HECO directors and executive officers as a group. The information required as to these directors is incorporated by reference to page 12 of HEI's 2002 Proxy Statement. Messrs. Clarke and May are also named executive officers of HEI and are listed in the Summary Compensation Table incorporated by reference to page 13 of HEI's 2002 Proxy Statement. The number of shares of common stock beneficially owned by any HECO director or by all HECO directors and officers as a group does not exceed 1% of the outstanding common stock of HEI.

/(1)/ Shares registered in name of the individual and spouse.

/(2)/ Shares owned by spouse, children or other relatives sharing the home of the director or officer in which the director or officer disclaims personal interest.

/(3)/ Stock options, including accompanying dividend equivalents shares, exercisable within 60 days after February 13, 2002, under the 1987 Stock Option and Incentive Plan (as amended and restated effective June 19, 2001).

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

HEI:

The information required under this item is incorporated by reference to pages 28 and 29 of HEI's 2002 Proxy Statement.

HECO:

The information required under this item is incorporated by reference to pages 28 and 29 of HEI's 2002 Proxy Statement.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) (1) FINANCIAL STATEMENTS

The following financial statements contained in HEI's Annual Report and HECO's Annual Report are incorporated by reference in Part II, Item 8, of this Form 10-K:

	Pages in HEI' HECO's Annual
	----- HEI
Independent Auditors' Report.....	30
Consolidated Statements of Income, Years ended December 31, 2001, 2000 and 1999.....	31
Consolidated Statements of Retained Earnings, Years ended December 31, 2001, 2000 and 1999.....	na
Consolidated Balance Sheets, December 31, 2001 and 2000.....	32
Consolidated Statements of Capitalization, December 31, 2001 and 2000.....	na
Consolidated Statements of Changes in Stockholders' Equity, Years ended December 31, 2001, 2000 and 1999.....	33
Consolidated Statements of Cash Flows, Years ended December 31, 2001, 2000 and 1999.....	34
Notes to Consolidated Financial Statements.....	35-64

na Not applicable.

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(A) (2) FINANCIAL STATEMENT SCHEDULES

The following financial statement schedules for HEI and HECO are included in this report on the pages indicated below:

	Page/s in F
	----- HEI
Independent Auditors' Report.....	63
Schedule I Condensed Financial Information of Registrant, Hawaiian Electric Industries, Inc. (Parent Company) as of December 31, 2001 and 2000 and Years ended December 31, 2001, 2000 and 1999.....	65-67
Schedule II Valuation and Qualifying Accounts, Years ended December 31, 2001, 2000 and 1999.....	68

na Not applicable.

Certain schedules, other than those listed, are omitted because they are not

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required, or are not applicable, or the required information is shown in the consolidated financial statements (including the notes) included in HEI's Annual Report and HECO's Annual Report, which financial statements are incorporated herein by reference.

(A) (3) EXHIBITS

Exhibits for HEI and HECO and their subsidiaries are listed in the "Index to Exhibits" found on pages 69 through 79 of this Form 10-K. The exhibits listed for HEI and HECO are listed in the index under the headings "HEI" and "HECO," respectively, except that the exhibits listed under "HECO" are also considered exhibits for HEI.

(B) REPORTS ON FORM 8-K

HEI and HECO:

On January 18, 2002, HEI and HECO filed a Form 8-K, dated January 17, 2002, under Item 5 (Announcement of HEI's webcast and teleconference call to review yearend earnings on January 24, 2002).

On January 24, 2002, HEI and HECO filed a Form 8-K, dated January 23, 2002, under Item 5 (HEI's January 23, 2002 news release reporting 2001 earnings).

On January 28, 2002, HEI and HECO filed a Form 8-K, dated January 25, 2002, under Item 5 (Updates to HEI's webcast and teleconference call to review yearend earnings on January 24, 2002).

On February 19, 2002, HEI and HECO filed a Form 8-K, dated February 8, 2002, under Item 5, (Provides information about Hawaiian Electric Company, Inc.'s proposed 138 kv Kamoku-Pukele transmission line).

On March 6, 2002, HEI and HECO filed a Form 8-K, dated March 5, 2002, under Item 7, (HEI's Annual Report in its entirety and portions of HECO's Annual Report).

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[KPMG LLP letterhead]

Independent Auditors' Report

The Board of Directors and Stockholders
Hawaiian Electric Industries, Inc.:

Under date of January 23, 2002, we reported on the consolidated balance sheets of Hawaiian Electric Industries, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001, as contained in the 2001 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the Company's annual report on Form 10-K for the year 2001. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed in the accompanying index under Item 14.(a)(2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly,

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in all material respects, the information set forth therein.

As discussed in note 1 of notes to consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities.

/s/ KPMG LLP

Honolulu, Hawaii
January 23, 2002

[KPMG LLP letterhead]

Independent Auditors' Report

The Board of Directors and Stockholder
Hawaiian Electric Company, Inc.:

Under date of January 23, 2002, we reported on the consolidated balance sheets and consolidated statements of capitalization of Hawaiian Electric Company, Inc. (a subsidiary of Hawaiian Electric Industries, Inc.) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2001, as contained in the 2001 annual report to stockholder. These consolidated financial statements and our report thereon are incorporated by reference in the Company's annual report on Form 10-K for the year 2001. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule as listed in the accompanying index under Item 14.(a)(2). The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Honolulu, Hawaii
January 23, 2002

Hawaiian Electric Industries, Inc.
SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT
HAWAIIAN ELECTRIC INDUSTRIES, INC. (PARENT COMPANY)
CONDENSED BALANCE SHEETS

	December

(in thousands)	2001

Assets

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Cash and equivalents.....	\$	19,155
Advances to and notes receivable from subsidiaries.....		48,297
Available-for-sale investment securities.....		15,610
Accounts receivable.....		1,832
Property, plant and equipment, net.....		2,600
Deferred income tax assets.....		10,337
Other assets.....		5,530
Net assets of discontinued operations.....		-
Investments in subsidiaries, at equity.....		1,404,904

	\$	1,508,265
		=====

Liabilities and stockholders' equity

Liabilities

Accounts payable.....	\$	8,077
Notes payable to subsidiaries.....		6,314
Long-term debt.....		460,500
Loan from HEI Preferred Funding, LP (8.36% due in 2017).....		103,000
Deferred income taxes.....		-
Other.....		685
Net liabilities of discontinued operations.....		24

		578,600

Stockholders' equity

Preferred stock.....		-
Common stock.....		787,374
Retained earnings.....		147,837
Accumulated other comprehensive loss.....		(5,546)

		929,665

	\$	1,508,265
		=====

Note to Balance Sheets

Long-term debt consisted of the following:

Promissory notes, 6.1 - 7.6%, due in various years through 2014.....	\$	360,500
Promissory notes, 8.5 - 8.7%, paid in 2001.....		-
Promissory note, 6.2%, due in 2003		100,000

	\$	460,500
		=====

The aggregate payments of principal required subsequent to December 31, 2001 on long-term debt are \$60 million in 2002, \$136 million in 2003, \$1 million in 2004, \$37 million in 2005 and \$110 million in 2006.

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(in thousands)	Years ended December	
	2001	2000
Revenues /1/.....	\$ (5,338)	\$ 940
Equity in income from continuing operations of subsidiaries....	143,730	136,998
	138,392	137,938
Expenses:		
Operating, administrative and general.....	10,481	7,322
Depreciation of property, plant and equipment.....	1,047	1,347
Taxes, other than income taxes.....	472	315
	12,000	8,984
Operating income.....	126,392	128,954
Interest expense.....	43,539	40,195
Income from continuing operations before income tax benefits.....	82,853	88,759
Income tax benefits.....	24,893	20,577
Income from continuing operations.....	107,746	109,336
Gain (loss) from discontinued subsidiary operations.....	(24,041)	(63,592)
Net income.....	\$ 83,705	\$ 45,744

/1/ 2001 revenues includes \$8.7 million of writedowns of the income class notes that HEI purchased in connection with the termination of ASB's investment in trust certificates in May and July 2001. See "Disposition of certain debt securities" in Note 4 of HEI's Consolidated Financial Statements.

The Company's financial reporting policy for income tax allocations is based upon a separate entity concept whereby each subsidiary provides income tax expense (or benefits) as if each were a separate taxable entity. The difference between the aggregate separate tax return income tax provisions and the consolidated financial reporting income tax provision is charged or credited to HEI's separate tax provision.

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SCHEDULE I-- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (continued)
HAWAIIAN ELECTRIC INDUSTRIES, INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS

	Years e 2001
(in thousands)	
Cash flows from operating activities	
Income from continuing operations.....	\$ 107,746
Adjustments to reconcile income from continuing operations to net cash provided by operating activities	
Equity in net income of continuing subsidiaries.....	(143,730)
Common stock dividends/distributions received from subsidiaries.....	62,944
Depreciation of property, plant and equipment.....	1,047
Other amortization.....	579
Deferred income taxes.....	(6,778)
Changes in assets and liabilities	
Decrease (increase) in accounts receivable.....	(638)
Increase (decrease) in accounts payable.....	(346)
Changes in other assets and liabilities.....	(34,242)
Net cash provided by (used in) operating activities.....	(13,418)
Cash flows from investing activities	
Net decrease (increase) in advances to and notes receivable from subsidiaries..	(39,533)
Purchase of investments.....	(27,929)
Capital expenditures.....	(916)
Additional investments in subsidiaries.....	(1,424)
Other.....	16
Net cash provided by (used in) investing activities	(69,786)
Cash flows from financing activities	
Net increase (decrease) in notes payable to subsidiaries with original maturities of three months or less.....	2,675
Net decrease in commercial paper.....	-
Proceeds from issuance of long-term debt.....	100,000
Repayment of long-term debt.....	(60,500)
Net proceeds from issuance of common stock.....	78,937
Common stock dividends.....	(67,015)
Net cash provided by (used in) financing activities.....	54,097
Net cash provided by (used in) discontinued operations.....	47,585
Net increase (decrease) in cash and equivalents.....	18,478
Cash and equivalents, January 1.....	677
Cash and equivalents, December 31.....	\$ 19,155

Supplemental disclosures of noncash activities:

In 2001, 2000 and 1999, \$0.8 million, \$0.7 million and \$0.8 million, respectively, of HEI advances to HEIDI were converted to equity in noncash

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transactions.

In April 2000, HEI recommenced issuing new common shares under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP). From March 1998 to March 2000, HEI had acquired for cash its common shares in the open market to satisfy the requirements of the HEI DRIP. Under the HEI DRIP, common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to \$16 million in 2001 and \$12 million in 2000.

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Hawaiian Electric Industries, Inc.
and Hawaiian Electric Company, Inc.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2001, 2000 and 1999

Col. A	Col. B	Col. C	Col. D	
(in thousands)	Balance at begin- ning of period	Additions		Deductio
Description		Charged to costs and expenses	Charged to other accounts	
2001				

Allowance for uncollectible accounts- Hawaiian Electric Company, Inc. and subsidiaries.....	\$ 939	\$ 1,930	\$ 1,246(a)	\$ 2,855
Allowance for uncollectible interest (ASB).....	\$ 2,978	-	-	\$ 268
Allowance for losses for loans receivable (ASB).....	\$37,449	\$12,500	\$ 1,898(a)	\$ 9,623
2000				

Allowance for uncollectible accounts- Hawaiian Electric Company, Inc. and subsidiaries.....	\$ 1,057	\$ 1,403	\$ 948	\$ 2,469
Other companies.....	61	-	-	61
	\$ 1,118	\$ 1,403	\$ 948(a)	\$ 2,530
Allowance for uncollectible interest (ASB).....	\$ 5,695	-	-	\$ 2,717
Allowance for losses for loans receivable (ASB).....	\$35,348	\$13,050	\$ 2,389(a)	\$13,338
1999				

Allowance for uncollectible accounts- Hawaiian Electric Company, Inc. and				

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subsidiaries.....	\$ 1,293	\$ 2,299	\$ 1,117	\$ 3,652
Other companies.....	401	42	-	382
	\$ 1,694	\$ 2,341	\$ 1,117 (a)	\$ 4,034
Allowance for uncollectible interest (ASB).....	\$ 5,490	\$ 205	-	-
Allowance for losses for loans receivable (ASB).....	\$39,779	\$16,500	\$ 728 (a)	\$21,659

- (a) Primarily bad debts recovered.
 (b) Bad debts charged off.
 (c) Primarily related to the sale of YB.

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INDEX TO EXHIBITS

The exhibits designated by an asterisk (*) are filed herein. The exhibits not so designated are incorporated by reference to the indicated filing. A copy of any exhibit may be obtained upon written request for a \$0.20 per page charge from the HEI Shareholder Services Division, P.O. Box 730, Honolulu, Hawaii 96808-0730.

Exhibit no. -----	Description -----
HEI: ----	
3(i).1	HEI's Restated Articles of Incorporation (Exhibit 4(b) to Registration No. 33-7895).
3(i).2	Articles of Amendment of HEI filed June 13, 1990 (Exhibit 4(b) to Registration No. 33-40813).
3(i).3	Statement of Issuance of Shares of Preferred or Special Classes in Series for HEI Series A Junior Participating Preferred Stock filed October 28, 1997. (Exhibit 3(i).3 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-8503).
*3(ii)	HEI's Amended and Restated By-Laws.
4.1	Agreement to provide the SEC with instruments which define the rights of holders of certain long-term debt of HEI and its subsidiaries (Exhibit 4.1 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1992, File No. 1-8503).
4.2	Rights Agreement, dated as of October 28, 1997, between HEI and Continental Stock Transfer & Trust Company, as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificates (Exhibit 1 to HEI's Form 8-A, dated October 28, 1997, File No. 1-8503).
4.3	Indenture, dated as of October 15, 1988, between HEI and Citibank, N.A., as Trustee (Exhibit 4 to Registration No. 33-25216).
4.4	First Supplemental Indenture dated as of June 1, 1993 between

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HEI and Citibank, N.A., as Trustee, to Indenture dated as of October 15, 1988 between HEI and Citibank, N.A., as Trustee (Exhibit 4(a) to HEI's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993, File No. 1-8503).

- 4.4(a) Second Supplemental Indenture dated as of April 1, 1999 between HEI and Citibank, N.A., as Trustee, to Indenture dated as of October 15, 1988 between HEI and Citibank, N.A., as Trustee (Exhibit 4.1 to HEI's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, File No. 1-8503).

- 4.5 Pricing Supplements Nos. 1 through 9 to the Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed in connection with the sale of Medium-Term Notes, Series B (Exhibit 4(b) to HEI's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993, File No. 1-8503).

- 4.5(a) Pricing Supplement No. 11 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on December 1, 1995 in connection with the sale of Medium-Term Notes, Series B (Exhibit 4.8 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No. 1-8503).

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Exhibit no.	Description
4.5(b)	Pricing Supplement No. 12 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on February 12, 1996 in connection with the sale of Medium-Term Notes, Series B (Exhibit 4.9 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No. 1-8503).
4.5(c)	Pricing Supplements Nos. 13 through 14 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on September 26, 1997 in connection with the sale of Medium-Term Notes, Series B.
4.5(d)	Pricing Supplement No. 15 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on September 29, 1997 in connection with the sale of Medium-Term Notes, Series B.
4.5(e)	Pricing Supplement No. 16 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on September 30, 1997 in connection with the sale of Medium-Term Notes, Series B.
4.5(f)	Pricing Supplement No. 17 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on October 2, 1997 in connection with the sale of Medium-Term Notes, Series B.
4.5(g)	Pricing Supplement No. 20 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on February 6, 1998 in connection with the sale of Medium-Term Notes, Series B.
4.5(h)	Pricing Supplement No. 21 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on February 12, 1998 in connection with the sale of Medium-Term Notes, Series B.
4.5(i)	Pricing Supplement No. 22 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on June 10, 1998 in connection with the sale of Medium-Term Notes, Series B.

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- 4.5(j) Pricing Supplement No. 23 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on June 10, 1998 in connection with the sale of Medium-Term Notes, Series B.
- 4.5(k) Pricing Supplement No. 24 to Registration Statement on Form S-3 of HEI (Registration No. 33-58820) filed on June 10, 1998 in connection with the sale of Medium-Term Notes, Series B.
- 4.5(l) Pricing Supplement No. 1 to Registration Statement on Form S-3 of HEI (Registration No. 333-73225) filed on May 3, 1999 in connection with the sale of Medium-Term Notes, Series C.
- 4.5(m) Pricing Supplement No. 2 to Registration Statement on Form S-3 of HEI (Registration No. 333-73225) filed on April 11, 2000 in connection with the sale of Medium-Term Notes, Series C.

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Exhibit no.	Description
4.5(n)	Pricing Supplement No. 3 to Registration Statement on Form S-3 of HEI (Registration No. 333-73225) filed on April 5, 2001 in connection with the sale of Medium-Term Notes, Series C.
4.6	Amended and Restated Agreement of Limited Partnership of HEI Preferred Funding, LP dated as of February 1, 1997 (Exhibit 4(e) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.7	Amended and Restated Trust Agreement of Hawaiian Electric Industries Capital Trust I (HEI Trust I) dated as of February 1, 1997 (Exhibit 4(f) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.8	Junior Indenture between HEI and The Bank of New York, as Trustee, dated as of February 1, 1997 (Exhibit 4(i) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.9	Officers' Certificate in connection with issuance of 8.36% Junior Subordinated Debenture, Series A, Due 2017 under Junior Indenture of HEI (Exhibit 4(l) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.10	8.36% Trust Originated Preferred Security (Liquidation Amount \$25 Per Trust Preferred Security) of HEI Trust I (Exhibit 4(m) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.11	8.36% Junior Subordinated Debenture Series A, Due 2017, of HEI (Exhibit 4(n) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.12	Trust Preferred Securities Guarantee Agreement with respect to HEI Trust I dated as of February 1, 1997 (Exhibit 4(o) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
4.13	Partnership Guarantee Agreement with respect to the Partnership dated as of February 1, 1997 (Exhibit 4(p) to HEI's Current

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Report on Form 8-K dated February 4, 1997, File No. 1-8503).

- 4.14 Affiliate Investment Instruments Guarantee Agreement with respect to 8.36% Junior Subordinated Debenture of HEIDI dated as of February 1, 1997 (Exhibit 4(q) to HEI's Current Report on Form 8-K dated February 4, 1997, File No. 1-8503).
- 4.15 Certificate Evidencing Trust Common Securities of HEI Trust I dated February 4, 1997 (Exhibit 4.12 to the Quarterly Report on Form 10-Q of HEI Trust I and the Partnership, File No. 1-8503-02, for the quarter ended March 31, 1997).
- 4.16 Certificate Evidencing Partnership Preferred Securities of the Partnership dated February 4, 1997 (Exhibit 4.13 to the Quarterly Report on Form 10-Q of HEI Trust I and the Partnership, File No. 1-8503-02, for the quarter ended March 31, 1997).
- 10.1 PUC Order Nos. 7070, 7153, 7203 and 7256 in Docket No. 4337, including copy of "Conditions for the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc." dated September 23, 1982 (Exhibit 10 to Amendment No. 1 to Form U-1).

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Exhibit no.	Description
10.2	Regulatory Capital Maintenance/Dividend Agreement dated May 26, 1988, between HEI, HEIDI and the Federal Savings and Loan Insurance Corporation (by the Federal Home Loan Bank of Seattle) (Exhibit (28)-2 to HEI's Current Report on Form 8-K dated May 26, 1988, File No. 1-8503).
10.2(a)	OTS letter regarding release from Part II.B. of the Regulatory Capital Maintenance/Dividend Agreement dated May 26, 1988 (Exhibit 10.3(a) to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1992, File No. 1-8503).
10.3	Executive Incentive Compensation Plan (Exhibit 10(a) to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1987, File No. 1-8503).
10.4	HEI Executives' Deferred Compensation Plan (Exhibit 10.5 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, File No. 1-8503).
10.5	1987 Stock Option and Incentive Plan of HEI as amended and restated effective June 19, 2001 (Exhibit 4 to HEI's Current Report on Form 8-K, dated June 19, 2001, File No. 1-8503).
10.6	HEI Long-Term Incentive Plan (Exhibit 10.11 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, File No. 1-8503).
10.7	HEI Supplemental Executive Retirement Plan effective January 1, 1990 (Exhibit 10.9 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, File No. 1-8503).
10.8	HEI Excess Benefit Plan (Exhibit 10.13 (Exhibit A) to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-8503).

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- 10.9 Form of Change-in-Control Agreement (Exhibit 10.14 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-8503).
- 10.10 Nonemployee Director Retirement Plan, effective as of October 1, 1989 (Exhibit 10.15 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-8503).
- 10.11 HEI 1990 Nonemployee Director Stock Plan, as amended effective April 27, 1999 (Exhibit 10.11 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, File No. 1-8503).
- 10.12 HEI 1999 Nonemployee Company Director Stock Grant Plan (Exhibit 10.12 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, File No. 1-8503).
- 10.13 HEI Nonemployee Directors' Deferred Compensation Plan (Exhibit 10.14 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, File No. 1-8503).
- 10.14 Form of HEI and HECO Executives' Deferred Compensation Agreement. The agreement pertains to and is substantially identical for all the HEI and HECO executive officers (Exhibit 10.15 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, File No. 1-8503).

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Exhibit no.	Description
*11	Computation of Earnings per Share of Common Stock. Filed herein as page 80.
*12.1	Computation of Ratio of Earnings to Fixed Charges. Filed herein as pages 81 and 82.
13	HEI's Annual Report (Appendix A to the Proxy Statement prepared for the Annual Meeting to Stockholders to be held on April 23, 2002) (HEI Exhibit 13.1 to HEI's Current Report on Form 8-K dated March 5, 2002, File No. 1-8503).
18	KPMG LLP letter re: change in accounting principle (Exhibit 18.1 to HEI's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, File No. 1-8503).
*21.1	Subsidiaries of HEI. Filed herein as pages 84 and 85.
*23	Accountants' Consent. Filed herein as page 87.
*99.1	Fourth Amendment to Trust Agreement, made and entered into December 31, 2001, between Fidelity Management Trust Company and HEI for the Hawaiian Electric Industries Retirement Savings Plan for incorporation by reference in the Registration Statement on Form S-8 (Regis. No. 333-02103)
*99.2	Amendment 2002-1 to the Hawaiian Electric Industries Retirement Savings Plan for incorporation by reference in the Registration Statement on Form S-8 (Regis. No. 333-02103)

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HECO:

- 3(i).1 HECO's Certificate of Amendment of Articles of Incorporation (filed June 30, 1987) (Exhibit 3.1 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, File No. 1-4955).

- 3(i).2 Statement of Issuance of Preferred or Special Classes in Series for HECO Series R Preferred Stock filed December 15, 1989 (Exhibit 3.1(a) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-4955).

- 3(i).3 Articles of Amendment to HECO's Amended Articles of Incorporation filed December 21, 1989 (Exhibit 3.1(b) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No 1-4955).

- 3(i).4 Articles of Amendment to HECO's Amended Articles of Incorporation (filed May 24, 1990) (Exhibit 3(i).4 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, File No 1-4955).

- 3(ii) HECO's By-Laws (Exhibit 3.2 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, File No. 1-4955).

- 4.1 Agreement to provide the SEC with instruments which define the rights of holders of certain long-term debt of HECO, HELCO and MECO (Exhibit 4 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, File No. 1-4955).

- 4.2 Amended and Restated Trust Agreement of HECO Capital Trust I (HECO Trust I) dated as of March 1, 1997 (Exhibit 4(c) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).

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Exhibit no.	Description
4.3	HECO Junior Indenture with The Bank of New York, as Trustee, dated as of March 1, 1997 (Exhibit 4(d) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
4.4	8.05% Cumulative Quarterly Income Preferred Security (liquidation preference \$25 per preferred security) of HECO Trust I (Exhibit 4(e) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
4.5	8.05% Junior Subordinated Deferrable Interest Debenture, Series 1997 of HECO (Exhibit 4(f) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
4.6	Trust Guarantee Agreement with respect to HECO Trust I dated as of March 1, 1997 (Exhibit 4(g) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
4.7	MECO Junior Indenture with The Bank of New York, as Trustee, including HECO Subsidiary Guarantee, dated as of March 1, 1997 (with the form of MECO's 8.05% Junior Subordinated Deferrable Interest Debenture, Series 1997 included as Exhibit A) (Exhibit

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- 4(h)-1 to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
- 4.8 HELCO Junior Indenture with The Bank of New York, as Trustee, including HECO Subsidiary Guarantee, dated as of March 1, 1997 (with the form of HELCO's 8.05% Junior Subordinated Deferrable Interest Debenture, Series 1997 included as Exhibit A) (Exhibit 4(h)-2 to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
- 4.9 Agreement as to Expenses and Liabilities among HECO Trust I, HECO, MECO and HELCO (Exhibit 4(i) to HECO's Current Report on Form 8-K dated March 27, 1997, File No. 1-4955).
- 4.10 Amended and Restated Trust Agreement of HECO Capital Trust II (HECO Trust II) dated as of December 1, 1998 (Exhibit 4(c) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).
- 4.11 HECO Junior Indenture with The Bank of New York, as Trustee, dated as of December 1, 1998 (with the form of HECO's 7.30% Junior Subordinated Deferrable Interest Debenture, Series 1998, included as Exhibit A) (Exhibit 4(d) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).
- 4.12 7.30% Cumulative Quarterly Income Preferred Security (liquidation preference \$25 per preferred security) of HECO Trust II (Exhibit 4(e) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).
- 4.13 Trust Guarantee Agreement with respect to HECO Trust II dated as of December 1, 1998 (Exhibit 4(g) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).

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Exhibit no.	Description
4.14	MECO Junior Indenture with The Bank of New York, as Trustee, including HECO Subsidiary Guarantee, dated as of December 1, 1998 (with the form of MECO's 7.30% Junior Subordinated Deferrable Interest Debenture, Series 1998 included as Exhibit A) (Exhibit 4(h) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).
4.15	HELCO Junior Indenture with The Bank of New York, as Trustee, including HECO Subsidiary Guarantee, dated as of December 1, 1998 (with the form of HELCO's 7.30% Junior Subordinated Deferrable Interest Debenture, Series 1998) (Substantially the same as the MECO Junior Indenture included as Exhibit 4.14).
4.16	Agreement as to Expenses and Liabilities among HECO Trust II, HECO, MECO and HELCO (Exhibit 4(i) to HECO's Current Report on Form 8-K dated December 4, 1998, File No. 1-4955).
10.1	Power Purchase Agreement between Kalaeloa Partners, L.P., and HECO dated October 14, 1988 (Exhibit 10(a) to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 1988, File No. 1-4955).
10.1(a)	Amendment No. 1 to Power Purchase Agreement between HECO and

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Kalaeloa Partners, L.P., dated June 15, 1989 (Exhibit 10(c) to HECO's Quarterly Report on Form 10-Q for the quarter ended June 30, 1989, File No. 1-4955).

- 10.1(b) Lease Agreement between Kalaeloa Partners, L.P., as Lessor, and HECO, as Lessee, dated February 27, 1989 (Exhibit 10(d) to HECO's Quarterly Report on Form 10-Q for the quarter ended June 30, 1989, File No. 1-4955).
- 10.1(c) Restated and Amended Amendment No. 2 to Power Purchase Agreement between HECO and Kalaeloa Partners, L.P., dated February 9, 1990 (Exhibit 10.2(c) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-4955).
- 10.1(d) Amendment No. 3 to Power Purchase Agreement between HECO and Kalaeloa Partners, L.P., dated December 10, 1991 (Exhibit 10.2(e) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, File No. 1-4955).
- 10.1(e) Amendment No. 4 to Power Purchase Agreement between HECO and Kalaeloa Partners, L.P., dated October 1, 1999 (Exhibit 10.1 to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, File No. 1-4955).
- 10.2 Power Purchase Agreement between AES Barbers Point, Inc. and HECO, entered into on March 25, 1988 (Exhibit 10(a) to HECO's Quarterly Report on Form 10-Q for the quarter ended March 31, 1988, File No. 1-4955).
- 10.2(a) Agreement between HECO and AES Barbers Point, Inc., pursuant to letters dated May 10, 1988 and April 20, 1988 (Exhibit 10.4 to HECO's Annual Report on Form 10-K for fiscal year ended December 31, 1988, File No. 1-4955).

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Exhibit no.	Description
10.2(b)	Amendment No. 1, entered into as of August 28, 1988, to Power Purchase Agreement between AES Barbers Point, Inc. and HECO (Exhibit 10 to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989, File No. 1-4955).
10.2(c)	HECO's Conditional Notice of Acceptance to AES Barbers Point, Inc. dated January 15, 1990 (Exhibit 10.3(c) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-4955).
10.3	Amended and Restated Power Purchase Agreement between Hilo Coast Processing Company and HELCO dated March 24, 1995 (Exhibit 10 to HECO's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, File No. 1-4955).
10.3(a)	Second Amended and Restated Power Purchase Agreement between Hilo Coast Power Company and HELCO dated October 4, 1999 (Exhibit 10 to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 1-4955).
*10.3(b)	Amendment No. 1 to the Second Amended and Restated Power Purchase Agreement between Hilo Coast Power Company and HELCO

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dated November 5, 1999.

- 10.4 Agreement between MECO and Hawaiian Commercial & Sugar Company pursuant to letters dated November 29, 1988 and November 1, 1988 (Exhibit 10.8 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, File No. 1-4955).
- 10.4(a) Amended and Restated Power Purchase Agreement by and between A&B-Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO, dated November 30, 1989 (Exhibit 10(e) to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990, File No. 1-4955).
- 10.4(b) First Amendment to Amended and Restated Power Purchase Agreement by and between A&B-Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO, dated November 1, 1990, amending the Amended and Restated Power Purchase Agreement dated November 30, 1989 (Exhibit 10(f) to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990, File No. 1-4955).
- 10.4(c) Letter agreement dated December 11, 1997 to Extend Term of Amended and Restated Power Purchase Agreement Between A&B-Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO dated November 30, 1989, as Amended on November 1, 1990 (Exhibit 10.4(c) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.4(d) Letter agreement dated October 22, 1998 to Extend Term of Amended and Restated Power Purchase Agreement Between A&B-Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO dated November 30, 1989, as Amended on November 1, 1990 (Exhibit 10.4(d) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, File No. 1-4955).

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Exhibit no. -----	Description -----
10.4(e)	Termination Notice dated December 27, 1999 for Amended and Restated Power Purchase Agreement by and between A&B Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO, dated November 30, 1989, as amended (Exhibit 10.2 to HECO's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, File No. 1-4955).
10.4(f)	Rescission dated January 23, 2001 of Termination Notice for Amended and Restated Power Purchase Agreement by and between A&B Hawaii, Inc., through its division, Hawaiian Commercial & Sugar Company, and MECO, dated November 30, 1989, as amended (Exhibit 10.4(f) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 1-4955).
10.5	Purchase Power Contract between HELCO and Thermal Power Company dated March 24, 1986 (Exhibit 10(a) to HECO's Quarterly Report on Form 10-Q for the quarter ended June 30, 1989, File No. 1-4955).
10.5(a)	Firm Capacity Amendment between HELCO and Puna Geothermal

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Venture (assignee of AMOR VIII, who is the assignee of Thermal Power Company) dated July 28, 1989 to Purchase Power Contract between HELCO and Thermal Power Company dated March 24, 1986 (Exhibit 10(b) to HECO's Quarterly Report on Form 10-Q for the quarter ended June 30, 1989, File No. 1-4955).

- 10.5(b) Amendment made in October 1993 to Purchase Power Contract between HELCO and Puna Geothermal Venture dated March 24, 1986, as amended (Exhibit 10.5(b) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.5(c) Third Amendment dated March 7, 1995 to the Purchase Power Contract between HELCO and Puna Geothermal Venture dated March 24, 1986, as amended (Exhibit 10.5(c) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.5(d) Performance Agreement and Fourth Amendment dated February 12, 1996 to the Purchase Power Contract between HELCO and Puna Geothermal Venture dated March 24, 1986, as amended (Exhibit 10.5(b) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No. 1-4955).
- 10.6 Purchase Power Contract between HECO and the City and County of Honolulu dated March 10, 1986 (Exhibit 10.9 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, File No. 1-4955).
- *10.6 (a) Amendment No. 1 to Purchase Power Contract between HECO and the City and County of Honolulu dated March 10, 1986.
- 10.6(b) Firm Capacity Amendment, dated April 8, 1991, to Purchase Power Contract, dated March 10, 1986, by and between HECO and the City & County of Honolulu (Exhibit 10 to HECO's Quarterly Report on Form 10-Q for the quarter ended March 31, 1991, File No. 1-4955).

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Exhibit no.	Description
10.6(c)	Amendment No. 2 to Purchase Power Contract Between HECO and City and County of Honolulu dated March 10, 1986 (Exhibit 10.6(c) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
10.7	Power Purchase Agreement between Encogen Hawaii, L.P. and HELCO dated October 22, 1997 (but with the following attachments omitted: Attachment C, "Selected portions of the North American Electric Reliability Council Generating Availability Data System Data Reporting Instructions dated October 1996" and Attachment E, "Form of the Interconnection Agreement between Encogen Hawaii, L.P. and HELCO," which is provided in final form as Exhibit 10.7(a)) (Exhibit 10.7 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
10.7(a)	Power Purchase Agreement between Encogen Hawaii, L.P. and HELCO dated October 22, 1997 (Exhibit 10.7(a) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File

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No. 1-4955).

- 10.7(b) Amendment No. 1, executed on January 14, 1999, to Power Purchase Agreement between Encogen Hawaii, L.P. and HELCO dated October 22, 1997 (Exhibit 10.7(b) to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, File No. 1-4955).
- *10.7(c) Power Purchase Agreement Novation dated November 8, 1999 by and among Encogen Hawaii, L.P., Hamakua Energy Partners and HELCO.
- *10.7(d) Guarantee Agreement dated November 8, 1999 between TECO Energy, Inc. and HELCO.
- 10.8 Low Sulfur Fuel Oil Supply Contract by and between Chevron and HECO dated as of November 14, 1997 (confidential treatment has been requested for portions of this exhibit) (Exhibit 10.8 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.9 Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract by and between Chevron and HECO, MECO, HELCO, HTB and YB dated as of November 14, 1997 (confidential treatment has been requested for portions of this exhibit) (Exhibit 10.9 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.10 Facilities and Operating Contract by and between Chevron and HECO dated as of November 14, 1997 (confidential treatment has been requested for portions of this exhibit) (Exhibit 10.10 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
- 10.11 Low Sulfur Fuel Oil Supply Contract by and between BHP Petroleum Americas Refining Inc. and HECO dated as of November 14, 1997 (confidential treatment has been requested for portions of this exhibit) (Exhibit 10.11 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).

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Exhibit no. -----	Description -----
10.12	Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract by and between BHP Petroleum Americas Refining Inc. and HECO, MECO and HELCO dated November 14, 1997 (confidential treatment has been requested for portions of this exhibit) (Exhibit 10.12 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 1-4955).
10.13	Contract of private carriage by and between HITI and HELCO dated December 4, 2000 (Exhibit 10.13 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 1-4955).
10.14	Contract of private carriage by and between HITI and MECO dated December 4, 2000 (Exhibit 10.14 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 1-4955).

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- 10.15 HECO Nonemployee Directors' Deferred Compensation Plan (Exhibit 10.16 to HECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, File No. 1-4955).
- 10.16 HEI and HECO Executives' Deferred Compensation Agreement. The agreement pertains to and is substantially identical for all the HEI and HECO executive officers (Exhibit 10.15 to HEI's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, File No. 1-8503).
- 11 Computation of Earnings Per Share of Common Stock. See note on page 2 of HECO's Annual Report.
- *12.2 Computation of Ratio of Earnings to Fixed Charges. Filed herein as page 83.
- 13 Pages 1, 3 to 52 and 54 of HECO's Annual Report (with the exception of the data incorporated by reference in Part I, Part II, Part III and Part IV, no other data appearing in the 2001 Annual Report to Stockholder is to be deemed filed as part of this Form 10-K Annual Report) (HECO Exhibit 13.2 to HECO's Current Report on Form 8-K dated March 5, 2002, File No. 1-4955).
- 18 KPMG LLP letter re: change in accounting principle (Exhibit 18.2 to HECO's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, File No. 1-4955).
- *21.2 Subsidiaries of HECO. Filed herein as page 86.
- *99.2 Reconciliation of electric utility operating income per HEI and HECO Consolidated Statements of Income. Filed herein as page 88.

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HEI Exhibit 11

Hawaiian Electric Industries, Inc.
 COMPUTATION OF EARNINGS PER SHARE
 OF COMMON STOCK
 Years ended December 31, 2001, 2000, 1999, 1998 and 1997

(in thousands, except per share amounts)	2001	2000	1999	1998
<hr style="border-top: 1px dashed black;"/>				
Net income (loss)				
Continuing operations.....	\$107,746	\$109,336	\$96,426	\$97,262
Discontinued operations.....	(24,041)	(63,592)	421	(12,451)
	<hr style="border-top: 1px dashed black;"/>			
	\$ 83,705	\$ 45,744	\$96,847	\$84,811
	<hr style="border-top: 3px double black;"/>			
Weighted-average number of common shares outstanding.....	33,754	32,545	32,188	32,014

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Adjusted weighted-average number of common shares outstanding.....	33,942	32,687	32,291	32,129
Basic earnings (loss) per common share				
Continuing operations.....	\$ 3.19	\$ 3.36	\$ 3.00	\$ 3.04
Discontinued operations.....	(0.71)	(1.95)	0.01	(0.39)
	\$ 2.48	\$ 1.41	\$ 3.01	\$ 2.65
Diluted earnings (loss) per common share				
Continuing operations.....	\$ 3.18	\$ 3.35	\$ 2.99	\$ 3.03
Discontinued operations.....	(0.71)	(1.95)	0.01	(0.39)
	\$ 2.47	\$ 1.40	\$ 3.00	\$ 2.64

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HEI Exhibit 12.1 (page 1 of 2)

Hawaiian Electric Industries, Inc.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 Years ended December 31, 2001, 2000, 1999, 1998 and 1997

(dollars in thousands)	2001		2000		
	/(1)/	/(2)/	/(1)/	/(2)/	
Fixed charges					
Total interest charges / (3) /	\$175,780	\$292,311	\$196,980	\$316,172	\$1
Interest component of rentals.....	4,268	4,268	4,332	4,332	
Pretax preferred stock dividend requirements of subsidiaries.....	3,069	3,069	3,109	3,109	
Preferred securities distributions of trust subsidiaries.....	16,035	16,035	16,035	16,035	
Total fixed charges.....	\$199,152	\$315,683	\$220,456	\$339,648	\$1
Earnings					
Pretax income from continuing operations	\$165,903	\$165,903	\$170,495	\$170,495	\$1
Fixed charges, as shown.....	199,152	315,683	220,456	339,648	1
Interest capitalized.....	(2,258)	(2,258)	(2,922)	(2,922)	

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Earnings available for fixed charges.....	\$362,797	\$479,328	\$388,029	\$507,221	\$3
Ratio of earnings to fixed charges	1.82	1.52	1.76	1.49	

- /(1)/ Excluding interest on ASB deposits.
- /(2)/ Including interest on ASB deposits.
- /(3)/ Interest on nonrecourse debt from leveraged leases is not included in total interest charges nor in interest expense in HEI's consolidated statements of income.

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HEI Exhibit 12.1 (page 2 of 2)

Hawaiian Electric Industries, Inc.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 Years ended December 31, 2001, 2000, 1999, 1998 and 1997--Continued

(dollars in thousands)	1998		1997	
	/(1)/	/(2)/	/(1)/	
Fixed charges				
Total interest charges / (3) /	\$144,911	\$286,980	\$137,458	\$2
Interest component of rentals.....	3,559	3,559	2,973	
Pretax preferred stock dividend requirements of subsidiaries.....	9,379	9,379	10,000	
Preferred securities distributions of trust subsidiaries.....	12,557	12,557	10,600	
Total fixed charges.....	\$170,406	\$312,475	\$161,031	\$2
Earnings				
Pretax income from continuing operations.....	\$155,283	\$155,283	\$153,009	\$1
Fixed charges, as shown.....	170,406	312,475	161,031	2
Interest capitalized.....	(5,915)	(5,915)	(6,190)	
Earnings available for fixed charges.....	\$319,774	\$461,843	\$307,850	\$3
Ratio of earnings to fixed charges.....	1.88	1.48	1.91	

- /(1)/ Excluding interest on ASB deposits.
- /(2)/ Including interest on ASB deposits.

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/(3)/ Interest on nonrecourse debt from leveraged leases is not included in total interest charge expense in HEI's consolidated statements of income.

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HECO Exhibit 12.2

Hawaiian Electric Company, Inc.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 Years ended December 31, 2001, 2000, 1999, 1998 and 1997

(dollars in thousands)	2001	2000	1999	1998
<hr/>				
Fixed charges				
Total interest charges.....	\$ 47,056	\$ 49,062	\$ 48,461	\$ 47,921
Interest component of rentals.....	728	696	784	730
Pretax preferred stock dividend requirements of subsidiaries.....	1,433	1,438	1,479	4,081
Preferred securities distributions of trust subsidiaries.....	7,675	7,675	7,665	4,197
<hr/>				
Total fixed charges.....	\$ 56,892	\$ 58,871	\$ 58,389	\$ 56,929
<hr/>				
Earnings				
Income before preferred stock dividends of HECO.....	\$ 89,380	\$ 88,366	\$ 76,400	\$ 84,230
Fixed charges, as shown.....	56,892	58,871	58,389	56,929
Income taxes (see note below).....	55,416	55,375	48,047	54,572
Allowance for borrowed funds used during construction.....	(2,258)	(2,922)	(2,576)	(5,915)
<hr/>				
Earnings available for fixed charges.....	\$199,430	\$199,690	\$180,260	\$189,816
<hr/>				
Ratio of earnings to fixed charges.....	3.51	3.39	3.09	3.33
<hr/>				
Note:				
Income taxes is comprised of the following:				
Income tax expense relating to operating income from regulated activities.....	\$ 55,434	\$ 55,213	\$ 48,281	\$ 54,719
Income tax expense (benefit) relating to results from nonregulated activities.....	(18)	162	(234)	(147)
<hr/>				
	\$ 55,416	\$ 55,375	\$ 48,047	\$ 54,572
<hr/>				

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HEI Exhibit 21.1 (Page 1 of 2)

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Hawaiian Electric Industries, Inc. SUBSIDIARIES OF THE REGISTRANT

The following is a list of all direct and indirect subsidiaries of the registrant as of March 13, 2002. The state/place of incorporation or organization is noted in parentheses and subsidiaries of intermediate parent companies are designated by indentations.

Hawaiian Electric Company, Inc. (Hawaii)
 Maui Electric Company, Limited (Hawaii)
 Hawaii Electric Light Company, Inc. (Hawaii)
 HECO Capital Trust I (Delaware)
 HECO Capital Trust II (Delaware)
HEI Diversified, Inc. (Hawaii)
 American Savings Bank, F.S.B. (federally chartered)
 American Savings Investment Services Corp. (Hawaii)
 Bishop Insurance Agency of Hawaii, Inc. (Hawaii)
 ASB Service Corporation (Hawaii)
 AdCommunications, Inc. (Hawaii)
 American Savings Mortgage Co., Inc. (Hawaii)
 ASB Realty Corporation (Hawaii)
Pacific Energy Conservation Services, Inc. (Hawaii)
HEI District Cooling, Inc. (Hawaii) (inactive)
ProVition Technologies, Inc. (Hawaii)
HEI Properties, Inc. (Hawaii)
HEI Leasing, Inc. (Hawaii)
Hycap Management, Inc. (Delaware)
 HEI Preferred Funding, LP (a limited partnership in which Hycap Management, Inc. is the sole general partner) (Delaware)
Hawaiian Electric Industries Capital Trust I (a business trust) (Delaware)
Hawaiian Electric Industries Capital Trust II (a business trust) (Delaware) (inactive)
Hawaiian Electric Industries Capital Trust III (a business trust) (Delaware) (inactive)
The Old Oahu Tug Service, Inc. (Hawaii)

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HEI Exhibit 21.1 (Page 2 of 2)

Hawaiian Electric Industries, Inc. SUBSIDIARIES OF THE REGISTRANT (continued)

DISCONTINUED OPERATIONS:

HEI Power Corp. (Hawaii)
 HEI Power Corp. Saipan (Commonwealth of the Northern Mariana Islands)
 HEI Power Corp. International (Cayman Islands)
 HEIPC Cambodia Ventures (Cayman Islands)
 HEIPC Phnom Penh Power (Limited), LLC (Cayman Islands)
 HEI Power Corp. Philippines (Cayman Islands)
 HEIPC Philippine Ventures (Cayman Islands)
 HEIPC Philippine Development, LLC (Cayman Islands)
 Lake Mainit Power, LLC (Cayman Islands)
 HEIPC Bulacan I, LLC (Cayman Islands)
 HEIPC Bulacan II, LLC (Cayman Islands)
 HEI Power Corp. China (Republic of Mauritius)
 Dafeng Sanlian Cogeneration Co., Ltd. (People's Republic of China)
 (76% owned by HEI Power Corp. China)

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HEI Power Corp. China II (Republic of Mauritius)
 United Power Pacific Company Limited (Republic of Mauritius)
 Baotou Tianjiao Power Co., Ltd. (People's Republic of
 China)
 (75% owned by United Power Pacific Company Limited)
HEI Power Corp. China III (Republic of Mauritius)
HEI Power Corp. China IV (Republic of Mauritius)
HEI Investments, Inc. (Hawaii) (activity of leverage leases included in
continuing operations)
 HEIPC Philippines Holding Co. (Republic of the Philippines)
 EPHE Philippines Energy Company, Inc. (Republic of the
 Philippines)
 (50% owned by HEIPC Philippines Holding Co.)
 East Asia Power Resources Corporation (Republic of
 the Philippines)
 (approximately 91.7% owned by EPHE Philippines
 Energy Company, Inc.)
 East Asia Diesel Power Corporation (Republic
 of the Philippines)
 Duracom Mobile Power Company (Republic
 of the Philippines)
 (40% owned by East Asia Diesel
 Power Corporation)

Malama Pacific Corp. (Hawaii)
 Malama Development Corp. (Hawaii)
 Malama Mohala Corp. (Hawaii)

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HEI Exhibit 21.2

Hawaiian Electric Company, Inc.
SUBSIDIARIES OF THE REGISTRANT

The following is a list of all subsidiaries of the registrant as of March 13, 2002. The state/place of incorporation or organization is noted in parentheses.

Maui Electric Company, Limited (Hawaii)

Hawaii Electric Light Company, Inc. (Hawaii)

HECO Capital Trust I (a business trust) (Delaware)

HECO Capital Trust II (a business trust) (Delaware)

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HEI Exhibit 23

[KPMG LLP letterhead]

Accountants' Consent

The Board of Directors
Hawaiian Electric Industries, Inc.:

We consent to incorporation by reference in Registration Statement Nos.
333-18809 and 333-56312 on Form S-3 and Registration Statement Nos. 33-65234,
333-05667 and 333-02103 on Form S-8 of Hawaiian Electric Industries, Inc., and

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Registration Statement Nos. 333-18809-01, 333-18809-02, 333-18809-03 and 333-18809-04 on Form S-3 of Hawaiian Electric Industries Capital Trust I, Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and HEI Preferred Funding, LP of our report dated January 23, 2002, relating to the consolidated balance sheets of Hawaiian Electric Industries, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001, which report is incorporated by reference in the 2001 annual report on Form 10-K of Hawaiian Electric Industries, Inc. We also consent to incorporation by reference of our report dated January 23, 2002 relating to the financial statement schedules of Hawaiian Electric Industries, Inc. in the aforementioned 2001 annual report on Form 10-K, which report is included in said Form 10-K.

Our reports refer to a change to the accounting method for derivative instruments and hedging activities.

/s/ KPMG LLP

Honolulu, Hawaii
March 19, 2002

HECO Exhibit 99.2

Hawaiian Electric Company, Inc.
RECONCILIATION OF ELECTRIC UTILITY OPERATING
INCOME PER HEI AND HECO CONSOLIDATED
STATEMENTS OF INCOME

	Years ended Decem	
(in thousands)	----- 2001	2000 -----
Operating income from regulated and nonregulated activities before income taxes (per HEI Consolidated Statements of Income).....	\$ 193,945	\$ 193,0
Deduct:		
Income taxes on regulated activities.....	(55,434)	(55,2
Revenues from nonregulated activities.....	(4,992)	(6,5
Add:		
Expenses from nonregulated activities.....	1,813	1,8
	-----	-----
Operating income from regulated activities after income taxes (per HECO Consolidated Statements of Income).....	\$ 135,332	\$ 133,1
	=====	=====

SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized. The signatures of the undersigned companies shall be deemed to relate only to matters having reference to such companies and any subsidiaries thereof.

HAWAIIAN ELECTRIC INDUSTRIES, INC. (Registrant)	HAWAIIAN ELECTRIC COMPANY, INC. (Registrant)
By /s/ Robert F. Mougeot ----- Robert F. Mougeot Financial Vice President, Treasurer and Chief Financial Officer of HEI (Principal Financial Officer of HEI)	By /s/ Richard A. von Gnechten ----- Richard A. von Gnechten Financial Vice President of HECO (Principal Financial Officer of HECO)
Date: March 19, 2002	Date: March 19, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities indicated on March 19, 2002. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named companies and any subsidiaries thereof.

Signature -----	Title -----
/s/ Robert F. Clarke ----- Robert F. Clarke	Chairman, President and Director of HEI Chairman of the Board of Directors of HECO (Chief Executive Officer of HEI)
/s/ T. Michael May ----- T. Michael May	Director of HEI and HECO President and Director of HECO (Chief Executive Officer of HECO)
/s/ Robert F. Mougeot ----- Robert F. Mougeot	Financial Vice President, Treasurer and Chief Financial Officer of HEI (Principal Financial Officer of HEI)
/s/ Curtis Y. Harada ----- Curtis Y. Harada	Controller of HEI (Principal Accounting Officer of HEI)

SIGNATURES (continued)

Signature -----	Title -----
/s/ Richard A. von Gnechten ----- Richard A. von Gnechten	Financial Vice President (Principal Financial Officer of HECO)
/s/ Ernest T. Shiraki ----- Ernest T. Shiraki	Controller of HECO (Principal Accounting Officer of HECO)

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/s/ Don E. Carroll ----- Don E. Carroll	Director of HEI
/s/ Constance H. Lau ----- Constance H. Lau	Director of HEI
/s/ Victor Hao Li ----- Victor Hao Li	Director of HEI
/s/ Bill D. Mills ----- Bill D. Mills	Director of HEI
/s/ A. Maurice Myers ----- A. Maurice Myers	Director of HEI

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SIGNATURES (continued)

Signature -----	Title -----
/s/ Diane J. Plotts ----- Diane J. Plotts	Director of HEI and HECO
/s/ James K. Scott ----- James K. Scott	Director of HEI and HECO
/s/ Oswald K. Stender ----- Oswald K. Stender	Director of HEI
/s/ Anne M. Takabuki ----- Anne M. Takabuki	Director of HECO
/s/ Barry K. Taniguchi ----- Barry K. Taniguchi	Director of HECO
/s/ Kelvin H. Taketa ----- Kelvin H. Taketa	Director of HEI
/s/ Jeffrey N. Watanabe ----- Jeffrey N. Watanabe	Director of HEI and HECO

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