

ASE Technology Holding Co., Ltd.

Form 6-K

January 30, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16**

**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**January 30, 2019**

**Commission**

**File**

**Number**

**001-16125**

**ASE**

**Technology**

**Holding**

**Co., Ltd.**

(Translation  
of registrant's

name into

English)

**26 Chin**

**Third Road**

**Nantze**

**Export**

**Processing**

**Zone**

**Kaoshiung,**

**Taiwan**

**Republic of**

**China**

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(Address of  
principal  
executive  
offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F      Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ASE TECHNOLOGY HOLDING  
CO., LTD.**

Date: January 30, 2019 By: /s/ Joseph Tung  
Name: Joseph Tung  
Title: Chief Financial Officer

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**ASE Technology Holding Co., Ltd. Reports Unaudited Consolidated Financial Results for the Fourth Quarter and Full Year of 2018**

Taipei, Taiwan, R.O.C., January 30, 2019 – ASE Technology Holding Co., Ltd. (TAIEX: 3711, NYSE: ASX) (“We”, “ASEH”, or the “Company”) was established following the completion of the merger between Advanced Semiconductor Engineering, Inc. (“ASE”) and Siliconware Precision Industries Co., Ltd. on April 30, 2018. ASE is the Company’s predecessor entity; therefore, the financial results of the Company for periods before merger are prepared under the assumption that the Company owned 100% shareholdings of ASE at the very beginning. The financial results after April 30, 2018, including both 4Q18 and 3Q18, reflect full quarters of combined operations following the completion of the merger. The financial results before April 30, 2018 reflect the operations of ASE and its subsidiaries prior to the establishment of the Company. As a result, the Company’s financial results for 4Q18 and 3Q18 may not be comparable to that for 4Q17. In addition, the Company’s financial results for the year ended December 31, 2018 may not be comparable to that for the year ended December 31, 2017. ASEH, the leading provider of semiconductor manufacturing services in assembly and test, today reported unaudited net revenues<sup>1</sup> of NT\$114,028 million for 4Q18, up by 36% year-over-year and up by 6% sequentially. Net income attributable to shareholders of the parent for the quarter totaled NT\$5,446 million, down from a net income attributable to shareholders of the parent of NT\$6,246 million in 4Q17 and down from a net income attributable to shareholders of the parent of NT\$6,257 million in 3Q18. Basic earnings per share for the quarter were NT\$1.28 (or US\$0.083 per ADS), compared to adjusted basic earnings per share of NT\$1.48 for 4Q17 and basic earnings per share of NT\$1.47 for 3Q18. Diluted earnings per share for the quarter were NT\$1.24 (or US\$0.081 per ADS), compared to adjusted diluted earnings per share of NT\$1.42 for 4Q17 and diluted earnings per share of NT\$1.43 for 3Q18.

For the full year of 2018, the Company reported net revenues of NT\$371,092 million and net income attributable to shareholders of the parent of NT\$25,262 million. Basic earnings per share for the full year of 2018 were NT\$5.95 (or US\$0.396 per ADS). Diluted earnings per share for the full year of 2018 were NT\$5.84 (or US\$0.389 per ADS).

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<sup>1</sup> All financial information presented in this press release is unaudited, consolidated and prepared in accordance with Taiwan-IFRS (International Financial Reporting Standards as endorsed for use in the R.O.C.). Such financial

information is generated internally by us and has not been subjected to the same review and scrutiny, including internal auditing procedures and audit by our independent auditors, to which we subject our audited consolidated financial statements, and may vary materially from the audited consolidated financial information for the same period. Any evaluation of the financial information presented in this press release should also take into account our published audited consolidated financial statements and the notes to those statements. In addition, the financial information presented is not necessarily indicative of our results of operations for any future period.

## RESULTS OF OPERATIONS

### 4Q18 Results Highlights – Consolidated

<sup>1</sup> Net revenue contribution from packaging operations, testing operations, EMS operations and others, each represented approximately 45%, 10%, 44% and 1%, respectively, of total net revenues for the quarter.

<sup>1</sup> Cost of revenue was NT\$95,344 million for the quarter, up from NT\$89,216 million in 3Q18.

-Raw material cost totaled NT\$59,072 million for the quarter, representing 52% of total net revenues.

-Labor cost totaled NT\$12,840 million for the quarter, representing 11% of total net revenues.

-Depreciation, amortization and rental expenses totaled NT\$11,577 million for the quarter.

<sup>1</sup> Gross margin decreased 0.7 percentage points to 16.4% in 4Q18 from 17.1% in 3Q18.

<sup>1</sup> Operating margin was 7.5% in 4Q18 compared to 7.8% in 3Q18.

<sup>1</sup> In terms of non-operating items:

-Net interest expense was NT\$923 million.

<sup>1</sup> Net foreign exchange loss of NT\$311 million was primarily attributable to the appreciation of U.S. dollar against NT dollar.

-Gain on valuation of financial assets and liabilities was NT\$140 million.

-Net gain on equity-method investments was NT\$6 million.

Other net non-operating expenses of NT\$250 million were primarily attributable to miscellaneous expenses. Total non-operating expenses for the quarter were NT\$1,338 million.

Income before tax was NT\$7,235 million for 4Q18, compared to NT\$8,117 million in 3Q18. We recorded income tax expenses of NT\$1,342 million for the quarter, compared to NT\$1,554 million in 3Q18.

In 4Q18, net income attributable to shareholders of the parent was NT\$5,446 million, compared to net income attributable to shareholders of the parent of NT\$6,246 million in 4Q17 and net income attributable to shareholders of the parent of NT\$6,257 million in 3Q18.

Our total number of shares outstanding at the end of the quarter was 4,321,629,382, including treasury stock owned by our subsidiaries. Our 4Q18 basic earnings per share of NT\$1.28 (or US\$0.083 per ADS) were based on 14,248,272,624 weighted average numbers of shares outstanding in 4Q18. Our 4Q18 diluted earnings per share of NT\$1.24 (or US\$0.081 per ADS) were based on 4,254,977,677 weighted average number of shares outstanding in 4Q18.

#### 4Q18 Results Highlights – ATM

1 Cost of revenues was NT\$50,158 million for the quarter, down by 4% sequentially.

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<sup>2</sup> ATM stands for Semiconductor Assembly, Testing and Material.

- Raw material cost totaled NT\$17,106 million for the quarter, representing 27% of total net revenues.
- Labor cost totaled NT\$11,321 million for the quarter, representing 18% of total net revenues.
- Depreciation, amortization and rental expenses totaled NT\$10,998 million for the quarter.
- 1 Gross margin increased 0.3 percentage points to 21.8% in 4Q18 from 21.5% in 3Q18.
- 1 Operating margin was 9.8% in 4Q18 compared to 10.1% in 3Q18.

#### 4Q18 Results Highlights – EMS

- 1 Cost of revenues for the quarter was NT\$46,135 million, up by 22% sequentially.
- Raw material cost totaled NT\$42,103 million for the quarter, representing 83% of total net revenues.
- Labor cost totaled NT\$1,500 million for the quarter, representing 3% of total net revenues.
- Depreciation, amortization and rental expenses totaled NT\$469 million for the quarter.
- 1 Gross margin decreased to 9.1% in 4Q18 from 9.9% in 3Q18.
- 1 Operating margin increased to 4.3% in 4Q18 from 4.1% in 3Q18.

#### 2018 Full-Year Results Highlights – Consolidated

1Net revenues for the full year of 2018 amounted to NT\$371,092 million, up by 28% from 2017. The revenue contribution from packaging operations, testing operations, EMS operations and others ,each represented



approximately 48%, 10%, 41% and 1%, respectively, of total net revenues for the year.

1 Cost of revenue for the year of 2018 was NT\$309,929 million, compared with NT\$237,709 million in 2017.

- Raw material cost totaled NT\$182,062 million for the year, representing 49% of total net revenues.

- Labor cost totaled NT\$46,657 million for the year, representing 13% of total net revenues.

- Depreciation, amortization and rental expenses totaled NT\$40,472 million for the year.

1 Gross margin decreased 1.7 percentage points to 16.5% in 2018 from 18.2% in 2017.

1 Operating margin decreased to 7.2% in 2018 from 8.7% in 2017.

Total non-operating income for the year was NT\$5,400 million, compared to total non-operating income of  
1 NT\$5,711 million for 2017.

1 Income before tax was NT\$32,048 million for 2018. We recognized an income tax expense of NT\$5,584 million for  
the year.

1 In 2018, net income attributable to shareholders of the parent amounted to NT\$25,262 million, compared with a net  
income attributable to shareholders of the parent of NT\$22,988 million in 2017.

Our total number of shares outstanding at the end of the year was 4,321,629,382, including treasury stock owned by our subsidiaries. Our 2018 basic earnings per share of NT\$5.95 (or US\$0.396 per ADS) were based on 4,245,246,569 weighted average numbers of shares outstanding in 2018. Our 2018 diluted earnings per share of NT\$5.84 (or US\$0.389 per ADS) were based on 4,251,128,654 weighted average number of shares outstanding in 2018.

2018 Full-Year Results Highlights – ATM

1 Cost of revenues for the full year of 2018 was NT\$175,274 million, compared with NT\$121,873 million in 2017.

- Raw material cost totaled NT\$59,181 million for the year, representing 27% of total net revenues.
- Labor cost totaled NT\$41,030 million for the year, representing 19% of total net revenues.
- Depreciation, amortization and rental expenses totaled NT\$38,192 million for the year.

1 Gross margin decreased to 21.1% in 2018 from 24.3% in 2017.

1 Operating margin decreased to 9.5% in 2018 from 12.3% in 2017.

2018 Full-Year Results Highlights – EMS

1 Cost of revenues was NT\$137,580 million, up by 14% from 2017.

- Raw material cost totaled NT\$123,201 million for the year, representing 81% of total net revenues.
- Labor cost totaled NT\$5,543 million for the year, representing 4% of total net revenues.
- Depreciation, amortization and rental expenses totaled NT\$1,827 million for the year.

1 Gross margin decreased to 9.4% in 2018 from 10.2% in 2017.

1 Operating margin decreased to 3.7% in 2018 from 4.2% in 2017.

## LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures in 4Q18 totaled US\$248 million, of which US\$134 million were used in packaging operations, US\$95 million in testing operations, US\$11 million in EMS operations and US\$8 million in interconnect materials operations and others.

For the full year of 2018, we spent US\$1,083 million for capital expenditures, including US\$602 million in packaging operations, US\$403 million in testing operations, US\$58 million in EMS operations and US\$20 million in interconnect materials operations and others.

1 As of December 31, 2018, total unused credit lines amounted to NT\$219,912 million.

1 Current ratio was 1.29 and net debt to equity ratio was 0.60 as of December 31, 2018.

1 Total number of employees was 93,884 as of December 31, 2018, compared to 93,486 as of September 30, 2018.

## Business Review

### Customers

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ATM consolidated Basis

Our five largest customers together accounted for approximately 41% of our total net revenues both in 4Q18 and in 3Q18. One customer accounted for more than 10% of our total net revenues in 4Q18.

1 Our top 10 customers contributed 56% of our total net revenues for the quarter, compared to 55% in 3Q18.

1 Our customers that are integrated device manufacturers or IDMs accounted for 35% of our total net revenues both in 4Q18 and in 3Q18.

EMS Basis

Our five largest customers together accounted for approximately 82% of our total net revenues in 4Q18, compared to 80% in 3Q18. One customer accounted for more than 10% of our total net revenues in 4Q18.

Our top 10 customers contributed 91% of our total net revenues during the quarter in 4Q18, compared to 90% in 3Q18.

***About ASE Technology Holding Co., Ltd.***

*ASEH is the leading provider of semiconductor manufacturing services in assembly and test. The Company develops and offers complete turnkey solutions covering front-end engineering test, wafer probing and final test, as well as IC packaging, materials and electronic manufacturing services through USI with superior technologies, breakthrough innovations, and advanced development programs. With advanced technological capabilities and a global presence spanning Taiwan, China, South Korea, Japan, Singapore, Malaysia and Mexico as well as the United States and Europe, ASEH has established a reputation for reliable, high quality products and services. For more information, please visit our website at <http://www.aseglobal.com>.*

Safe Harbor Notice

This press release contains "forward-looking statements" within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Although these forward-looking statements, which may include statements regarding our future results of operations, financial condition or business prospects, are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on these forward-looking statements, which apply only as of the date of this press release. The words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions, as they relate to us, are intended to identify these forward-looking statements in this press release. Our actual results of operations, financial condition or business prospects may differ materially from those expressed or implied in these forward-looking statements for a variety of reasons, including risks associated with cyclical and market conditions in the semiconductor or electronic industry; changes in our regulatory environment, including our ability to comply with new or stricter environmental regulations and to resolve environmental liabilities; demand for the outsourced semiconductor packaging, testing and electronic manufacturing services we offer and for such outsourced services generally; the highly competitive semiconductor or manufacturing industry we are involved in; our ability to introduce new technologies in order to remain competitive; international business activities; our business strategy; our future expansion plans and capital expenditures; the strained relationship between the Republic of China and the People's Republic of China; general economic and political conditions; the recent global economic crisis; possible disruptions in commercial activities caused by natural or human-induced disasters; fluctuations in foreign currency exchange rates; and other factors. For a discussion of these risks and other factors, please see the documents we file from time to time with the Securities and Exchange Commission, including the 2017 Annual Report on Form 20-F for our predecessor company, Advanced Semiconductor Engineering, Inc., filed on March 28, 2018.

## Supplemental Financial Information

## Consolidated Operations

	4Q/18	3Q/18	4Q/17
EBITDA (NT\$ Millions)	21,082	21,579	16,147

## ATM Consolidated Operations

	4Q/18	3Q/18	4Q/17
Net Revenues (NT\$ Millions)	64,120	66,324	41,794
Revenues by Application			
Communication	56%	54%	48%
Computer	13%	14%	11%
Automotive, Consumer & Others	31%	32%	41%
Revenues by Type			
Bumping, Flip Chip, WLP & SiP	33%	31%	28%
Wirebonding	39%	43%	45%
Discrete and Others	9%	8%	9%
Testing	17%	16%	16%
Material	2%	2%	2%
Capacity & EBITDA			
CapEx (US\$ Millions)*	237	269	133
EBITDA (NT\$ Millions)	18,271	19,092	13,508
Number of Wirebonders	25,172	25,219	16,076
Number of Testers	4,822	4,802	3,760

## EMS Operations

	4Q/18	3Q/18	4Q/17
Net Revenues (NT\$ Millions)	50,745	42,009	43,289
Revenues by End Application			
Communication	32%	34%	42%
Computer & Storage	10%	14%	14%
Consumer	44%	36%	32%
Industrial	10%	10%	6%
Automotive	4%	5%	5%

Others	0%	1%	1%
Capacity			
CapEx (US\$ Millions)*	11	21	7

\* Capital expenditure excludes building construction costs.

ASE Technology Holding Co., Ltd.

## Summary of Consolidated Statement of Comprehensive Income Data

(In NT\$ millions, except per share data)

(Unaudited)

	For the three months ended			For the year ended	
	Dec. 31	Sep. 30	Dec. 31	Dec. 31	Dec. 31
	2018	2018	2017	2018	2017
Net revenues:					
Packaging	51,149	53,473	33,045	178,308	126,225
Testing	10,919	10,838	6,553	35,903	26,157
EMS	50,736	41,996	43,285	151,890	133,948
Others	1,224	1,290	1,103	4,991	4,111
Total net revenues	114,028	107,597	83,986	371,092	290,441
Cost of revenues	(95,344)	(89,216)	(69,193)	(309,929)	(237,709)
Gross profit	18,684	18,381	14,793	61,163	52,732
Operating expenses:					
Research and development	(4,293)	(4,274)	(3,046)	(14,963)	(11,747)
Selling, general and administrative	(5,818)	(5,735)	(4,041)	(19,552)	(15,767)
Total operating expenses	(10,111)	(10,009)	(7,087)	(34,515)	(27,514)
Operating income	8,573	8,372	7,706	26,648	25,218
Net non-operating (expenses) income:					
Interest expense - net	(923)	(971)	(318)	(3,070)	(1,468)
Foreign exchange gain (loss)	(311)	262	780	(1,016)	3,503
Gain (loss) on valuation of financial assets and liabilities	140	(112)	(216)	1,990	(2,782)
Gain (loss) on equity-method investments	6	118	29	(521)	434
Others	(250)	448	(102)	8,017	6,024
Total non-operating income (expenses)	(1,338)	(255)	173	5,400	5,711
Income before tax	7,235	8,117	7,879	32,048	30,929
Income tax expense	(1,342)	(1,554)	(1,085)	(5,584)	(6,261)
Income from continuing operations and before noncontrolling interest	5,893	6,563	6,794	26,464	24,668



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Noncontrolling interest	(447)	(306)	(548)	(1,202)	(1,680)
Net income attributable to shareholders of the parent	5,446	6,257	6,246	25,262	22,988
Per share data <sup>3</sup> :					
Earnings (losses) per share					
– Basic	NT\$1.28	NT\$1.47	NT\$1.48	NT\$5.95	NT\$5.63
– Diluted	NT\$1.24	NT\$1.43	NT\$1.42	NT\$5.84	NT\$5.23
Earnings (losses) per equivalent ADS					
– Basic	US\$0.083	US\$0.096	US\$0.098	US\$0.396	US\$0.370
– Diluted	US\$0.081	US\$0.094	US\$0.095	US\$0.389	US\$0.344
Number of weighted average shares used in diluted EPS calculation (in thousands)	4,254,978	4,255,741	4,316,234	4,251,129	4,184,620
FX (NTD/USD)	30.79	30.61	30.08	30.07	30.42

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<sup>3</sup> Per share data for the three months and year ended December 31, 2017 has been retrospective adjusted to reflect the impact from the joint share exchange agreement.

ASE Technology Holding Co., Ltd.

Summary of Consolidated Statement of Comprehensive Income Data – ATM

**(In NT\$ millions, except per share data)****(Unaudited)**

	For the three months ended			For the year ended	
	Dec. 31	Sep. 30	Dec. 31	Dec. 31	Dec. 31
	2018	2018	2017	2018	2017
Net revenues:					
Packaging	52,068	54,321	34,226	181,675	130,902
Testing	10,920	10,839	6,556	35,905	26,160
Direct Material	1,093	1,134	989	4,336	3,932
Others	39	30	23	134	87
Total net revenues	64,120	66,324	41,794	222,050	161,081
Cost of revenues	(50,158)	(52,056)	(30,932)	(175,274)	(121,873)
Gross profit	13,962	14,268	10,862	46,776	39,208
Operating expenses:					
Research and development	(3,349)	(3,257)	(2,125)	(11,141)	(8,361)
Selling, general and administrative	(4,306)	(4,298)	(2,736)	(14,599)	(11,037)
Total operating expenses	(7,655)	(7,555)	(4,861)	(25,740)	(19,398)
Operating income	6,307	6,713	6,001	21,036	19,810
Net non-operating (expenses) income:					
Interest expense - net	(949)	(1,032)	(394)	(3,253)	(1,751)
Foreign exchange gain (loss)	(350)	128	822	(1,149)	3,657
	323	(13)	(577)	2,145	(3,762)
Gain (loss) on valuation of financial assets and liabilities					
Gain (loss) on equity-method investments	1,311	1,230	1,245	2,940	8,505
Others	(239)	329	2	7,970	514
Total non-operating income (expenses)	96	642	1,098	8,653	7,163
Income before tax	6,403	7,355	7,099	29,689	26,973
Income tax expense	(938)	(1,181)	(776)	(4,464)	(3,671)
Income from continuing operations and	5,465	6,174	6,323	25,225	23,302

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before noncontrolling interest					
Noncontrolling interest	(19)	83	(77)	37	(314)
Net income attributable to					
shareholders of the parent	5,446	6,257	6,246	25,262	22,988

ASE Technology Holding Co., Ltd.

Summary of Consolidated Statement of Comprehensive Income Data – EMS

**(In NT\$ millions, except per share data)****(Unaudited)**

	For the three months ended			For the year ended	
	Dec. 31	Sep. 30	Dec. 31	Dec. 31	Dec. 31
	2018	2018	2017	2018	2017
Net revenues:					
Total net revenues	50,745	42,009	43,289	151,921	134,000
Cost of revenues	(46,135)	(37,846)	(39,287)	(137,580)	(120,354)
Gross profit	4,610	4,163	4,002	14,341	13,646
Operating expenses:					
Research and development	(967)	(1,041)	(936)	(3,903)	(3,452)
Selling, general and administrative	(1,463)	(1,388)	(1,208)	(4,771)	(4,536)
Total operating expenses	(2,430)	(2,429)	(2,144)	(8,674)	(7,988)
Operating income	2,180	1,734	1,858	5,667	5,658
Net non-operating (expenses) income:					
Total non-operating income	(36)	298	454	580	1,272
Income before tax	2,144	2,032	2,312	6,247	6,930
Income tax expense	(387)	(356)	(324)	(1,061)	(1,204)
Income from continuing operations and before noncontrolling interest	1,757	1,676	1,988	5,186	5,726
Noncontrolling interest	(429)	(397)	(500)	(1,252)	(1,440)
Net income attributable to shareholders of the parent	1,328	1,279	1,488	3,934	4,286

ASE Technology Holding Co., Ltd.

## Summary of Consolidated Balance Sheet Data

**(In NT\$ millions)****(Unaudited)**

	As of Dec. 31 , 2018	As of Sep. 30, 2018
Current assets:		
Cash and cash equivalents	51,518	55,335
Financial assets – current	13,802	8,278
Notes and accounts receivable	79,481	79,809
Inventories	46,688	47,153
Others	10,070	10,625
		201,200
Total current assets	201,559	
Financial assets – non current & Investments – equity	12,555	13,698
method		
Property plant and equipment	214,593	216,200
Intangible assets	80,216	80,857
Prepaid lease payments	10,765	10,500
Others	13,683	13,516
Total assets	533,371	535,971
Current liabilities:		
Short-term borrowings	43,264	63,365
Current portion of long-term borrowings &	10,796	24,420
capital lease obligations		
Notes and accounts payable	56,884	60,470
Others	45,355	44,493
		192,748
Total current liabilities	156,299	

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Bonds payable	16,986	16,985
Long-term borrowings & capital lease obligations	127,351	103,386
Other liabilities	12,065	11,719
		324,838
Total liabilities	312,701	
Shareholders of the parent	203,023	197,330
Noncontrolling interest	17,647	13,803
Total liabilities & shareholders' equity	533,371	535,971
		1.04
Current Ratio	1.29	
		0.68
Net Debt to Equity	0.60	

ASE Technology Holding Co., Ltd.

## Summary of Consolidated Cash Flow Statements

(In NT\$ millions)

(Unaudited)

	For the three months ended			For the year ended	
	Dec. 31 2018	Sep. 30 2018	Dec. 31 2017	Dec. 31 2018	Dec. 31 2017
Cash Flows from Operating Activities:					
Profit before income tax	7,235	8,117	7,879	32,048	30,929
Depreciation & amortization	12,220	12,469	7,421	42,689	29,205
Other operating activities items	(920)	(3,312)	(1,138)	(23,977)	(12,703)
Net cash generated from operating activities	18,535	17,274	14,162	50,760	47,431
Cash Flows from Investing Activities:					
Net payments for property, plant and equipment	(9,993)	(13,078)	(4,784)	(40,259)	(23,211)
Other investment activities items	(6,230)	7,622	3,178	(89,283)	7,125
Net cash used in investing activities	(16,223)	(5,456)	(1,606)	(129,542)	(16,086)
Cash Flows from Financing Activities:					
Total net proceeds from (repayment of) debts	(10,208)	(8,177)	(4,899)	101,968	(19,636)
Dividends paid	0	(10,614)	0	(10,614)	(11,214)
Other financing activities items	3,255	(4,115)	323	(7,928)	11,526
Net cash generated from (used in) financing activities	(6,953)	(22,906)	(4,576)	83,426	(19,324)
Foreign currency exchange effect	824	(1,605)	(877)	796	(4,336)
Net increase (decrease) in cash and cash equivalents	(3,817)	(12,693)	7,103	5,440	7,685
Cash and cash equivalents at the beginning of period	55,335	68,028	38,975	46,078	38,393
Cash and cash equivalents at the end of period	51,518	55,335	46,078	51,518	46,078

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**Fair value measurements on a nonrecurring basis.** From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the write-downs of individual assets. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments to loans to reflect specific reserves on loans based on the current appraised value of the collateral or unobservable market assumptions. Unobservable assumptions reflect ASB's own estimate of the fair value of collateral used in valuing the loan. ASB may also be required to measure goodwill at fair value on a nonrecurring basis. During the first six months of 2011 and 2010, goodwill was not measured at fair value. For the first six months of 2011 and 2010, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP other than the specific reserves on loans receivable held for investment.

From time to time, the Company may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of HECO's asset retirement obligations (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread (also see Note 3).

**11 • Cash flows**

**Supplemental disclosures of cash flow information.** For the six months ended June 30, 2011 and 2010, the Company paid interest to non-affiliates amounting to \$50 million and \$46 million, respectively.

For the six months ended June 30, 2011 and 2010, the Company paid/(received) income taxes amounting to \$(21) million and \$44 million, respectively. Income taxes were received in 2011 primarily due to the refunding of estimated tax payments made prior to the extension of bonus depreciation provisions.

**Supplemental disclosures of noncash activities.** Under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to \$12 million and \$11 million for the six months ended June 30, 2011 and 2010, respectively.

Noncash increases in common stock for director and officer compensatory plans of the Company were \$5.6 million and \$2.3 million for the six months ended June 30, 2011 and 2010, respectively.

Real estate acquired in settlement of loans in noncash transactions amounted to \$5 million and \$2 million for the six months ended June 30, 2011 and 2010, respectively.

**12 • Recent accounting pronouncements and interpretations**

**Troubled debt restructuring (TDR).** In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies which loan modifications constitute TDRs and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDRs. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both (a) the restructuring constitutes a concession by the creditor; and (b) the debtor is experiencing financial difficulties. Clarifying guidance is provided on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties.

The Company will adopt this standard in the third quarter of 2011 and does not expect the adoption to have a material impact on the Company's results of operations, financial condition or liquidity.

**Repurchase agreements.** In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which is intended to improve the financial reporting of repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This ASU removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. ASB will apply this guidance prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012 and does not expect it to have a material impact on the Company's financial condition, results of operations or liquidity.

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**Fair value measurements.** In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. This ASU includes the Boards' common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards.

The Company will prospectively adopt this standard in the first quarter of 2012 and does not expect it to have a material impact on the Company's financial condition, results of operations or liquidity.

**Comprehensive income.** In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. All items of net income and other comprehensive income are required to be presented in either a single continuous statement of comprehensive income or in two separate, but consecutive, statements—a net income statement and a total comprehensive income statement.

The Company expects to retrospectively adopt this standard by the first quarter of 2012 using a two-statement approach.

**13 • Credit agreement**

HEI maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$125 million, with a letter of credit sub-facility, expiring on May 7, 2013, with a syndicate of eight financial institutions. The facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HEI's short-term and long-term indebtedness, to make investments in or loans to subsidiaries and for HEI's working capital and general corporate purposes.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Income (unaudited)**

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Operating revenues</b>	\$ 727,652	\$ 582,094	\$ 1,371,953	\$ 1,128,806
<b>Operating expenses</b>				
Fuel oil	312,141	215,322	573,001	427,074
Purchased power	171,737	139,513	319,695	256,295
Other operation	67,388	60,254	132,919	119,498
Maintenance	31,276	32,223	60,472	59,276
Depreciation	36,258	38,649	72,690	77,291
Taxes, other than income taxes	67,152	54,170	127,147	105,961
Income taxes	11,160	11,113	22,770	22,154
	697,112	551,244	1,308,694	1,067,549
<b>Operating income</b>	<b>30,540</b>	<b>30,850</b>	<b>63,259</b>	<b>61,257</b>
<b>Other income</b>				
Allowance for equity funds used during construction	1,317	1,847	2,561	3,620
Other, net	898	372	1,808	1,613
	2,215	2,219	4,369	5,233
<b>Interest and other charges</b>				
Interest on long-term debt	14,383	14,383	28,766	28,766
Amortization of net bond premium and expense	766	726	1,549	1,393
Other interest charges	636	609	1,175	1,208
Allowance for borrowed funds used during construction	(553)	(790)	(1,073)	(1,569)
	15,232	14,928	30,417	29,798
<b>Net income</b>	<b>17,523</b>	<b>18,141</b>	<b>37,211</b>	<b>36,692</b>
Preferred stock dividends of subsidiaries	229	229	458	458
<b>Net income attributable to HECO</b>	<b>17,294</b>	<b>17,912</b>	<b>36,753</b>	<b>36,234</b>
Preferred stock dividends of HECO	270	270	540	540
<b>Net income for common stock</b>	<b>\$ 17,024</b>	<b>\$ 17,642</b>	<b>\$ 36,213</b>	<b>\$ 35,694</b>

HEI owns all of the common stock of HECO. Therefore, per share data with respect to shares of common stock of HECO are not meaningful.

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Balance Sheets (unaudited)**

(dollars in thousands, except par value)	June 30, 2011	December 31, 2010
<b>Assets</b>		
<b>Utility plant, at cost</b>		
Land	\$ 51,439	\$ 51,364
Plant and equipment	4,941,887	4,896,974
Less accumulated depreciation	(1,968,207)	(1,941,059)
Construction in progress	122,946	101,562
<b>Net utility plant</b>	<b>3,148,065</b>	<b>3,108,841</b>
<b>Current assets</b>		
Cash and cash equivalents	25,534	122,936
Customer accounts receivable, net	174,434	138,171
Accrued unbilled revenues, net	122,863	104,384
Other accounts receivable, net	6,425	9,376
Fuel oil stock, at average cost	159,214	152,705
Materials and supplies, at average cost	38,207	36,717
Prepayments and other	41,094	55,216
Regulatory assets	9,982	7,349
<b>Total current assets</b>	<b>577,753</b>	<b>626,854</b>
<b>Other long-term assets</b>		
Regulatory assets	468,784	470,981
Unamortized debt expense	13,145	14,030
Other	71,375	64,974
<b>Total other long-term assets</b>	<b>553,304</b>	<b>549,985</b>
<b>Total assets</b>	<b>\$ 4,279,122</b>	<b>\$ 4,285,680</b>
<b>Capitalization and liabilities</b>		
<b>Capitalization</b>		
Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 13,830,823 shares)	\$ 92,224	\$ 92,224
Premium on capital stock	389,609	389,609
Retained earnings	855,790	854,856
Accumulated other comprehensive income, net of income taxes	783	709
<b>Common stock equity</b>	<b>1,338,406</b>	<b>1,337,398</b>
Cumulative preferred stock not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,000,506	1,057,942
<b>Total capitalization</b>	<b>2,373,205</b>	<b>2,429,633</b>
<b>Current liabilities</b>		
Current portion of long-term debt	57,500	
Accounts payable	140,180	178,959
Interest and preferred dividends payable	20,457	20,603
Taxes accrued	173,811	175,960
Other	57,820	56,354
<b>Total current liabilities</b>	<b>449,768</b>	<b>431,876</b>
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	301,503	269,286
Regulatory liabilities	309,809	296,797
Unamortized tax credits	60,143	58,810
Retirement benefits liability	335,874	355,844
Other	109,331	108,070
<b>Total deferred credits and other liabilities</b>	<b>1,116,660</b>	<b>1,088,807</b>

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Contributions in aid of construction		339,489		335,364
<b>Total capitalization and liabilities</b>	\$	4,279,122	\$	4,285,680

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Changes in Common Stock Equity (unaudited)**

(in thousands)	Common stock		Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
<b>Balance, December 31, 2010</b>	<b>13,831</b>	<b>\$ 92,224</b>	<b>\$ 389,609</b>	<b>\$ 854,856</b>	<b>\$ 709</b>	<b>\$ 1,337,398</b>
Comprehensive income (loss):						
Net income for common stock				36,213		36,213
Retirement benefit plans:						
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$2,849					4,426	4,426
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$2,801					(4,352)	(4,352)
Other comprehensive income					74	
Comprehensive income						36,287
Common stock dividends				(35,279)		(35,279)
Common stock issue expenses						
<b>Balance, June 30, 2011</b>	<b>13,831</b>	<b>\$ 92,224</b>	<b>\$ 389,609</b>	<b>\$ 855,790</b>	<b>\$ 783</b>	<b>\$ 1,338,406</b>
<b>Balance, December 31, 2009</b>	<b>13,787</b>	<b>\$ 91,931</b>	<b>\$ 385,659</b>	<b>\$ 827,036</b>	<b>\$ 1,782</b>	<b>\$ 1,306,408</b>
Comprehensive income (loss):						
Net income for common stock				35,694		35,694
Retirement benefit plans:						
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$1,155					1,813	1,813
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,080					(1,697)	(1,697)
Other comprehensive income					116	
Comprehensive income						35,810
Common stock dividends				(26,887)		(26,887)
Common stock issue expenses				(7)		(7)
<b>Balance, June 30, 2010</b>	<b>13,787</b>	<b>\$ 91,931</b>	<b>\$ 385,652</b>	<b>\$ 835,843</b>	<b>\$ 1,898</b>	<b>\$ 1,315,324</b>

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

Six months ended June 30 (in thousands)	2011	2010
<b>Cash flows from operating activities</b>		
Net income	\$ 37,211	\$ 36,692
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	72,690	77,291
Other amortization	10,833	3,101
Changes in deferred income taxes	33,456	(4,522)
Changes in tax credits, net	1,556	1,685
Allowance for equity funds used during construction	(2,561)	(3,620)
Decrease in cash overdraft	(2,305)	(302)
Changes in assets and liabilities		
Increase in accounts receivable	(33,312)	(18,258)
Increase in accrued unbilled revenues	(18,479)	(6,497)
Increase in fuel oil stock	(6,509)	(49,759)
Increase in materials and supplies	(1,490)	(872)
Increase in regulatory assets	(14,498)	(2,252)
Decrease in accounts payable	(48,288)	(1,186)
Changes in prepaid and accrued income taxes and utility revenue taxes	12,178	(31,864)
Changes in other assets and liabilities	(24,425)	14,669
<b>Net cash provided by operating activities</b>	<b>16,057</b>	<b>14,306</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(85,395)	(71,497)
Contributions in aid of construction	8,153	9,430
Other	77	
<b>Net cash used in investing activities</b>	<b>(77,165)</b>	<b>(62,067)</b>
<b>Cash flows from financing activities</b>		
Common stock dividends	(35,279)	(26,887)
Preferred stock dividends of HECO and subsidiaries	(998)	(998)
Net increase in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less		14,100
Other	(17)	(1,349)
<b>Net cash used in financing activities</b>	<b>(36,294)</b>	<b>(15,134)</b>
Net decrease in cash and cash equivalents	(97,402)	(62,895)
Cash and cash equivalents, beginning of period	122,936	73,578
<b>Cash and cash equivalents, end of period</b>	<b>\$ 25,534</b>	<b>\$ 10,683</b>

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



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Hawaiian Electric Company, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1 • Basis of presentation**

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto incorporated by reference in HECO's Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HECO's Quarterly Report on SEC Form 10-Q for the quarter ended March 31, 2011.

In the opinion of HECO's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the financial position of HECO and its subsidiaries as of June 30, 2011 and December 31, 2010 and the results of their operations for the three and six months ended June 30, 2011 and 2010 and their cash flows for the six months ended June 30, 2011 and 2010. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior period's consolidated financial statements to conform to the current presentation.

**2 • Unconsolidated variable interest entities**

**HECO Capital Trust III.** HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) (\$50 million aggregate liquidation preference) to the public and trust common securities (\$1.5 million aggregate liquidation preference) to HECO, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by HECO in the principal amount of \$31.5 million and issued by Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO) each in the principal amount of \$10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of HECO, HELCO and MECO under an expense agreement and HECO's obligations under its trust guarantee and its guarantee of the obligations of HELCO and MECO under their respective debentures, are the sole assets of Trust III. Trust III has at all times been an unconsolidated subsidiary of HECO. Since HECO, as the common security holder, does not absorb the majority of the variability of Trust III, HECO is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of June 30, 2011 and December 31, 2010 each consisted of \$51.5 million of 2004 Debentures; \$50.0 million of 2004 Trust Preferred Securities; and \$1.5 million of trust common securities. Trust III's income statements for the six months ended June 30, 2011 and 2010 each consisted of \$1.7 million of interest income received from the 2004 Debentures, \$1.6 million of distributions to holders of the Trust Preferred Securities, and

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\$0.1 million of common dividends on the trust common securities to HECO. So long as the 2004 Trust Preferred Securities are outstanding, HECO is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by HECO in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event HECO, HELCO or MECO elect to defer

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payment of interest on any of their respective 2004 Debentures, then HECO will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

**Power purchase agreements.** As of June 30, 2011, HECO and its subsidiaries had six PPAs totaling 540 megawatts (MW) of firm capacity and other PPAs with smaller independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kW or less who buy power from or sell power to the utilities), none of which are currently required to be consolidated as VIEs. Approximately 91% of the 540 MW of firm capacity is pursuant to PPAs, entered into before December 31, 2003, with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs for the six months ended June 30, 2011 totaled \$320 million, with purchases from AES Hawaii, Kalaeloa, HEP and HPOWER totaling \$71 million, \$139 million, \$24 million and \$30 million, respectively.

Some of the IPPs have provided sufficient information for HECO to determine that the IPP was not a VIE, or was either a business or governmental organization (e.g., HPOWER), and thus excluded from the scope of accounting standards for VIEs. A windfarm and Kalaeloa provided sufficient information, as required under their PPAs or amendments, such that HECO could determine that consolidation was not required. Management has concluded that the consolidation of some IPPs is not required as HECO and its subsidiaries do not have variable interests in the IPPs because the PPAs do not require them to absorb any variability of the IPPs.

An enterprise with an interest in a VIE or potential VIE created before December 31, 2003 and not thereafter materially modified is not required to apply accounting standards for VIEs to that entity if the enterprise is unable to obtain the necessary information after making an exhaustive effort. HECO and its subsidiaries have made and continue to make exhaustive efforts to get the necessary information, but have been unsuccessful to date as it was not a contractual requirement prior to 2004. If the requested information is ultimately received from these IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs. The consolidation of any significant IPP could have a material effect on the Company's and HECO's consolidated financial statements, including the recognition of a significant amount of assets and liabilities and the potential recognition of losses. If HECO and its subsidiaries determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, HECO and its subsidiaries would retrospectively apply accounting standards for VIEs.

### **3 • Revenue taxes**

HECO and its subsidiaries' operating revenues include amounts for various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, HECO and its subsidiaries' revenue tax payments to the taxing authorities are based on the prior year's revenues. For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries included approximately \$121 million and \$100 million, respectively, of revenue taxes in operating revenues and in taxes, other than income taxes expense.

### **4 • Retirement benefits**

**Retirement benefit plan changes.** See Retirement benefit plan changes in Note 5 of HEI's Notes to Consolidated Financial Statements.

**Defined benefit plans.** For the first six months of 2011, HECO and its subsidiaries contributed \$37 million to their retirement benefit plans, compared to \$16 million in the first six months of 2010. HECO and its subsidiaries' current estimate of contributions to their retirement benefit plans in 2011 is \$73 million, compared to contributions of \$31 million in 2010. The increase in expected 2011 contributions over 2010 contributions is driven by the minimum funding requirements under the Pension Protection Act of 2006, which were impacted by the following three factors: (1) the credit balance available to apply toward satisfaction of the minimum funding requirements was fully depleted in 2010 leaving no credit balance to be applied to 2011, (2) under the Pension Protection Act of 2006, the requirement was to fund 96% of target liability in 2010, which increased to 100% for 2011 and future years, and (3)

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lower interest rates. HECO and its subsidiaries expect to pay directly \$1 million of benefits in 2011, comparable to 2010.

The components of net periodic benefit cost were as follows:

(in thousands)	Three months ended June 30				Six months ended June 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 8,474	\$ 6,772	\$ 1,129	\$ 1,131	\$ 17,039	\$ 13,382	\$ 2,352	\$ 2,219
Interest cost	14,803	14,658	2,340	2,571	29,652	29,237	4,724	5,167
Expected return on plan assets	(15,352)	(15,353)	(2,618)	(2,728)	(30,636)	(30,677)	(5,226)	(5,443)
Amortization of unrecognized transition obligation			(2)	(2)			(4)	(4)
Amortization of prior service gain	(187)	(187)	(312)	(56)	(374)	(374)	(539)	(111)
Recognized actuarial loss	4,016	1,767	37	1	8,136	3,452	55	4
Net periodic benefit cost	11,754	7,657	574	917	23,817	15,020	1,362	1,832
Impact of PUC D&Os	(556)	2,020	1,734	1,333	(2,100)	5,028	2,752	2,621
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$ 11,198	\$ 9,677	\$ 2,308	\$ 2,250	\$ 21,717	\$ 20,048	\$ 4,114	\$ 4,453

HECO and its subsidiaries recorded retirement benefits expense of \$19 million for each of the first six months of 2011 and 2010. The electric utilities charged a portion of the net periodic benefit cost to plant.

**Defined contribution plan.** For the first six months of 2011, the utilities expense for matching contributions under the HEIRSP was immaterial.

## 5 • Commitments and contingencies

**Hawaii Clean Energy Initiative.** In January 2008, the State of Hawaii (State) and the U.S. Department of Energy signed a memorandum of understanding establishing the Hawaii Clean Energy Initiative (HCEI). In October 2008, the Governor of the State, the State Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State Department of Commerce and Consumer Affairs, and HECO, on behalf of itself and its subsidiaries, HELCO and MECO (collectively, the parties), signed an agreement setting forth goals and objectives under the HCEI and the related commitments of the parties (the Energy Agreement), including pursuing a wide range of actions to decrease the State's dependence on imported fossil fuels through substantial increases in renewable energy and programs intended to secure greater energy efficiency and conservation. Many of the actions and programs included in the Energy Agreement require approval of the

PUC.

**Renewable energy projects.** HECO and its subsidiaries continue to negotiate with developers of proposed projects to integrate power into its grid from a variety of renewable energy sources, including solar, biomass, wind, ocean thermal energy conversion, wave and others. This includes HECO's commitment to integrate wind power into the Oahu electrical grid that would be imported via a yet-to-be-built undersea transmission cable system from a windfarm proposed to be built on the island of Lanai. The State and HECO are working together to ensure the supporting infrastructure needed is in place to reliably accommodate this large increment of wind power, including appropriate additional storage capacity investments and any required utility system connections or interfaces with the cable and the windfarm facility. In December 2009, the PUC allowed HECO to defer the costs of studies for this large wind project for later review of prudence and reasonableness, and HECO is now seeking PUC approval to recover the deferred costs totaling \$3.9 million through the REIP surcharge. Additionally, in July 2011, the PUC directed HECO to draft an RFP for 200 MW or more of renewable energy to be delivered to Oahu and to submit the draft RFP to the PUC by mid-October 2011.

**Interim increases.** As of June 30, 2011, HECO and its subsidiaries had recognized \$11 million of revenues with respect to interim orders related to general rate increase requests. Revenue amounts recorded pursuant to interim orders are subject to refund, with interest, if they exceed amounts allowed in a final order.

**Major projects.** Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in

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significantly increased project costs or even cancellation of projects. Further, completion of projects is subject to various risks, such as problems or disputes with vendors. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in HECO's consolidated net income. Significant projects whose costs (or costs in excess of estimates) have not yet been allowed in rate base by a final PUC order include those described below.

In May 2011, based upon recommendations solicited from the Consumer Advocate, the PUC ordered that independently conducted regulatory audits on the reasonableness of costs incurred for HECO's East Oahu Transmission Project, Campbell Industrial Park combustion turbine project, and Customer Information System Project be undertaken. Any revenue requirements arising from specific project costs being audited shall either remain interim and subject to refund until audit completion, or remain within regulatory deferral accounts. In the Interim D&O, the PUC approved the portion of the settlement agreement allowing HECO to defer the portion of costs that are in excess of prior PUC approved amounts and related depreciation for HECO's East Oahu Transmission Project Phase 1 (\$43 million) and Campbell Industrial Park combustion turbine project (\$32 million) until completion of an independently conducted regulatory review on the reasonableness of the total project costs. The PUC approved the accrual of a carrying charge on the cost of such projects not yet included in rates and the related depreciation expense, from July 1, 2011 until the regulatory reviews are completed and the PUC has issued an order allowing the remaining project costs in electric rates. For accounting purposes, HECO will record the equity portion of the carrying charge when it is allowed in electric rates. However, the PUC did not approve the agreement to defer expenses (subject to a limit to which the parties agreed) associated with the yet-to-be completed Customer Information System.

Campbell Industrial Park 110 MW combustion turbine No. 1 (CIP CT-1) and transmission line. HECO's incurred costs for this project, which was placed in service in 2009, were \$195 million, including \$9 million of allowance for funds used during construction (AFUDC). HECO's current rates reflect recovery of project costs of \$163 million. See Major projects above regarding the process for determining recovery of the remaining costs for this project. Management believes no adjustment to project costs is required as of June 30, 2011.

East Oahu Transmission Project (EOTP). HECO had planned a project to construct a partially underground transmission line to a major substation. However, in 2002, an application for a permit, which would have allowed construction in a route through conservation district lands, was denied. In 2007, the PUC approved HECO's request to expend funds for a revised EOTP using different routes requiring the construction of subtransmission lines in two phases (then estimated at \$56 million - \$42 million for Phase 1 and \$14 million for Phase 2), but did not address the issue as to whether the pre-2003 planning and permitting costs, and related AFUDC, should be included in the project costs. That issue was to be addressed in a subsequent proceeding and will now be reviewed in the independently conducted regulatory audits.

Phase 1 was placed in service on June 29, 2010. As of June 30, 2011, HECO's incurred costs for Phase 1 of this project was \$59 million (as a result of higher costs and the project delays), including (i) \$12 million of pre-2003 planning and permitting costs, (ii) \$24 million of planning, permitting and construction costs incurred after the denial of the permit and (iii) \$23 million for AFUDC. The interim D&O issued in HECO's 2011 test year rate case reflects approximately \$16 million of EOTP Phase 1 costs and related depreciation expense in determining revenue requirements. See Major projects above regarding the process for determining recovery of the remaining costs for EOTP Phase 1.

In April 2010, HECO proposed a modification of Phase 2 that uses smart grid technology and is estimated to cost \$10 million (total cost of \$15 million less \$5 million of funding through the Smart Grid Investment Grant Program of the American Recovery and Reinvestment Act of 2009). In October 2010, the PUC approved HECO's modification request for Phase 2, which is projected for completion in 2012. As of June 30, 2011, HECO's incurred costs for Phase 2 of this project amounted to \$5 million.

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Management believes no adjustment to project costs is required as of June 30, 2011.

Customer Information System Project. In 2005, the PUC approved the utilities request to (i) expend the then-estimated \$20 million for a new Customer Information System (CIS), provided that no part of the project costs may



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be included in rate base until the project is in service and is used and useful for public utility purposes, and (ii) defer certain computer software development costs, accumulate AFUDC during the deferral period, amortize the deferred costs over a specified period and include the unamortized deferred costs in rate base, subject to specified conditions.

HECO signed a contract with a software company in March 2006 with a transition to the new CIS originally scheduled to occur in February 2008, which transition did not occur. Disputes over the parties' contractual obligations resulted in litigation, which subsequently was settled. HECO subsequently contracted with a new CIS software vendor and a new system integrator. The CIS project is proceeding with the implementation of the new software system. As of June 30, 2011, HECO's total deferred and capital cost estimate for the CIS was \$57 million (of which \$30 million was recorded). Management believes no adjustment to project costs is required as of June 30, 2011.

**Environmental regulation.** HECO and its subsidiaries are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances. In recent years, legislative and regulatory activity related to the environment, including proposals and rulemaking under the Clean Air Act (CAA) and Clean Water Act (CWA), has increased significantly and management anticipates that such activity will continue.

On April 20, 2011, the Federal Register published the federal Environmental Protection Agency's (EPA's) proposed regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The proposed regulations would apply to the cooling water systems for the steam generating units at the utilities Honolulu, Kahe and Waiiau power plants on the island of Oahu. Although the proposed regulations provide some flexibility, management believes they do not adequately focus on site-specific conditions and cost-benefit factors and, if adopted as proposed, would require significant capital and annual O&M expenditures. As proposed, the regulations would require facilities to come into compliance within 8 years of the effective date of the final rule, which the EPA expects to issue in 2012.

Subsequently, on May 3, 2011, the Federal Register published the EPA's proposed National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs) that would establish Maximum Achievable Control Technology (MACT) standards for the control of hazardous air pollutants (HAP) in emissions from new and existing EGUs. The proposed rules, also known as EGU MACT, would apply to the 14 EGUs at the utilities Honolulu, Kahe and Waiiau power plants. As proposed, the regulations would require significant capital and annual expenditures for the installation and operation of emission control equipment on the utilities' EGUs. The CAA requires that facilities come into compliance with final MACT standards within 3 years of the final rule, although facilities may be granted a 1 year extension to install emission control technology. In view of the isolated nature of HECO's electrical system and the proposed requirement to install control equipment on all HECO steam generating units while maintaining system reliability, the EGU MACT compliance schedule poses a significant challenge to HECO. Under the terms of a settlement agreement, the EPA is required to issue the final rule by November 16, 2011.

Depending upon the final outcome of the CWA 316(b) regulations, possible changes in CWA effluent standards, the EGU MACT regulations, the tightening of the National Ambient Air Quality Standards, and the Regional Haze rule under the CAA, HECO and its subsidiaries may be required to incur material capital expenditures and other compliance costs. Additionally, the combined effects of these regulatory initiatives may result in a decision to retire certain generating units earlier than anticipated.

HECO, HELCO and MECO, like other utilities, periodically experience petroleum or other chemical releases into the environment associated with current operations and report and take action on these releases when and as required by applicable law and regulations. Except as otherwise disclosed herein, HECO and its subsidiaries believe the costs of responding to their releases identified to date will not have a material adverse

effect, individually or in the aggregate, on HECO's consolidated results of operations, financial condition or liquidity.

Global climate change and greenhouse gas (GHG) emissions reduction. National and international concern about climate change and the contribution of GHG emissions (including carbon dioxide emissions from the

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combustion of fossil fuels) to global warming have led to action by the State and to federal legislative and regulatory proposals to reduce GHG emissions.

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii. The electric utilities are participating in a Task Force established under Act 234, which is charged with developing a work plan and regulatory approach to reduce GHG emissions, as well as in initiatives aimed at reducing their GHG emissions, such as those being implemented under the Energy Agreement. Because the regulations implementing Act 234 have not yet been promulgated, management cannot predict the impact of Act 234 on the electric utilities, but compliance costs could be significant.

Several approaches (e.g., cap and trade) to GHG emission reduction have been either introduced or discussed in the U.S. Congress; however, no federal legislation has yet been enacted.

On September 22, 2009, the EPA issued its Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions. The utilities' reports for 2010 are due on September 30, 2011. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Management believes the EPA will make the same or similar endangerment finding regarding GHG emissions from stationary sources like the utilities' generating units.

In June 2010, the EPA issued its Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule (GHG Tailoring Rule) that created new thresholds for GHG emissions from new and existing facilities. States may need to increase fees to cover the increased level of activity caused by this rule. Effective January 2, 2011, under the Prevention of Significant Deterioration program, permitting of new or modified stationary sources (such as utility electrical generating units) that have the potential to emit GHGs in greater quantities than the thresholds in the GHG Tailoring Rule will entail GHG emissions evaluation, analysis and, potentially, control requirements. In January 2011, the EPA announced that it plans to defer, for three years, GHG permitting requirements for carbon dioxide (CO<sub>2</sub>) emissions from biomass-fired and other biogenic sources. The utilities are evaluating the impact of this deferral on their generation units that are or will be fired on biofuels.

HECO and its subsidiaries have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in HECO's CIP CT-1, using biodiesel for startup and shutdown of selected MECO generation units, and testing biofuel blends in other HECO and MECO generating units. Management is unable to evaluate the ultimate impact on the utilities' operations of eventual comprehensive GHG regulation. However, management believes that the various initiatives it is undertaking will provide a sound basis for managing the electric utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise, which could potentially impact coastal and other low-lying areas (where much of the utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the electric utilities. For example, severe weather could cause significant harm to the electric utilities' physical facilities.

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The utilities are undertaking an adaptation survey of their facilities as a step in developing a longer-term strategy for responding to the consequences of global climate change.

**Fuel contracts and power purchase agreements.** HECO and Chevron Products Company, a division of Chevron USA, Inc. (Chevron), are parties to an amended contract for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on April 30, 2013.

HECO and Tesoro Hawaii Corporation (Tesoro) are parties to an amended LSFO supply contract (LSFO contract). The term of the amended agreement runs through April 30, 2013 and may automatically renew for annual terms thereafter unless earlier terminated by either party.

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The energy charge for energy purchased from Kalaeloa under HECO's PPA with Kalaeloa is based, in part, on the price Kalaeloa pays Tesoro for fuel oil under a Facility Fuel Supply Contract (fuel contract) between them. Kalaeloa and Tesoro have negotiated a proposed amendment to the pricing formula in their fuel contract. The amendment could result in higher fuel prices for Kalaeloa, which would in turn increase the energy charge paid by HECO to Kalaeloa. HECO consented to the amendment on September 7, 2010.

On May 13, 2011, the PUC approved the latest Chevron and Tesoro amendments and HECO's consent to the Kalaeloa-Tesoro amendment and allowed HECO to include the costs incurred under the amendments in its ECAC, to the extent such costs are not recovered through HECO's base rates.

**Asset retirement obligations.** Asset retirement obligations (AROs) represent legal obligations associated with the retirement of certain tangible long-lived assets, are measured as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred if a reasonable estimate of fair value can be made. HECO and its subsidiaries' recognition of AROs have no impact on its earnings. The cost of the AROs is recovered over the life of the asset through depreciation. AROs recognized by HECO and its subsidiaries relate to obligations to retire plant and equipment, including removal of asbestos and other hazardous materials. In September 2009, HECO recorded an estimated ARO of \$23 million related to removing retired generating units at its Honolulu power plant, including abating asbestos and lead-based paint. The obligation was subsequently increased in June 2010, due to an increase in the estimated costs of the removal project. In August 2010, HECO recorded a similar estimated ARO of \$12 million related to removing retired generating units at HECO's Waiiau power plant.

Changes to the ARO liability included in Other liabilities on HECO's balance sheet were as follows:

(in thousands)	2011	2010
Balance, January 1	\$ 48,630	\$ 23,746
Accretion expense	1,134	1,143
Liabilities incurred		
Liabilities settled	(573)	(11)
Revisions in estimated cash flows		11,141
Balance, June 30	\$ 49,191	\$ 36,019

**Collective bargaining agreements.** As of June 30, 2011, approximately 53% of the electric utilities' employees were members of the International Brotherhood of Electrical Workers, AFL-CIO, Local 1260, which is the only union representing employees of the electric utilities. On March 11, 2011, the union's members ratified a new collective bargaining agreement and a new benefit agreement. The new collective bargaining agreement covers a term from January 1, 2011 to October 31, 2013 and provides for non-compounded wage increases (1.75%, 2.5%, and 3.0% for 2011, 2012 and 2013, respectively). The new benefit agreement covers a term from January 1, 2011 to October 31, 2014 and includes changes to medical, dental and vision plans with increased employee contributions and changes to retirement benefits for employees. See Note 4.

**Limited insurance.** HECO and its subsidiaries purchase insurance to protect themselves against loss or damage to their properties and against claims made by third-parties and employees. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. HECO, HELCO and MECO's transmission and distribution systems (excluding substations) have a replacement

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value roughly estimated at \$5 billion and are uninsured. Similarly, HECO, HELCO and MECO have no business interruption insurance. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the utilities to recover from ratepayers restoration costs and revenues lost from business interruption, their results of operations, financial condition and liquidity could be materially adversely impacted. Also, if a series of losses occurred, each of which were subject to an insurance deductible amount, or if the maximum limit of the available insurance were substantially exceeded, the utilities could incur losses in amounts that would have a material adverse effect on their results of operations, financial condition and liquidity.

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**6 • Cash flows**

**Supplemental disclosures of cash flow information.** For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries paid interest amounting to \$29 million and \$28 million, respectively.

For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries paid/(received) income taxes amounting to \$(27) million and \$37 million, respectively. Income taxes were received in 2011 primarily due to the refunding of estimated tax payments made prior to the extension of bonus depreciation provisions.

**Supplemental disclosure of noncash activities.** The allowance for equity funds used during construction, which was charged to construction in progress as part of the cost of electric utility plant, amounted to \$2.6 million and \$3.6 million for the six months ended June 30, 2011 and 2010, respectively.

Noncash capital expenditures were \$10 million and \$7 million for the six months ended June 30, 2011 and 2010, respectively.

**7 • Recent accounting pronouncements and interpretations**

For a discussion of recent accounting pronouncements and interpretations, see Note 12 of HECO's Notes to Consolidated Financial Statements.

**8 • Fair value measurements**

Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the electric utilities use their own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the electric utilities were to sell their entire holdings of a particular financial instrument at one time. Because no market exists for a portion of the electric utilities' financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. Fair value estimates are provided for certain financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in determining such fair values.

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The electric utilities used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

**Cash and cash equivalents and short-term borrowings.** The carrying amount approximated fair value because of the short maturity of these instruments.

**Long-term debt.** Fair value was obtained from a third-party financial services provider or the BLOOMBERG PROFESSIONAL service based on the current rates offered for debt of the same or similar remaining maturities.

**Off-balance sheet financial instruments.** Fair value of HECO-obligated preferred securities of trust subsidiaries was based on quoted market prices.



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The estimated fair values of the financial instruments held or issued by the electric utilities were as follows:

(in thousands)	June 30, 2011		December 31, 2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Financial assets</b>				
Cash and cash equivalents, excluding money market accounts	\$ 844	\$ 844	\$ 122,936	\$ 122,936
Money market accounts fair value measurements on a recurring basis using significant other observable inputs (Level 2)	24,690	24,690		
<b>Financial liabilities</b>				
Long-term debt, net, including amounts due within one year	1,058,006	1,004,669	1,057,942	1,020,550
<b>Off-balance sheet item</b>				
HECO-obligated preferred securities of trust subsidiary	50,000	50,040	50,000	52,500

**Fair value measurements on a nonrecurring basis.** From time to time, the utilities may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. As of June 30, 2011, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP.

From time to time, the utilities may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of the utilities ARO (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread. See Note 5.

**9 • Credit agreement**

HECO maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$175 million, with a letter of credit sub-facility, with a syndicate of eight financial institutions, expiring on May 7, 2013. The credit facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HECO's short-term indebtedness, to make loans to subsidiaries and for HECO's capital expenditures, working capital and general corporate purposes.

**10 • Reconciliation of electric utility operating income per HEI and HECO consolidated statements of income**

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010

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Operating income from regulated and nonregulated activities before income taxes (per HEI consolidated statements of income)	\$	42,518	\$	41,435	\$	87,726	\$	84,044
Deduct:								
Income taxes on regulated activities		(11,160)		(11,113)		(22,770)		(22,154)
Revenues from nonregulated activities		(1,086)		(2,001)		(2,120)		(3,400)
Add: Expenses from nonregulated activities		268		2,529		423		2,767
Operating income from regulated activities after income taxes (per HECO consolidated statements of income)	\$	30,540	\$	30,850	\$	63,259	\$	61,257

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**11 • Subsequent event**

On July 22, 2011, the PUC issued an interim D&O granting HECO a net increase of \$38.2 million in annual revenues, or 2.2%, net of the revenues currently being recovered through the decoupling Revenue Adjustment Mechanism (RAM), effective July 26, 2011. Including the RAM revenues, the total annual interim increase is \$53.2 million, or 3.1%. If the interim rate increase exceeds the amount of the increase ultimately approved in the final D&O, then the excess would be refunded to HECO's customers, with interest.

**12 • Consolidating financial information**

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

HECO also unconditionally guarantees HELCO's and MECO's obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of HELCO and MECO and (b) relating to the trust preferred securities of Trust III (see Note 2 above). HECO is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on HELCO's and MECO's preferred stock if the respective subsidiary is unable to make such payments.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 510,653	110,595	106,404				\$ 727,652
<b>Operating expenses</b>							
Fuel oil	220,231	32,123	59,787				312,141
Purchased power	131,921	32,242	7,574				171,737
Other operation	48,396	9,524	9,468				67,388
Maintenance	22,077	4,297	4,902				31,276
Depreciation	22,885	8,148	5,225				36,258
Taxes, other than income taxes	47,108	10,163	9,881				67,152
Income taxes	3,640	4,725	2,795				11,160
	496,258	101,222	99,632				697,112
<b>Operating income</b>	14,395	9,373	6,772				30,540
<b>Other income</b>							
Allowance for equity funds used during construction	974	233	110				1,317
Equity in earnings of subsidiaries	10,963					(10,963)	
Other, net	626	214	62		(1)	(3)	898
	12,563	447	172		(1)	(10,966)	2,215
<b>Interest and other charges</b>							
Interest on long-term debt	9,131	2,984	2,268				14,383
Amortization of net bond premium and expense	503	137	126				766
Other interest charges	442	93	104			(3)	636
Allowance for borrowed funds used during construction	(412)	(102)	(39)				(553)
	9,664	3,112	2,459			(3)	15,232
<b>Net income (loss)</b>	17,294	6,708	4,485		(1)	(10,963)	17,523
Preferred stock dividend of subsidiaries		133	96				229
<b>Net income (loss) attributable to HECO</b>	17,294	6,575	4,389		(1)	(10,963)	17,294
Preferred stock dividends of HECO	270						270
<b>Net income (loss) for common stock</b>	\$ 17,024	6,575	4,389		(1)	(10,963)	\$ 17,024

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 407,566	91,443	83,085				\$ 582,094
<b>Operating expenses</b>							
Fuel oil	150,121	23,153	42,048				215,322
Purchased power	104,693	27,763	7,057				139,513
Other operation	44,220	8,232	7,802				60,254
Maintenance	18,566	7,915	5,742				32,223
Depreciation	21,912	9,127	7,610				38,649
Taxes, other than income taxes	37,834	8,509	7,827				54,170
Income taxes	8,847	1,395	871				11,113
	386,193	86,094	78,957				551,244
<b>Operating income</b>	21,373	5,349	4,128				30,850
<b>Other income</b>							
Allowance for equity funds used during construction	1,599	106	142				1,847
Equity in earnings of subsidiaries	3,426					(3,426)	
Other, net	890	140	(629)	(2)	(5)	(22)	372
	5,915	246	(487)	(2)	(5)	(3,448)	2,219
<b>Interest and other charges</b>							
Interest on long-term debt	9,131	2,984	2,268				14,383
Amortization of net bond premium and expense	484	118	124				726
Other interest charges	441	95	95			(22)	609
Allowance for borrowed funds used during construction	(680)	(53)	(57)				(790)
	9,376	3,144	2,430			(22)	14,928
<b>Net income (loss)</b>	17,912	2,451	1,211	(2)	(5)	(3,426)	18,141
Preferred stock dividend of subsidiaries		133	96				229
<b>Net income (loss) attributable to HECO</b>	17,912	2,318	1,115	(2)	(5)	(3,426)	17,912
Preferred stock dividends of HECO	270						270
<b>Net income (loss) for common stock</b>	\$ 17,642	2,318	1,115	(2)	(5)	(3,426)	\$ 17,642

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Six months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 960,477	210,230	201,246				\$ 1,371,953
<b>Operating expenses</b>							
Fuel oil	403,497	58,614	110,890				573,001
Purchased power	244,672	62,264	12,759				319,695
Other operation	95,651	17,792	19,476				132,919
Maintenance	43,269	8,148	9,055				60,472
Depreciation	45,768	16,471	10,451				72,690
Taxes, other than income taxes	88,997	19,336	18,814				127,147
Income taxes	8,338	8,494	5,938				22,770
	930,192	191,119	187,383				1,308,694
<b>Operating income</b>	30,285	19,111	13,863				63,259
<b>Other income</b>							
Allowance for equity funds used during construction	1,934	316	311				2,561
Equity in earnings of subsidiaries	22,453					(22,453)	
Other, net	1,358	320	154	(2)	(4)	(18)	1,808
	25,745	636	465	(2)	(4)	(22,471)	4,369
<b>Interest and other charges</b>							
Interest on long-term debt	18,261	5,969	4,536				28,766
Amortization of net bond premium and expense	1,016	280	253				1,549
Other interest charges	820	174	199			(18)	1,175
Allowance for borrowed funds used during construction	(820)	(135)	(118)				(1,073)
	19,277	6,288	4,870			(18)	30,417
<b>Net income (loss)</b>	36,753	13,459	9,458	(2)	(4)	(22,453)	37,211
Preferred stock dividend of subsidiaries		267	191				458
<b>Net income (loss) attributable to HECO</b>	36,753	13,192	9,267	(2)	(4)	(22,453)	36,753
Preferred stock dividends of HECO	540						540
<b>Net income (loss) for common stock</b>	\$ 36,213	13,192	9,267	(2)	(4)	(22,453)	\$ 36,213

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Six months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 783,670	180,475	164,661				\$ 1,128,806
<b>Operating expenses</b>							
Fuel oil	296,463	46,632	83,979				427,074
Purchased power	190,554	53,465	12,276				256,295
Other operation	85,846	17,249	16,403				119,498
Maintenance	35,640	11,310	12,326				59,276
Depreciation	43,825	18,253	15,213				77,291
Taxes, other than income taxes	73,557	16,837	15,567				105,961
Income taxes	16,752	4,042	1,360				22,154
	742,637	167,788	157,124				1,067,549
<b>Operating income</b>	41,033	12,687	7,537				61,257
<b>Other income</b>							
Allowance for equity funds used during construction	3,158	201	261				3,620
Equity in earnings of subsidiaries	8,719					(8,719)	
Other, net	2,004	255	(584)	(4)	(10)	(48)	1,613
	13,881	456	(323)	(4)	(10)	(8,767)	5,233
<b>Interest and other charges</b>							
Interest on long-term debt	18,261	5,969	4,536				28,766
Amortization of net bond premium and expense	917	235	241				1,393
Other interest charges	866	196	194			(48)	1,208
Allowance for borrowed funds used during construction	(1,364)	(102)	(103)				(1,569)
	18,680	6,298	4,868			(48)	29,798
<b>Net income (loss)</b>	36,234	6,845	2,346	(4)	(10)	(8,719)	36,692
Preferred stock dividend of subsidiaries		267	191				458
<b>Net income (loss) attributable to HECO</b>	36,234	6,578	2,155	(4)	(10)	(8,719)	36,234
Preferred stock dividends of HECO	540						540
<b>Net income (loss) for common stock</b>	\$ 35,694	6,578	2,155	(4)	(10)	(8,719)	\$ 35,694

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Balance Sheet (unaudited)**

June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and Eliminations	HECO Consolidated
<b>Assets</b>							
Utility plant, at cost							
Land	\$ 43,241	5,182	3,016				\$ 51,439
Plant and equipment	3,028,815	1,023,920	889,152				4,941,887
Less accumulated depreciation	(1,158,380)	(406,262)	(403,565)				(1,968,207)
Construction in progress	94,880	14,545	13,521				122,946
Net utility plant	2,008,556	637,385	502,124				3,148,065
Investment in wholly owned subsidiaries, at equity	509,216					(509,216)	
<b>Current assets</b>							
Cash and cash equivalents	23,287	1,844	291	85	27		25,534
Advances to affiliates		36,800	17,000			(53,800)	
Customer accounts receivable, net	119,404	28,788	26,242				174,434
Accrued unbilled revenues, net	88,283	17,787	16,793				122,863
Other accounts receivable, net	11,485	1,126	1,125			(7,311)	6,425
Fuel oil stock, at average cost	109,190	20,919	29,105				159,214
Materials and supplies, at average cost	19,846	4,586	13,775				38,207
Prepayments and other	31,631	4,393	5,108			(38)	41,094
Regulatory assets	7,407	1,309	1,266				9,982
Total current assets	410,533	117,552	110,705	85	27	(61,149)	577,753
<b>Other long-term assets</b>							
Regulatory assets	348,662	59,947	60,175				468,784
Unamortized debt expense	8,648	2,515	1,982				13,145
Other	46,435	9,261	15,679				71,375
Total other long-term assets	403,745	71,723	77,836				553,304
Total assets	\$ 3,332,050	826,660	690,665	85	27	(570,365)	\$ 4,279,122
<b>Capitalization and liabilities</b>							
<b>Capitalization</b>							
Common stock equity	\$ 1,338,406	275,705	233,401	84	26	(509,216)	\$ 1,338,406
Cumulative preferred stock not subject to mandatory redemption	22,293	7,000	5,000				34,293
Long-term debt, net	629,722	204,095	166,689				1,000,506
Total capitalization	1,990,421	486,800	405,090	84	26	(509,216)	2,373,205
<b>Current liabilities</b>							
Current portion of long-term debt	42,580	7,200	7,720				57,500
Short-term borrowings—affiliate	53,800					(53,800)	
Accounts payable	98,986	23,218	17,976				140,180



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Interest and preferred dividends payable	13,383	4,319	2,756			(1)	20,457
Taxes accrued	114,485	29,794	29,570			(38)	173,811
Other	37,748	12,770	14,610	1	1	(7,310)	57,820
Total current liabilities	360,982	77,301	72,632	1	1	(61,149)	449,768
Deferred credits and other liabilities							
Deferred income taxes	217,426	51,034	33,043				301,503
Regulatory liabilities	211,981	59,291	38,537				309,809
Unamortized tax credits	34,661	13,153	12,329				60,143
Retirement benefits liability	256,391	37,360	42,123				335,874
Other	68,403	28,368	12,560				109,331
Total deferred credits and other liabilities	788,862	189,206	138,592				1,116,660
Contributions in aid of construction	191,785	73,353	74,351				339,489
Total capitalization and liabilities	\$ 3,332,050	826,660	690,665	85	27	(570,365)	\$ 4,279,122

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Balance Sheet (unaudited)**

December 31, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and Eliminations	HECO Consolidated
<b>Assets</b>							
Utility plant, at cost							
Land	\$ 43,240	5,108	3,016				\$ 51,364
Plant and equipment	2,984,887	1,030,520	881,567				4,896,974
Less accumulated depreciation	(1,134,423)	(408,704)	(397,932)				(1,941,059)
Construction in progress	78,934	9,828	12,800				101,562
Net utility plant	1,972,638	636,752	499,451				3,108,841
Investment in wholly owned subsidiaries, at equity	500,801					(500,801)	
<b>Current assets</b>							
Cash and cash equivalents	121,019	1,229	594	89	5		122,936
Advances to affiliates		30,950	29,500			(60,450)	
Customer accounts receivable, net	93,474	23,484	21,213				138,171
Accrued unbilled revenues, net	71,712	16,018	16,654				104,384
Other accounts receivable, net	11,536	3,319	668			(6,147)	9,376
Fuel oil stock, at average cost	121,280	15,751	15,674				152,705
Materials and supplies, at average cost	18,890	4,498	13,329				36,717
Prepayments and other	36,974	9,825	8,417				55,216
Regulatory assets	5,294	1,064	991				7,349
Total current assets	480,179	106,138	107,040	89	5	(66,597)	626,854
<b>Other long-term assets</b>							
Regulatory assets	352,038	61,051	57,892				470,981
Unamortized debt expense	9,240	2,681	2,109				14,030
Other	41,236	8,257	15,481				64,974
Total other long-term assets	402,514	71,989	75,482				549,985
Total assets	\$ 3,356,132	814,879	681,973	89	5	(567,398)	\$ 4,285,680
<b>Capitalization and liabilities</b>							
<b>Capitalization</b>							
Common stock equity	\$ 1,337,398	270,573	230,137	86	5	(500,801)	\$ 1,337,398
Cumulative preferred stock not subject to mandatory redemption	22,293	7,000	5,000				34,293
Long-term debt, net	672,268	211,279	174,395				1,057,942
Total capitalization	2,031,959	488,852	409,532	86	5	(500,801)	2,429,633
<b>Current liabilities</b>							
Short-term borrowings-affiliate	60,450					(60,450)	
Accounts payable	135,739	22,888	20,332				178,959
Interest and preferred dividends payable	13,648	4,196	2,762			(3)	20,603

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Taxes accrued	116,840	31,229	27,891				175,960
Other	35,784	13,065	13,646	3		(6,144)	56,354
Total current liabilities	362,461	71,378	64,631	3		(66,597)	431,876
Deferred credits and other liabilities							
Deferred income taxes	198,753	44,971	25,562				269,286
Regulatory liabilities	201,587	56,190	39,020				296,797
Unamortized tax credits	33,661	12,857	12,292				58,810
Retirement benefits liability	271,499	39,811	44,534				355,844
Other	66,898	28,739	12,433				108,070
Total deferred credits and other liabilities	772,398	182,568	133,841				1,088,807
Contributions in aid of construction	189,314	72,081	73,969				335,364
Total capitalization and liabilities	\$ 3,356,132	814,879	681,973	89	5	(567,398)	\$ 4,285,680

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Changes in Common Stock Equity (unaudited)**

Six months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
<b>Balance, December 31, 2010</b>	\$ 1,337,398	270,573	230,137	86	5	(500,801)	\$ 1,337,398
Comprehensive income (loss):							
Net income (loss) for common stock	36,213	13,192	9,267	(2)	(4)	(22,453)	36,213
Retirement benefit plans:							
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits	4,426	696	567			(1,263)	4,426
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,352)	(695)	(568)			1,263	(4,352)
Comprehensive income (loss)	36,287	13,193	9,266	(2)	(4)	(22,453)	36,287
Common stock dividends	(35,279)	(8,061)	(6,002)			14,063	(35,279)
Common stock issuance					25	(25)	
<b>Balance, June 30, 2011</b>	\$ 1,338,406	275,705	233,401	84	26	(509,216)	\$ 1,338,406

Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Changes in Common Stock Equity (unaudited)**

Six months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
<b>Balance, December 31, 2009</b>	\$ 1,306,408	240,576	221,319	94	17	(462,006)	\$ 1,306,408
Comprehensive income (loss):							
Net income (loss) for common stock	35,694	6,578	2,155	(4)	(10)	(8,719)	35,694
Retirement benefit plans:							
Less: amortization of net loss, prior service gain and	1,813	385	320			(705)	1,813

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transition obligation included in net periodic benefit cost, net of tax benefits								
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(1,697)	(376)	(308)			684		(1,697)
Comprehensive income (loss)	35,810	6,587	2,167	(4)	(10)	(8,740)		35,810
Common stock dividends	(26,887)	(6,203)	(2,276)			8,479		(26,887)
Common stock issue expenses	(7)	(3)				3		(7)
<b>Balance, June 30, 2010</b>	\$ 1,315,324	240,957	221,210	90	7	(462,264)	\$	1,315,324

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Cash Flows (unaudited)**

Six months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Elimination addition to (deduction from) cash flows	HECO Consolidated
<b>Cash flows from operating activities:</b>							
Net income (loss)	\$ 36,753	13,459	9,458	(2)	(4)	(22,453)	\$ 37,211
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:							
Equity in earnings	(22,503)					22,453	(50)
Common stock dividends received from subsidiaries	14,113					(14,063)	50
Depreciation of property, plant and equipment	45,768	16,471	10,451				72,690
Other amortization	8,602	1,283	948				10,833
Changes in deferred income taxes	19,474	6,234	7,748				33,456
Changes in tax credits, net	1,193	307	56				1,556
Allowance for equity funds used during construction	(1,934)	(316)	(311)				(2,561)
Increase in cash overdraft		(2,527)	222				(2,305)
Changes in assets and liabilities:							
Increase in accounts receivable	(25,879)	(3,111)	(5,486)			1,164	(33,312)
Increase in accrued unbilled revenues	(16,571)	(1,769)	(139)				(18,479)
Decrease (increase) in fuel oil stock	12,090	(5,168)	(13,431)				(6,509)
Increase in materials and supplies	(956)	(88)	(446)				(1,490)
Increase in regulatory assets	(9,650)	(1,057)	(3,791)				(14,498)
Decrease in accounts payable	(45,638)	(35)	(2,615)				(48,288)
Changes in prepaid and accrued income and utility revenue taxes	3,724	3,682	4,772				12,178
Changes in other assets and liabilities	(18,315)	(1,136)	(3,809)	(2)	1	(1,164)	(24,425)
Net cash provided by (used in) operating activities	271	26,229	3,627	(4)	(3)	(14,063)	16,057
<b>Cash flows from investing activities:</b>							
Capital expenditures	(60,386)	(13,937)	(11,072)				(85,395)
Contributions in aid of construction	4,816	2,501	836				8,153
Other	77						77

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Investment in consolidated subsidiary	(25)					25	
Advances from (to) affiliates		(5,850)	12,500			(6,650)	
Net cash provided by (used in) investing activities	(55,518)	(17,286)	2,264			(6,625)	(77,165)
<b>Cash flows from financing activities:</b>							
Common stock dividends	(35,279)	(8,061)	(6,002)			14,063	(35,279)
Preferred stock dividends of HECO and subsidiaries	(540)	(267)	(191)				(998)
Net decrease in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less	(6,650)					6,650	
Proceeds from issuance of common stock					25	(25)	
Other	(16)		(1)				(17)
Net cash provided by (used in) financing activities	(42,485)	(8,328)	(6,194)		25	20,688	(36,294)
Net increase (decrease) in cash and cash equivalents	(97,732)	615	(303)	(4)	22		(97,402)
Cash and cash equivalents, beginning of period	121,019	1,229	594	89	5		122,936
Cash and cash equivalents, end of period	\$ 23,287	1,844	291	85	27		\$ 25,534

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Cash Flows (unaudited)**

Six months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Elimination addition to (deduction from) cash flows	HECO Consolidated
<b>Cash flows from operating activities:</b>							
Net income (loss)	\$ 36,234	6,845	2,346	(4)	(10)	(8,719)	\$ 36,692
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:							
Equity in earnings	(8,769)					8,719	(50)
Common stock dividends received from subsidiaries	8,529					(8,479)	50
Depreciation of property, plant and equipment	43,825	18,253	15,213				77,291
Other amortization	2,411	1,716	(1,026)				3,101
Changes in deferred income taxes	(3,745)	(199)	(578)				(4,522)
Changes in tax credits, net	1,609	238	(162)				1,685
Allowance for equity funds used during construction	(3,158)	(201)	(261)				(3,620)
Decrease in cash overdraft			(302)				(302)
Changes in assets and liabilities:							
Increase in accounts receivable	(18,653)	(1,141)	(2,921)			4,457	(18,258)
Decrease (increase) in accrued unbilled revenues	(6,884)	316	71				(6,497)
Increase in fuel oil stock	(45,841)	(3,634)	(284)				(49,759)
Decrease (increase) in materials and supplies	(1,102)	(530)	760				(872)
Increase in regulatory assets	(1,331)	(695)	(226)				(2,252)
Increase (decrease) in accounts payable	(4,264)	3,377	(299)				(1,186)
Changes in prepaid and accrued income and utility revenue taxes	(21,463)	(4,904)	(5,497)				(31,864)
Changes in other assets and liabilities	12,356	2,891	3,880	(2)	1	(4,457)	14,669
Net cash provided by (used in) operating activities	(10,246)	22,332	10,714	(6)	(9)	(8,479)	14,306
<b>Cash flows from investing activities:</b>							
Capital expenditures	(51,025)	(10,429)	(10,043)				(71,497)
Contributions in aid of construction	5,871	2,206	1,353				9,430
Advances from (to) affiliates	5,250		2,000			(7,250)	
Net cash used in investing activities	(39,904)	(8,223)	(6,690)			(7,250)	(62,067)
<b>Cash flows from financing activities:</b>							
Common stock dividends	(26,887)	(6,203)	(2,276)			8,479	(26,887)
	(540)	(267)	(191)				(998)



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Preferred stock dividends of HECO and subsidiaries						
Net increase (decrease) in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less	12,100	(5,250)			7,250	14,100
Other	(948)	(278)	(123)			(1,349)
Net cash used in financing activities	(16,275)	(11,998)	(2,590)		15,729	(15,134)
Net increase (decrease) in cash and cash equivalents	(66,425)	2,111	1,434	(6)	(9)	(62,895)
Cash and cash equivalents, beginning of period	70,981	2,006	474	98	19	73,578
Cash and cash equivalents, end of period	\$ 4,556	4,117	1,908	92	10	\$ 10,683

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion updates Management's Discussion and Analysis of Financial Condition and Results of Operations included in HEI's and HECO's Form 10-K for 2010 and should be read in conjunction with the 2010 annual consolidated financial statements of HEI and HECO and notes thereto included and incorporated by reference, respectively, in HEI's and HECO's Form 10-K for 2010, as well as the quarterly (as of and for the three months ended March 31, 2011 and as of and for the three and six months ended June 30, 2011) financial statements and notes thereto included in this Form 10-Q and the Form 10-Q for the first quarter of 2011.

**HEI Consolidated****RESULTS OF OPERATIONS**

(in thousands, except per share amounts)	Three months ended		% change	Primary reason(s) for significant change*
	2011	June 30 2010		
Revenues	\$ 794,319	\$ 655,664	21	Increase for the electric utility segment, partly offset by a decrease for the bank segment
Operating income	63,661	63,631		Increase for the electric utility segment and lower losses for the other segment, partly offset by a decrease for the bank segment
Net income for common stock	27,139	29,262	(7)	Higher interest expense other than on deposit liabilities and other bank borrowings and lower AFUDC, partly offset by lower income taxes**
Basic earnings per common share	\$ 0.28	\$ 0.31	(10)	Lower net income and higher weighted average shares outstanding
Weighted-average number of common shares outstanding	95,393	93,159	2	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and Company employee plans
(in thousands, except per share amounts)	Six months ended		% change	Primary reason(s) for significant change*
	2011	June 30 2010		
Revenues	\$ 1,504,952	\$ 1,274,704	18	Increase for the electric utility segment, partly offset by a decrease for the bank segment
Operating income	127,036	124,338	2	Increase for the electric utility segment and lower losses for the other segment, partly offset by a decrease for the bank

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				segment
Net income for common stock	55,601	56,388	(1)	Higher interest expense other than on deposit liabilities and other bank borrowings and lower AFUDC, partly offset by higher operating income and lower income taxes**
Basic earnings per common share	\$ 0.58	\$ 0.61	(5)	Lower net income and higher weighted average shares outstanding
Weighted-average number of common shares outstanding	95,107	92,867	2	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and Company employee plans

\* Also, see segment discussions which follow.

\*\* The Company's effective tax rates (combined federal and state) for the second quarters of 2011 and 2010 were 33% and 35%, respectively. The Company's effective tax rates (combined federal and state) for the first six months of 2011 and 2010 were 35%.

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In 2008, the Company initiated aggressive strategies to set both the utilities and ASB on a new course the utilities entered into an agreement with the State to create a clean energy future for Hawaii and ASB set new performance standards. In 2010 and the first six months of 2011, the Company made major progress on these strategies. The utilities advanced key HCEI initiatives, and ASB completed its performance improvement project in 2010 and demonstrated reduced risk and profitability metrics in line with or better than the average of its high performing peers in the first half of 2011 (see segment discussions below). Together, HEI's unique combination of a utility and bank continues to provide the Company with a strong balance sheet and the financial resources to invest in the strategic growth of its subsidiaries while providing an attractive dividend for investors.

**Dividends.** The payout ratios for 2010 and the first half of 2011 were 102% and 106%, respectively. HEI currently expects to maintain the dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation, including but not limited to the Company's results of operations, the long-term prospects for the Company, and current and expected future economic conditions.

**Economic conditions.**

*Note: The statistical data in this section is from public third-party sources (e.g., Department of Business, Economic Development and Tourism (DBEDT); University of Hawaii Economic Research Organization (UHERO); U.S. Bureau of Labor Statistics; Blue Chip Economic Indicators; U.S. Energy Information Administration; Hawaii Tourism Authority (HTA); Honolulu Board of REALTORS®; Bureau of Economic Analysis and national and local newspapers).*

The U.S. economy, as measured by real gross domestic product (GDP), increased at an annual rate of 1.9% in the first quarter of 2011 over the fourth quarter of 2010, according to the estimate released by the Bureau of Economic Analysis on June 24, 2011. Real GDP is estimated to slowly strengthen in the second and third quarters of 2011 by 2.0% and 3.2% compared to the preceding quarter, respectively, according to the July 2011 Blue Chip Economic Indicators. While positive growth is still expected in 2011, the consensus outlook for the U.S. economy has deteriorated since the first quarter of 2011. The decline in the real GDP growth forecast results from several factors, including continuing weak employment data, restrictions to federal, state and local government spending, and dampened personal consumption expenditures as a result of sharp increases in gasoline prices in the second quarter of 2011.

Crude oil prices reached their highest level since 2008 in April 2011. The price of a barrel of West Texas Intermediate (WTI) crude oil peaked at \$113.93 on April 29, 2011 before declining to an average of \$101 and \$96 per barrel in May and June 2011, respectively. The U.S. Energy Information Administration's July 2011 Short-Term Energy Outlook projected WTI to average \$98 per barrel in 2011.

Meanwhile, despite significant decreases in visitor bookings from Japan following the devastating March 11, 2011 Tohoku earthquake and tsunami, state total visitor arrivals continued to see growth with a 4.7% increase year-to-date June 2011 over the same period in 2010. Visitor arrivals from Canada and the continental U.S. continued to increase year-over-year. Year-to-date June 2011 total visitor expenditures rebounded strongly with an 18.4% increase over the same period in 2010. The long term global and local effects of the tragic events in Japan remain uncertain with Japan arrivals remaining lower through the beginning of July 2011. The outlook for the visitor industry remains optimistic with China Eastern Airlines proposing the first regularly scheduled service from China (Shanghai) to start in August 2011 and the expected arrival of about 15,000 world government and business leaders from 21 economies for the Hawaii Asia Pacific Economic Cooperation summit in November 2011.

Hawaii's seasonally adjusted unemployment rate for June 2011 of 6.0% remained well below the national unemployment rate of 9.2%. Hawaii job growth appears to be slowly spreading beyond the tourism industry with increases in areas such as professional and business services and educational services. Six of seven bargaining units of the state's largest public union ratified a new contract ending furloughs effective July 1, 2011. The new contract calls for a 5% reduction in pay and an increased share of health care premiums. Other public unions continue to negotiate new agreements.

According to local economists, private construction has stabilized and is headed for limited growth. Government infrastructure spending bolstered construction over the past year, but this area is vulnerable in an era of increasing government frugality. The big driver in construction on Oahu is expected to be rail transit. An increase in construction jobs for the rail project is expected in late 2011, assuming no additional delays to the schedule.

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Hawaii's housing market remained lethargic across the state, with existing home sales falling in June 2011 as compared to June 2010 when tax credits stimulated home purchases.

The Federal Open Market Committee held the federal funds rate target rate at 0 to ¼ percent on June 22, 2011, citing slower than expected economic recovery with weak labor market indicators, supply chain disruptions from the Japan tragedy, weak housing markets and low nonresidential structure investments.

Hawaii's economic recovery is expected to strengthen despite losses in Japan arrivals as improvement spreads beyond the visitor industry. Local economists project improvement in most key indicators in 2011 and 2012.

**Major tax legislation.** Two bills enacted in 2010 (the Small Business Jobs Act and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act) contained major tax provisions directly affecting the Company, including the extension of 50% bonus depreciation and 100% bonus depreciation for certain property. For the Company, the bonus depreciation provisions result in an estimated increase in federal tax depreciation of \$75 million for 2010 and \$165 million for 2011, primarily attributable to the utilities. A number of energy-related tax breaks were also extended, including the biodiesel credit through 2012. The Company will continue to analyze these Acts for their impacts and the opportunities they present.

**Retirement benefits.** For the first six months of 2011, the Company's and HECO and its subsidiaries' defined benefit retirement plans' assets generated a gain, after investment management fees, of 4.9%. The market value of the defined benefit retirement plans' assets of the Company as of June 30, 2011 was \$1.0 billion (including \$942 million for HECO and its subsidiaries) compared to \$983 million at December 31, 2010 (including \$891 million for HECO and its subsidiaries).

HEI and HECO and its subsidiaries estimate that the cash funding for their qualified defined benefit pension plans in 2011 will be about \$2 million and \$71 million, respectively, which should fully satisfy the minimum required contribution, including requirements of the utilities pension tracking mechanisms and the plans' funding policy. See Note 4 of HECO's Notes to Consolidated Financial Statements. Other factors could cause changes to the required contribution levels. The Pension Protection Act provides that if a pension plan's funded status falls below certain levels more conservative assumptions must be used to value obligations, and restrictions on participant benefit accruals may be placed on the plans. If the plans fall below these thresholds, to avoid adverse consequences, funds in excess of the minimum required contribution may be contributed to the plan trust.

**Commitments and contingencies.** See Note 9 of HEI's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 12 of HEI's Notes to Consolidated Financial Statements.

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(in thousands)	Three months ended June 30		Six months ended June 30		Primary reason(s) for significant change
	2011	2010	2011	2010	
Revenues	\$ (737)	\$ (63)	\$ (752)	\$ (48)	Higher losses on venture capital investments
Operating loss	(2,677)	(3,579)	(6,264)	(7,252)	Lower administrative and general expenses, primarily executive compensation expense
Net loss	(5,080)	(4,511)	(9,658)	(9,173)	See explanation for operating loss and higher tax benefits due to a favorable settlement with the IRS, more than offset by higher interest expense primarily due to the losses on Forward Starting Swaps

The other business segment includes results of the stand-alone corporate operations of HEI and American Savings Holdings, Inc. (ASHI), both holding companies; Pacific Energy Conservation Services, Inc., a contract services company which provided windfarm operational and maintenance services to an affiliated electric utility until the windfarm was dismantled (dissolved in April 2011); HEI Properties, Inc., a company holding passive, venture capital investments; and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions.

**FINANCIAL CONDITION**

**Liquidity and capital resources.** The Company believes that its ability to generate cash, both internally from electric utility and banking operations and externally from issuances of equity and debt securities, commercial paper and bank borrowings, is adequate to maintain sufficient liquidity to fund its contractual obligations and commercial commitments, its forecasted capital expenditures and investments, its expected retirement benefit plan contributions and other cash requirements for the foreseeable future.

The consolidated capital structure of HEI (excluding deposit liabilities and other bank borrowings) was as follows:

(dollars in millions)	June 30, 2011		December 31, 2010	
Short-term borrowings other than bank	\$	%	25	1%
Long-term debt, net other than bank	1,440	48	1,365	47
Preferred stock of subsidiaries	34	1	34	1
Common stock equity	1,512	51	1,484	51
	\$ 2,986	100%	\$ 2,908	100%

HEI's short-term borrowings and HEI's line of credit facility were as follows:

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(in millions)	Six months ended June 30, 2011		Balance	
	Average balance	June 30, 2011	December 31, 2010	
Short-term borrowings(1)				
Commercial paper	\$	11	\$	25
Line of credit draws				
Undrawn capacity under HEI's line of credit facility (expiring May 7, 2013)		N/A	125	125

(1) This table does not include HECO's separate commercial paper issuances and line of credit facilities and draws, which are discussed below under Electric utility Financial Condition Liquidity and capital resources. At July 21, 2011, HEI had no outstanding commercial paper and its line of credit facility was undrawn.

HEI has a line of credit facility of \$125 million (see Note 13 of HEI's Notes to Consolidated Financial Statements). There are customary conditions which must be met in order to draw on it, including compliance with its covenants (such as covenants preventing HEI's subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI). In addition to customary defaults,



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HEI's failure to maintain its financial ratios, as defined in the agreement, or meet other requirements may result in an event of default. For example, it is an event of default if HEI fails to maintain a nonconsolidated Capitalization Ratio (funded debt) of 50% or less (ratio of 20% as of June 30, 2011, as calculated under the agreement) and Consolidated Net Worth of at least \$975 million (actual Net Worth of \$1.6 billion as of June 30, 2011, as calculated under the agreement). The commitment fee and interest charges on drawn amounts under the agreement are subject to adjustment in the event of a change in HEI's long-term credit ratings.

HEI raised \$22 million through the issuance of approximately 0.9 million shares of common stock under the DRIP, the HEIRSP and the ASB 401(k) Plan during the six months ended June 30, 2011. On August 18, 2011, HEI will begin satisfying the requirements of the DRIP, HEIRSP, ASB 401(k) Plan and other plans through open market purchases of its common stock.

On March 24, 2011, HEI issued \$125 million of Senior Notes via a private placement (\$75 million of 4.41% notes due March 24, 2016 and \$50 million of 5.67% notes due March 24, 2021). HEI used part of the net proceeds from the issuance of the notes to pay down commercial paper (originally issued to refinance \$50 million of 4.23% medium-term notes that matured on March 15, 2011) and will ultimately use the remaining proceeds to refinance part of the \$100 million of 6.141% medium-term notes that will mature on August 15, 2011. The notes contain customary representation and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes then outstanding becoming immediately due and payable) and provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's revolving noncollateralized credit agreement, expiring on May 7, 2013. For example, it is an event of default if HEI fails to maintain an unconsolidated Capitalization Ratio (funded debt) of 50% or less or Consolidated Net Worth of at least \$975 million.

For the first six months of 2011, net cash provided by operating activities of consolidated HEI was \$55 million. Net cash used by investing activities for the same period was \$214 million, primarily due to net increases in ASB's loans held for investment and investment securities and mortgage-related securities and HECO's consolidated capital expenditures. Net cash provided by financing activities during this period was \$95 million as a result of several factors, including net increases in long-term debt, deposit liabilities and retail repurchase agreements and proceeds from the issuance of common stock under HEI plans, partly offset by decreases in short-term borrowings and the payment of common stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), HECO's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments discussions of their cash flows in their respective Financial condition Liquidity and capital resources sections below.) During the first six months of 2011, HECO and ASB paid dividends to HEI of \$35 million and \$28 million, respectively.

**CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION**

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 52 to 53, 72 to 76, and 86 to 89 of HEI's MD&A included in Part II, Item 7 of HEI's 2010 Form 10-K.

Additional factors that may affect future results and financial condition are described above on pages iv and v under Forward-Looking Statements.

**MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES**

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates.

In accordance with SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," management has identified the accounting policies it believes to be the most critical to the Company's financial statements—that is, management believes that these policies are both the most important to the portrayal of the Company's financial condition and results of operations, and currently require management's most difficult, subjective or complex judgments.

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For information about these material estimates and critical accounting policies, see pages 53 to 54, 76 to 77, and 89 of HEI's MD&A included in Part II, Item 7 of HEI's 2010 Form 10-K.

Following are discussions of the results of operations, liquidity and capital resources of the electric utility and bank segments.

**Electric utility****RESULTS OF OPERATIONS**

(dollars in thousands, except per barrel amounts)	Three months ended June 30		% change	Primary reason(s) for significant change
	2011	2010		
Revenues	\$ 728,738	\$ 584,095	25	Higher fuel oil and purchased power costs, the effects of which are generally passed on to customers (\$137 million), decoupling revenue adjustment (RBA) at HECO (\$3 million), rate base revenue adjustment mechanism (RAM) and O&M RAM at HECO (\$1 million), HELCO test year 2010 (\$1 million) and MECO test year 2010 (\$2 million) interim rate increases.
Expenses				
Fuel oil	312,141	215,322	45	Higher fuel oil costs and more KWHs generated
Purchased power	171,737	139,513	23	Higher fuel costs partially offset by less KWHs purchased
Other operation	67,388	60,254	12	See Results three months ended June 30, 2011 below
Maintenance	31,276	32,223	(3)	See Results three months ended June 30, 2011 below
Depreciation	36,258	38,649	(6)	Lower depreciation rates implemented in conjunction with the HELCO and MECO test year 2010 interim D&Os
Taxes, other than income taxes	67,152	54,170	24	Increase in revenues
Other	268	2,529	(89)	Includes write-down of investment in combined heat and power system in 2010
Operating income	42,518	41,435	3	See Results three months ended June 30, 2011 below
Net income for common stock	17,024	17,642	(4)	

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Higher operating income, more than offset by higher income taxes and lower AFUDC due to HECO's EOTP being placed into service in June 2010

Kilowatthour sales (millions)	2,361	2,374	(1)
Wet-bulb temperature (Oahu average; degrees Fahrenheit)	70.5	67.9	4
Cooling degree days (Oahu)	1,257	1,210	4
Average fuel oil cost per barrel	\$ 123.69	\$ 86.38	43
Customer accounts (end of period)	445,427	442,936	1

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(dollars in thousands, except per barrel amounts)	Six months ended June 30		% change	Primary reason(s) for significant change
	2011	2010		
Revenues	\$ 1,374,073	\$ 1,132,206	21	Higher fuel oil and purchased power costs, the effects of which are generally passed on to customers (\$222 million), higher KWH sales (\$9 million), decoupling revenue adjustment (RBA) at HECO (\$2 million), rate base RAM and O&M RAM at HECO (\$1 million), HELCO test year 2010 (\$3 million) and MECO test year 2010 (\$4 million) interim rate increases.
Expenses				
Fuel oil	573,001	427,074	34	Higher fuel oil costs and more KWHs generated
Purchased power	319,695	256,295	25	Higher fuel costs and more KWHs purchased
Other operation	132,919	119,498	11	See Results six months ended June 30, 2011 below
Maintenance	60,472	59,276	2	See Results six months ended June 30, 2011 below
Depreciation	72,690	77,291	(6)	Lower depreciation rates implemented in conjunction with the HELCO and MECO test year 2010 interim D&Os
Taxes, other than income taxes	127,147	105,961	20	Increase in revenues
Other	423	2,767	(85)	Includes write-down of investment in combined heat and power system in 2010
Operating income	87,726	84,044	4	See Results six months ended June 30, 2011 below
Net income for common stock	36,213	35,694	1	Higher operating income, partly offset by higher income taxes and lower AFUDC due to HECO's EOTP being placed into service in June 2010
Kilowatthour sales (millions)	4,711	4,647	1	
Wet-bulb temperature (Oahu average; degrees Fahrenheit)	68.8	66.8	3	
Cooling degree days (Oahu)	2,177	2,067	5	
Average fuel oil cost per barrel	\$ 112.23	\$ 84.13	33	
Customer accounts (end of period)	445,427	442,936	1	

The electric utilities had effective tax rates for the second quarters of 2011 and 2010 of 39% and 36%, respectively, and for the first six months of 2011 and 2010 of 38% and 37%, respectively.

See Economic conditions in the HEI Consolidated section above.

**Results three months ended June 30, 2011.** Operating income for the second quarter of 2011 increased by 3% when compared to the same quarter in 2010 due primarily to interim rate relief and lower maintenance and depreciation expense, partly offset by higher Other operation expenses. Maintenance expenses decreased \$1 million due to lower overhaul cost, partially offset by higher vegetation and substation maintenance. Other operation expenses increased by \$7 million in the second quarter of 2011 compared to the same period in 2010 primarily due to higher transmission and distribution operation expenses (\$1 million), administrative and general expenses, including reserves (\$1 million), bad debt (\$1 million), and higher DSM expense (\$1 million) (see Demand-side management programs below) that are generally passed on to customers through surcharges.

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**Results six months ended June 30, 2011.** Operating income for the first six months of 2011 increased by 4% when compared to the same period in 2010 due primarily to interim rate relief and higher sales, partly offset by higher Other operation and Maintenance (O&M) expenses and taxes other than income taxes. Other operation expenses increased by \$13 million in the first six months of 2011 compared to the same period in 2010 primarily due to higher transmission and distribution operation expenses (\$3 million), higher administrative and general expenses, including reserves (\$2 million), bad debt (\$1 million) and higher DSM expense (\$2 million) (see Demand-side management programs below) that are generally passed on to customers through surcharges. Maintenance expenses increased \$1 million due to higher transmission and distribution maintenance including higher vegetation and substation maintenance.

**Utility strategic progress.** In 2010 and the first six months of 2011, the utilities made significant progress in implementing their clean energy strategies and the PUC issued several important regulatory decisions, all of which are key steps to support Hawaii's efforts to reduce its dependence on oil. Included in the PUC decisions were a number of interim and final rate case decisions (see table in Most recent rate proceedings below).

**Regulatory.** With PUC approval, HECO implemented on March 1, 2011 a new regulatory model that is intended to facilitate meeting the State's goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The model, referred to as decoupling, delinks revenues from sales and includes annual revenue adjustments for O&M expenses and rate base additions. Decoupling provides for more timely cost recovery and earning on investments and should result in an improvement in the utilities' under-earning situation over the last several years. Prior to and during the transition to decoupling, however, the utilities' returns have been, and may continue to be, well below PUC-allowed returns, as illustrated in the following table:

% 12 months ended June 30, 2011	Return on average common equity			Return on ratebase (RORB)		
	HECO	HELCO	MECO	HECO	HELCO	MECO
Utility returns (rate-making method)	4.73	8.99	7.02	5.02	7.55	6.52
PUC-allowed returns	10.00	10.50	10.50	8.16	8.59	8.43
Difference	(5.27)	(1.51)	(3.48)	(3.14)	(1.04)	(1.91)

Under decoupling, the most significant drivers for improving the ROACE are:

1. spending within PUC approved amounts for major projects and completing projects on schedule;
2. managing O&M expenses relative to authorized O&M adjustments, especially during periods of increasing demand; and
3. rate case outcomes that cover O&M requirements and rate base items not included in the revenue adjustment mechanisms (RAMs).

Effective March 1, 2011, as part of the decoupling implementation, HECO established the revenue balancing account and started recording the difference between target revenues from its HECO 2009 rate case and actual revenues. Based on a PUC order clarifying the implementation of the RAM adjustment issued on May 20, 2011, HECO began accruing and collecting 2011 RAM revenues of \$15 million in annual revenues, or \$1.3 million per month, beginning June 1, 2011, which was superseded on July 26, 2011 by the implementation of interim rates in HECO's 2011 general rate case (see Most recent rate proceedings below). Under the decoupling order, in future non-general rate case years, HECO will accrue and collect 7/12ths of the annual RAM adjusted revenues in one year and the remaining 5/12ths in the following year. HECO had expected to be

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able to accrue RAM-adjusted revenues from January 1 of each RAM period. HECO's Oahu goal of earning within 100 basis points of its allowed ROACE in 2012 will be more difficult to achieve than expected as a result of this proration of RAM revenues.

Also critical to closing the ROACE gap are HECO's 2011 rate case, decoupling implementation for HELCO and MECO, and getting timely recovery of completed software project costs. The HECO 2011 rate case interim D&O reset target revenues, O&M expenses and rate base for the decoupling mechanisms until a final D&O is issued. The utilities expect 2011 O&M expenses, excluding DSM expenses, will be managed to the levels included in interim rates.

Future earnings growth are also dependent on rate base growth. The utilities have increased their five-year 2011-2015 capital expenditures forecast to \$2.2 billion from \$1.6 billion for the 2010-2014 forecast, with an



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expected compounded annual rate base growth rate of approximately 5%. Many of the major initiatives within this forecast are expected to be completed beyond the 5-year period. Four major initiatives comprise approximately 40% of the 5-year plan: (1) replacing aging infrastructure; (2) environmental compliance; (3) fuel infrastructure investments; and (4) infrastructure investments to integrate renewables into the system. Estimates for these projects could change with time, based on external factors such as the timing and technical requirements for environmental compliance.

*Most recent rate proceedings.* The electric utilities initiate PUC proceedings from time to time to request electric rate increases to cover rising operating costs and the cost of plant and equipment, including the cost of new capital projects to maintain and improve service reliability. The PUC may grant an interim increase within 10 to 11 months following the filing of an application, but there is no guarantee of such an interim increase and interim amounts collected are refundable, with interest, to the extent they exceed the amount approved in the PUC's final D&O. The timing and amount of any final increase is determined at the discretion of the PUC. The adoption of revenue, expense, rate base and cost of capital amounts (including the ROACE and RORB) for purposes of an interim rate increase does not commit the PUC to accept any such amounts in its final D&O.

On July 22, 2011, the PUC issued an interim D&O granting HECO a net increase of \$38.2 million in annual revenues, or 2.2%, net of the revenues currently being recovered through the decoupling Revenue Adjustment Mechanism (RAM), effective July 26, 2011. Including the RAM revenues, the total annual interim increase is \$53.2 million or 3.1%. The interim increase is based on, and is substantially the same as, the settlement agreement executed and filed on July 5, 2011 by HECO, the Consumer Advocate and the Department of Defense (the parties in the proceeding). The interim increase reflects the new depreciation rates and methods approved by the PUC in a separate proceeding, which will result in a \$2 million decrease in depreciation expense effective with interim rates to the end of 2011. The PUC did not approve the portion of the settlement agreement to allow deferral of certain costs amounting to approximately \$3.2 million for 2011 (most of which have not yet been expended, including costs related to project management for the interisland wind project and undersea cable system sourcing). In the interim D&O, the PUC indicated it has not made a final determination on whether a labor expense adjustment is appropriate for this rate case, but finds that an adjustment is not necessary for purposes of the interim D&O, and will consider the reasonableness of such costs in light of current economic conditions in an evidentiary hearing scheduled in September 2011. See "Major projects" in Note 5 to HECO's Notes to Consolidated Financial Statements for a discussion of the deferral of project costs in the interim D&O.

The following table summarizes certain details of each utility's most recent rate cases, including the details of the increases requested, whether the utility and the Consumer Advocate reached a settlement that they proposed to the PUC, the details of increases granted in interim and final PUC D&Os, or whether an interim or final PUC D&O remains pending.

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Test year (dollars in millions)	Date (applied/ implemented)	Amount	% over rates in effect	ROACE	RORB	Ratebase	% Common equity	Stipulated agreement reached with Consumer Advocate	Reflects decoupling
<b>HECO</b>									
<b>2007</b>									
Request	12/22/06	\$ 99.6	7.1%	11.25%	8.92%	\$ 1,214	55.10%	Yes	No
Interim increase	10/22/07	70.0	5.0	10.70	8.62	1,158	55.10		No
Interim increase (adjusted)	6/20/08	77.9	5.6	10.70	8.62	1,158	55.10		No
Final increase	3/1/11	77.5	5.5	10.70	8.62	1,158	55.10		No
<b>2009</b>									
Request (1)	7/3/08	\$ 97.0	5.2%	11.25%	8.81%	\$ 1,408	54.30%	Yes	No
Interim increase (1st)	8/3/09	61.1	4.7	10.50	8.45	1,169	55.81		No
Interim increase (2nd, plus 1st)	2/20/10	73.8	5.7	10.50	8.45	1,251	55.81		No
Final increase (2)	3/1/11	66.4	5.1	10.00	8.16	1,250	55.81		Yes
<b>2011 (3)</b>									
Request	7/30/10	\$ 113.5	6.6%	10.75%	8.54%	\$ 1,569	56.29%	Yes	Yes
Interim increase	7/22/11	53.2	3.1	10.00	8.11	1,354	56.29		Yes
Final increase	Pending								
<b>HELCO</b>									
<b>2006</b>									
Request	5/5/06	\$ 29.9	9.2%	11.25%	8.65%	\$ 369	50.83%	Yes	No
Interim increase	4/5/07	24.6	7.6	10.70	8.33	357	51.19		No
Final increase (4)	1/14/11	24.6	7.6	10.70	8.33	357	51.19		No
<b>2010</b>									
Request (5)	12/9/09	\$ 20.9	6.0%	10.75%	8.73%	\$ 487	55.91%	Yes	Yes
Interim increase	1/14/11	6.0	1.7	10.50	8.59	465	55.91		No
Final increase	Pending								
<b>MECO</b>									
<b>2007</b>									
Request	2/23/07	\$ 19.0	5.3%	11.25%	8.98%	\$ 386	54.89%	Yes	No
Interim increase	12/21/07	13.2	3.7	10.70	8.67	383	54.89		No
Final increase	1/12/11	13.2	3.7	10.70	8.67	383	54.89		No
<b>2010</b>									
Request	9/30/09	\$ 28.2	9.7%	10.75%	8.57%	\$ 390	56.86%	Yes	Yes
Interim increase	8/1/10	10.3	3.3	10.50	8.43	387	56.86		No
Interim increase (adjusted)	1/12/11	8.5	2.7	10.50	8.43	387	56.86		No
Final increase	Pending								
<b>2012</b>									
Request (6)	7/22/11	\$ 27.5	6.7%	11.00%	8.72%	\$ 393	56.85%		Yes

Note: The Request Date reflects the application filing date for the rate proceeding. All other line items reflect the effective dates of the revised schedules and tariffs as a result of PUC-approved increases. In May 2011, MECO filed a Notice of Intent to file an application for a general rate increase, using a 2012 test year.

(1) In April 2009, HECO reduced this rate increase request by \$6.2 million because a new Customer Information System would not be placed in service as originally planned (see Note 5 of HECO's Notes to Consolidated Financial Statements).

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(2) Because the final increase was \$7.4 million less in annual revenues, HECO refunded \$2.1 million to customers (including interest) in February 2011.

(3) HECO filed a request with the PUC for a general rate increase of \$113.5 million, based on a 2011 test year and without the then estimated impacts of the implementation of decoupling as proposed in the PUC's separate decoupling proceeding and depreciation rates and methodology as proposed by HECO in a separate depreciation proceeding. Including the estimated effects of the implementation of decoupling at the time, the effective revenue request was \$94.0 million, or 5.4%. HECO's request was primarily to pay for major capital projects and higher O&M costs to maintain and improve service reliability and to recover the costs for several proposed programs to help reduce Hawaii's dependence on imported oil, and to further increase reliability and fuel security.

The \$53.2 million interim increase includes \$15 million in annual revenues already being recovered through the decoupling RAM.

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(4) Final D&O appealed by a participant in the rate case proceeding. The appeal is pending, but has not affected implementation of the rate increase.

(5) HELCO's request was primarily to cover investments for system upgrade projects, two major transmission line upgrades and increasing O&M expenses.

(6) MECO's request is required to pay for O&M expenses and additional investments in plant and equipment required to maintain and improve system reliability and to cover the increased costs to support the integration of more renewable energy generation.

Clean energy strategy. The utilities' policy is to support efforts to increase renewable energy in Hawaii. The utilities believe their actions will help stabilize customer bills over time as they become less dependent on costly and price-volatile fossil fuel. The utilities' clean energy strategy will also allow them to meet Hawaii's renewable portfolio standard (RPS) law, which requires electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. HECO met the 10% RPS for 2010 with a consolidated RPS of 20.7%, including saving from energy efficiency programs and solar water heating (or 9.5% without DSM energy savings). Energy savings resulting from energy efficiency programs and solar water heating will not count toward the RPS after 2014. With the continued support of the PUC and the Hawaii legislature, the utilities believe they will comfortably meet these RPS goals.

Recent developments in our clean energy strategy include:

- In January 2011, HELCO signed a 20-year contract, subject to PUC approval, with Aina Koa Pono-Ka'u LLC to supply 16 million gallons of biodiesel per year with initial consumption to begin by 2015.
- In February 2011, HECO successfully demonstrated that Unit 3 at its Kahe Power Plant could be powered using up to 100% biofuel.
- In February 2011, HELCO executed a PPA with Puna Geothermal Venture for the purchase of energy and capacity from an 8 MW expansion of PGV's geothermal energy plant on the island of Hawaii.
- In February 2011, the PUC opened dockets related to MECO's and HECO's plans to proceed with competitive bidding processes to acquire up to approximately 50 MW and 300 MW, respectively, of new, renewable firm dispatchable capacity generation resources, with the initial increments expected to come on line in the 2015 and 2016 timeframes, respectively.
- In 2008, HECO issued an Oahu Renewable Energy Request for Proposals (2008 RFP) for combined renewable energy projects up to 100 MW. In February 2011, HECO executed a PPA with Kalaeloa Solar Two for a 5 MW PV project. Negotiations continue with a proposed wind project (70 MW).
- Included in the bids received in response to the 2008 RFP were proposals for two large scale neighbor island wind projects that would produce energy to be imported from Lanai and Molokai to Oahu via a yet-to-be-built undersea transmission cable system. HECO is negotiating with one of the project developers for a 200 MW wind farm to be built on Lanai. The other proposal did not advance after missing a key PUC deadline. Further, in July 2011, the PUC directed HECO to prepare a draft RFP for 200 MW or more of renewable energy to be delivered to the island of Oahu and submit the draft RFP to the PUC by mid-October 2011.

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- In July 2011, HECO signed a contract with Pacific Biodiesel to supply at least 250,000 gallons of locally produced biodiesel for a new 8 MW standby generation facility at the Honolulu Airport that will be owned by the State and operated by HECO, targeted for operation in 2012.

**Commitments and contingencies.** See Note 5 of HECO's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 7 of HECO's Notes to Consolidated Financial Statements.

### FINANCIAL CONDITION

**Liquidity and capital resources.** Management believes that HECO's ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities, commercial paper and lines of credit, is adequate to maintain sufficient liquidity to fund their respective capital expenditures and investments and to cover debt, retirement benefits and other cash requirements for the foreseeable future.

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HECO's consolidated capital structure was as follows:

	\$	%	\$	%
Short-term borrowings				
Long-term debt, net	1,058	44	1,058	44
Preferred stock	34	1	34	1
Common stock equity	1,338	55	1,338	55
	\$ 2,430	100%	\$ 2,430	100%

HECO's short-term borrowings (other than from HELCO and MECO) and line of credit facility were as follows:

(in millions)	Average balance Six months ended June 30, 2011	June 30, 2011	Balance December 31, 2010
Short-term borrowings(1)			
Commercial paper	\$	\$	\$
Line of credit draws			
Borrowings from HEI			
Undrawn capacity under line of credit facility (expiring May 7, 2013)	N/A	175	175

(1) There were no external short-term borrowings during the first six months of 2011. At June 30, 2011, HECO had \$37 million and \$17 million of short-term borrowings from HELCO and MECO, respectively, which borrowings are eliminated in consolidation. At July 21, 2011, HECO had no outstanding commercial paper, its line of credit facility was undrawn, it had no borrowings from HEI and it had borrowings of \$43 million and \$25 million from HELCO and MECO, respectively.

HECO has a line of credit facility of \$175 million (see Note 9 of HECO's Notes to Consolidated Financial Statements). There are customary conditions that must be met in order to draw on it, including compliance with its covenants (such as covenants preventing HECO's subsidiaries from entering into agreements that restrict their ability to pay dividends to, or to repay borrowings from, HECO, and restricting HECO's and its subsidiaries' ability to guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary's Consolidated Subsidiary Funded Debt to Capitalization Ratio to exceed 65% (actual ratios of 43% for HELCO and 42% for MECO as of June 30, 2011, as calculated under the agreement)). In addition to customary defaults, HECO's failure to maintain its financial ratios, as defined in the agreement, or meet other requirements may result in an event of default. For example, it is an event of default if HECO fails to maintain a Consolidated Capitalization Ratio (equity) of at least 35% (actual ratio of 55% as of June 30, 2011, as calculated under the agreement). The commitment fee and interest charges on drawn amounts under the agreement are subject to adjustment in the event of a change in HECO's long-term credit ratings.

On March 31, 2011, HECO, HELCO and MECO filed with the PUC an application for authorization to issue up to \$250 million, \$25 million and \$25 million, respectively, in one or more registered public offerings or private placements of unsecured obligations bearing taxable interest on or before December 31, 2015. The proceeds are expected to be used to fund capital expenditures (including repaying short-term indebtedness incurred to fund capital expenditures) and to repay \$57.5 million and \$11.4 million of outstanding Special Purpose Revenue Bonds at their maturity in 2012 and 2014, respectively.

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On May 31, 2011, HECO, HELCO and MECO filed with the PUC an application for the authorization to issue unsecured obligations bearing taxable interest and/or refunding Special Purpose Revenue Bonds prior to January 1, 2016 to refinance select series of outstanding revenue bonds up to \$347 million, \$95 million and \$82 million, respectively.

Operating activities provided \$16 million in net cash during the first six months of 2011. Investing activities for the same period used net cash of \$77 million for capital expenditures, net of contributions in aid of construction. Financing activities for the same period used net cash of \$36 million, primarily due the payment of \$36 million of common and preferred dividends.

Table of Contents**Bank****RESULTS OF OPERATIONS**

(in thousands)	Three months ended June 30		%	Primary reason(s) for significant change
	2011	2010	change	
Revenues	\$ 66,318	\$ 71,632	(7)	Lower interest income primarily due to lower earning asset balances as a result of the sale of substantial 1-4 family residential loan production in 2010 and lower residential loan production in 2011, lower yields on earning assets due to the lower interest rate environment and lower fee income on deposit liabilities as result of overdraft rules that took effect in mid-2010
Operating income	23,820	25,775	(8)	Lower net interest and noninterest income and higher provision for loan losses, partly offset by lower noninterest expenses
Net income	15,195	16,131	(6)	Lower operating income
Return on assets (%)	1.24	1.32		Lower net income
Efficiency ratio (%)	57	59		Lower noninterest expenses

(in thousands)	Six months ended June 30		%	Primary reason(s) for significant change
	2011	2010	change	
Revenues	\$ 131,631	\$ 142,546	(8)	Lower interest income primarily due to lower earning asset balances as a result of the sale of substantial 1-4 family residential loan production in 2010 and lower residential loan production in 2011, lower yields on earning assets due to the lower interest rate environment and lower fee income on deposit liabilities as a result of overdraft rules that took effect in mid-2010
Operating income	45,574	47,546	(4)	Lower net interest and noninterest income and higher provision for loan losses, partly offset by lower noninterest expenses
Net income	29,046	29,867	(3)	Lower operating income
Return on assets (%)	1.20	1.22		Lower net income
Efficiency ratio (%)	57	59		Lower noninterest expenses

See Note 4 of HEI's Notes to Consolidated Financial Statements and Economic conditions in the HEI Consolidated section above.



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In 2010, ASB successfully completed its multi-year Performance Improvement Project that began in 2008. The many initiatives of this project resulted in substantially improved profitability and reduced risk in 2010, which continued into the first six months of 2011.

For the six months ended June 30, 2011, ASB reported a strong 1.20% return on assets and 57% efficiency ratio, and ASB's profitability metrics were in line with or better than the average of its high performing peers. Key drivers of this improved performance include:

1. ASB's significant reduction of non-interest expense;
2. ASB's reduction of its exposure to riskier non-core assets;
3. ASB's lowering of its funding costs through its free checking product and lower CD balances; and

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4. ASB's optimization of its balance sheet and capital efficiency and improvement of its capital ratios by exercising discipline through the downturn on what it selected to put on its balance sheet and holding additional capital to hedge against the downside of the credit cycle.

In addition, as Hawaii's economy started to improve, ASB saw improvements in credit quality measures such as delinquent and nonaccrual loans and net charge-offs. ASB's credit quality metrics through the down cycle has been better than the average of its peers due to its historic disciplined and conservative underwriting standards.

Management continues working to grow its bank franchise in Hawaii and remains focused on maintaining ASB as a high performing community bank with a targeted return on assets of 1.2%, net interest margin above 4% and an efficiency ratio in the mid-50s. Despite the revenue pressures across the banking industry, management expects ASB's low-cost funding base, reduced cost structure and lower-risk profile to continue to deliver strong performance compared to industry averages.

Table of Contents**Results.**

(dollars in thousands)	Three months ended June 30, 2011 vs. 2010	Six months ended June 30, 2011 vs. 2010
<b>Net interest income</b>	\$45,672 vs \$47,704	\$91,578 vs \$94,917
	Decrease due to lower balances and yields on loans and lower yields on investment and mortgage-related securities, partly offset by lower funding costs.	
<b>Net interest margin</b>	4.07% vs 4.22%	4.11% vs 4.20%
	Decrease due to lower yields on the investment and mortgage-related securities portfolio and loans receivable, partly offset by lower cost of funds. See Average balance sheet and net interest margin below.	
Average loans receivable	\$3,595,485 vs \$3,641,540	\$3,571,040 vs \$3,660,355
	Decrease due to lower average 1-4 family residential and residential land loan portfolios, partly offset by higher average home equity line of credit and commercial loan portfolios.	
• Average 1-4 family residential loans	\$2,030,256 vs \$2,240,433	\$2,046,224 vs \$2,271,255
	Decrease due to the sale of substantial loan production in 2010 and lower residential loan production in 2011.	
• Average residential land loans	\$56,079 vs \$86,822	\$59,651 vs \$89,905
	Decrease due to paydowns in the portfolio.	
• Average home equity lines of credit	\$456,341 vs \$364,968	\$444,104 vs \$347,997
	Increase due to promotional campaigns during 2010 and 2011.	
• Average commercial loans	\$625,254 vs \$543,876	\$596,709 vs \$544,947
	Increase due to strong commercial loan production in 2010 and the first half of 2011.	
Average investment and mortgage-related securities	\$689,463 vs \$574,932	\$674,477 vs \$515,277
	Increase primarily due to the purchase of federal agency securities and obligations with excess liquidity.	
Average deposit liabilities	\$4,047,736 vs \$4,021,920	\$4,018,921 vs \$4,018,382
	The shift in deposit mix from higher cost term certificates to lower cost savings and checking accounts has contributed to decreased funding costs.	
• Average term certificates	\$613,951 vs \$791,248	\$629,567 vs \$819,729
	Decrease due to the outflow of term certificates throughout 2010 and year-to-date 2011 as ASB determined not to aggressively price its term certificate products.	
• Core deposits	\$3,433,785 vs \$3,230,672	\$3,389,354 vs \$3,198,653
	Increased as ASB introduced new deposit products and attracted core deposits to partially offset the outflow of term certificates.	
Average other borrowings	\$250,407 vs \$273,526	\$246,418 vs \$284,138
	Decrease due to an outflow of retail repurchase agreements	
<b>Provision for loan losses</b>	\$2,555 vs \$990	\$7,105 vs \$6,349
	In the first six months of 2011, ASB recorded a provision for loan losses primarily due to the net charge-offs during the period for 1-4 family, residential land, and commercial loans. The second quarter 2011 provision for loan losses was lower than the provision for the first quarter of 2011 as a result of continued modest improvement in loan credit quality and portfolio mix. In the second quarter of 2010, ASB released loan loss reserves totaling \$2.4 million on a commercial loan that was sold during the quarter and a commercial real estate construction loan that was successfully completed and fully leased and reclassified to an income property commercial real estate loan from a higher risk	

construction loan classification.

**Noninterest income**

\$16,877 vs \$18,658

\$32,324 vs \$36,510

Decrease in noninterest income was primarily due to lower deposit liability fees as a result of new overdraft fee regulations, which took effect in mid-2010, partly offset by nonrecurring insurance proceeds. See Noninterest income and expenses below.

**Noninterest expenses**

\$36,188 vs \$39,625

\$71,264 vs \$77,595

Decrease in noninterest expense primarily due to lower data processing expense as a result of ASB's conversion to Fiserv Inc.'s bank platform system in May 2010. See Noninterest income and expenses below.

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**Average balance sheet and net interest margin.** ASB's average balances, together with interest and dividend income earned and accrued, and resulting yields and costs were as follows:

Three months ended June 30 (dollars in thousands)	2011			2010		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
<b>Assets:</b>						
Other investments (1)	\$ 223,676	\$ 79	0.14	\$ 313,319	\$ 137	0.17
Investment and mortgage-related securities	689,463	3,836	2.23	574,932	3,509	2.44
Loans receivable (2)	3,595,485	45,648	5.08	3,641,540	49,328	5.42
Total interest-earning assets(3)	4,508,624	49,563	4.40	4,529,791	52,974	4.68
Allowance for loan losses	(40,078)			(41,485)		
Non-interest-earning assets	417,899			407,839		
Total assets	\$ 4,886,445			\$ 4,896,145		
<b>Liabilities and shareholder's equity:</b>						
<b>Interest-bearing demand and savings deposits:</b>						
Time certificates	\$ 2,526,193	718	0.11	\$ 2,412,104	916	0.15
Total interest-bearing deposits	613,951	1,669	1.09	791,248	2,936	1.49
Other borrowings	3,140,144	2,387	0.30	3,203,352	3,852	0.48
Total interest-bearing liabilities	250,407	1,382	2.19	273,526	1,418	2.05
Non-interest bearing liabilities:	3,390,551	3,769	0.44	3,476,878	5,270	0.61
Deposits	907,592			818,568		
Other	89,566			96,523		
Shareholder's equity	498,736			504,176		
Total liabilities and shareholder's equity	\$ 4,886,445			\$ 4,896,145		
Net interest income		\$ 45,794			\$ 47,704	
Net interest margin (%) (4)			4.07			4.22

Six months ended June 30 (dollars in thousands)	2011			2010		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
<b>Assets:</b>						
Other investments (1)	\$ 229,826	\$ 165	0.14	\$ 353,730	\$ 320	0.18
Investment and mortgage-related securities	674,477	7,645	2.27	515,277	6,643	2.58
Loans receivable (2)	3,571,040	91,745	5.15	3,660,355	99,073	5.43
Total interest-earning assets(3)	4,475,343	99,555	4.46	4,529,362	106,036	4.69
Allowance for loan losses	(39,953)			(41,178)		
Non-interest-earning assets	417,109			410,398		
Total assets	\$ 4,852,499			\$ 4,898,582		
<b>Liabilities and shareholder's equity:</b>						
<b>Interest-bearing demand and savings deposits:</b>						
Time certificates	\$ 2,493,674	1,422	0.11	\$ 2,390,957	1,956	0.17
Total interest-bearing deposits	629,567	3,558	1.14	819,729	6,319	1.55
Other borrowings	3,123,241	4,980	0.32	3,210,686	8,275	0.52
Total interest-bearing liabilities	246,418	2,749	2.22	284,138	2,844	1.99
Non-interest bearing liabilities:	3,369,659	7,729	0.46	3,494,824	11,119	0.64
Deposits	895,680			807,696		
Other	90,536			94,694		
Shareholder's equity	496,624			501,368		

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Total liabilities and shareholder's equity	\$ 4,852,499		\$ 4,898,582	
Net interest income		\$ 91,826		\$ 94,917
Net interest margin (%) (4)			4.11	4.20

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(1) Includes federal funds sold, interest bearing deposits and stock in the FHLB of Seattle (\$98 million as of June 30, 2011).

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(2) Includes loan fees of \$0.6 million and \$1.2 million for the three months ended June 30, 2011 and 2010, respectively, and \$1.8 million and \$2.6 million for the six months ended June 30, 2011 and 2010, respectively; includes interest accrued prior to suspension of interest accrual on nonaccrual loans; and includes nonaccrual loans.

(3) Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$0.1 million and nil for the three months ended June 30, 2011 and 2010, respectively, and \$0.2 million and nil for the six months ended June 30, 2011 and 2010, respectively.

(4) Net interest income as a percentage of average earning assets.

**Earning assets, costing liabilities and other factors.** Earnings of ASB depend primarily on net interest income, which is the difference between interest earned on earning assets and interest paid on costing liabilities. The current interest rate environment is impacted by disruptions in the financial markets and these conditions may have a negative impact on ASB's net interest margin.

Loan originations and mortgage-related securities are ASB's primary sources of earning assets.

Loan portfolio. ASB's loan volumes and yields are affected by market interest rates, competition, demand for financing, availability of funds and management's responses to these factors. The composition of ASB's loan portfolio was as follows:

(dollars in thousands)	June 30, 2011		December 31, 2010	
	Balance	% of total	Balance	% of total
Real estate loans:				
Residential 1-4 family	\$ 2,028,502	55.8	\$ 2,087,813	58.9
Commercial real estate	321,967	8.9	300,689	8.5
Home equity line of credit	466,783	12.8	416,453	11.7
Residential land	51,901	1.4	65,599	1.8
Commercial construction	38,419	1.1	38,079	1.1
Residential construction	3,738	0.1	5,602	0.2
Total real estate loans, net	2,911,310	80.1	2,914,235	82.2
Commercial loans	640,221	17.6	551,683	15.5
Consumer loans	83,059	2.3	80,138	2.3
	3,634,590	100.0	3,546,056	100.0
Less: Deferred fees and discounts				
	(14,889)		(15,530)	
Allowance for loan losses	(39,283)		(40,646)	
Total loans, net	\$ 3,580,418		\$ 3,489,880	

The increase in the total loan portfolio during the first six months of 2011 was primarily due to an increase in ASB's commercial, commercial real estate and home equity lines of credit loan portfolios, partly offset by a decrease in residential loans.

Loan portfolio risk elements. See Note 4 of HEI's Notes to Consolidated Financial Statements.

Investment and mortgage-related securities. ASB's investment portfolio was comprised as follows:

	June 30, 2011	December 31, 2010
Federal agency obligations	41%	47%
Mortgage-related securities FNMA, FHLMC and GNMA	53	47
Municipal bonds	6	6
	100%	100%

Principal and interest on mortgage-related securities issued by Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) are guaranteed by the issuer, and the securities carry implied AAA ratings.

Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Core deposits continue to be strong, as depositors remain risk adverse. Advances from the FHLB of Seattle and securities sold under agreements to repurchase continue to be additional sources of funds. As of June 30, 2011 and December 31, 2010, ASB's costing liabilities consisted of 94% deposits and 6% other borrowings. The weighted average cost of



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deposits for the six months ended June 30, 2011 was 0.25%, compared to 0.42% for the six months ended June 30, 2010.

Noninterest income and expenses. ASB's noninterest income and expenses, including detail of other income and expenses, were as follows:

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Fees from other financial services	\$ 7,240	\$ 6,649	\$ 14,186	\$ 13,063
Fee income on deposit liabilities	4,599	7,891	9,048	15,411
Fee income on other financial products	1,861	1,735	3,534	3,260
Net gains (losses) on available-for-sale securities	5		5	
Other income				
Gain on sale of loans	518	1,078	1,176	2,120
Bank-owned life insurance	2,142	988	3,111	1,994
Other	512	317	1,264	662
Total noninterest income	\$ 16,877	\$ 18,658	\$ 32,324	\$ 36,510

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Compensation and benefits	\$ 18,166	\$ 18,907	\$ 35,671	\$ 36,309
Occupancy	4,288	4,216	8,528	8,441
Data processing	2,058	4,564	4,028	8,902
Services	1,949	1,845	3,720	3,573
Equipment	1,772	1,640	3,429	3,349
Other				
FDIC insurance premium	876	1,599	2,303	3,258
Marketing	710	370	1,351	1,324
Office supplies, printing and postage	926	1,127	1,844	1,994
Communication	444	512	831	1,009
Other	4,999	4,845	9,559	9,436
Total noninterest expense	\$ 36,188	\$ 39,625	\$ 71,264	\$ 77,595

Allowance for loan losses. See Note 4 of HEI's Notes to Consolidated Financial Statement for breakout of allowance for loan losses by loan type.

(dollars in thousands)	Six months ended June 30		Year ended December 31
	2011	2010	2010
Allowance for loan losses, January 1	\$ 40,646	\$ 41,679	\$ 41,679
Net charge-offs	(8,468)	(10,955)	(21,927)
Provision for loan losses	7,105	6,349	20,894
Allowance for loan losses, end of period	\$ 39,283	\$ 37,073	\$ 40,646
Ratio of allowance for loan losses, end of period, to end of period loans outstanding	1.09%	1.03%	1.15%
Ratio of net charge-offs during the period to average loans outstanding (annualized)	0.47%	0.60%	0.61%
Nonaccrual loans	\$ 58,108	\$ 59,872	\$ 58,855

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Other factors. Interest rate risk is a significant risk of ASB's operations and also represents a market risk factor affecting the fair value of ASB's investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair value of those instruments. In addition, changes in credit spreads also impact the fair values of those instruments.

Although higher long-term interest rates or other conditions in credit markets (such as the effects of the deteriorated subprime market) could reduce the market value of available-for-sale investment and mortgage-related securities and reduce shareholder's equity through a balance sheet charge to accumulated other comprehensive income (AOCI), this reduction in the market value of investments and mortgage-related securities

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would not result in a charge to net income in the absence of a sale of such securities or an other-than-temporary impairment in the value of the securities. As of June 30, 2011 and December 31, 2010, the unrealized gains, net of taxes, on available-for-sale investments and mortgage-related securities (including securities pledged for repurchase agreements) in AOCI was \$7 million and \$4 million, respectively. See Item 3. Quantitative and qualitative disclosures about market risk.

**Legislation and regulation.** ASB is subject to extensive regulation, principally by the Office of Thrift Supervision (OTS), whose regulatory functions are to be transferred to the Office of the Comptroller of the Currency (OCC) as described below, and the Federal Deposit Insurance Corporation (FDIC). Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under Liquidity and capital resources.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI and ASB, will undergo substantial changes as a result of the enactment of the Dodd-Frank Act, which became law in July 2010. Importantly for HEI and ASB, under the Dodd-Frank Act, on July 21, 2011, all of the functions of the OTS transferred to the OCC, the FDIC, the Federal Reserve and the Consumer Financial Protection Bureau. Supervision and regulation of HEI, as a thrift holding company, moved to the Federal Reserve, and supervision and regulation of ASB, as a federally chartered savings bank, moved to the OCC. While the laws and regulations applicable to HEI and ASB did not generally change the Home Owners Loan Act and regulations issued thereunder still apply the applicable laws and regulations are being interpreted, and new and amended regulations may be adopted, by the Federal Reserve and the OCC. HEI will for the first time be subject to minimum consolidated capital requirements, and ASB may be required to be supervised through ASHI, its intermediate holding company. HEI will continue to be required to serve as a source of strength to ASB in the event of its financial distress. The Dodd-Frank Act also imposes new restrictions on the ability of a savings bank to pay dividends should it fail to remain a qualified thrift lender.

More stringent affiliate transaction rules now apply to ASB in the securities lending, repurchase agreement and derivatives areas. Standards were raised with respect to the ability of ASB to merge with or acquire another institution. In reviewing a potential merger or acquisition, the approving federal agency will need to consider the extent to which the proposed transaction will result in greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on the changes to the assessment base and rates, ASB anticipates a reduction in its annual FDIC assessment of approximately \$2 million. ASB may be affected by the provision of the Dodd-Frank Act that repeals, effective in July 2011, the prohibition on payments of interest by banks or savings associations on demand deposit accounts for businesses.

The Dodd-Frank Act establishes a Consumer Financial Protection Bureau (Bureau) that will have authority to prohibit practices it finds to be unfair, deceptive or abusive, and it may also issue rules requiring specified disclosures and the use of new model forms. ASB may also be subject to new state regulation because of a provision in the Dodd-Frank Act.

The Dodd-Frank Act also adopts a number of provisions that will impact the mortgage industry, including the imposition of new specific duties on the part of mortgage originators (such as ASB) to act in the best interests of consumers and to take steps to ensure that consumers will have the capability to repay loans they may obtain, as well as provisions imposing new disclosure requirements and requiring appraisal reforms. Regulations are required to be adopted within 18 months after the date that is to be specified by the Secretary of the Treasury for the transfer of consumer protection power to the Bureau.

The Durbin Amendment to the Dodd-Frank Act requires the Federal Reserve to issue rules to ensure that debit card interchange fees are reasonable and proportional to the processing costs incurred. Previously, the Federal Reserve had proposed a cap on debit card interchange fees that card issuers can receive up to 12 cents per transaction. In June 2011, however, the Federal Reserve issued a final rule establishing standards

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for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. Under the final rule, effective October 1, 2011, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is 21-24 cents, depending on certain components. ASB currently earns an average of 52 cents per transaction. As specified in the

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Dodd-Frank Act, these regulations will exempt banks like ASB with less than \$10 billion in assets. However, market pressures could very well push the impact down to all banks.

Many of the provisions of the Dodd-Frank Act, as amended, will not become effective until implementing regulations are issued and effective. Thus, management cannot predict the ultimate impact of the Dodd-Frank Act, as amended, on the Company or ASB at this time. Nor can management predict the impact or substance of other future federal or state legislation or regulation, or the application thereof.

Overdraft rules. On November 12, 2009, the Board of Governors of the Federal Reserve System announced that it amended Regulation E (which implements the Electronic Fund Transfer Act) to limit the ability of a financial institution to assess an overdraft fee for paying automated teller machine or one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents, or opts in, to the institution's payment of overdrafts for those transactions. These new rules applied on July 1, 2010 for new accounts and August 15, 2010 for existing accounts. In 2009, these types of overdraft fees totaled approximately \$15 million pretax for ASB. The amendment had a negative impact on ASB's noninterest income of approximately \$6.0 million pretax for the first six months of 2011 compared to the first six months of 2010.

**Commitments and contingencies.** See Note 4 of HEI's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 12 of HEI's Notes to Consolidated Financial Statements.

## FINANCIAL CONDITION

### Liquidity and capital resources.

(dollars in millions)	June 30, 2011	December 31, 2010	% change
Total assets	\$ 4,891	\$ 4,797	2
Available-for-sale investment and mortgage-related securities	711	678	5
Loans receivable, net	3,585	3,498	3
Deposit liabilities	4,055	3,975	2
Other bank borrowings	239	237	1

As of June 30, 2011, ASB was one of Hawaii's largest financial institutions based on assets of \$4.9 billion and deposits of \$4.1 billion.

As of June 30, 2011, ASB's unused FHLB borrowing capacity was approximately \$1.1 billion. As of June 30, 2011, ASB had commitments to borrowers for loan commitments and unused lines and letters of credit of \$1.3 billion. Management believes ASB's current sources of funds will

enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the first six months of 2011, net cash provided by ASB's operating activities was \$53 million. Net cash used during the same period by ASB's investing activities was \$133 million, primarily due to purchases of investment and mortgage-related securities of \$193 million and a net increase in loans receivable of \$105 million, offset by repayments of investment and mortgage-related securities of \$162 million. Net cash provided in financing activities during this period was \$53 million, primarily due to net increases in deposit liabilities and retail repurchase agreements of \$80 million and \$2 million, respectively, offset by the payment of \$28 million in common stock dividends.

FDIC regulations restrict the ability of financial institutions that are not well-capitalized to compete on the same terms as well-capitalized institutions, such as by offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of June 30, 2011, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a leverage ratio of 9.1% (5.0%), a Tier-1 risk-based capital ratio of 12.3% (6.0%) and a total risk-based capital ratio of 13.3% (10.0%). OTS approval is required before ASB can pay a dividend or otherwise make a capital distribution to HEI (through ASHI).

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company considers interest-rate risk (a non-trading market risk) to be a very significant market risk for ASB as it could potentially have a significant effect on the Company's financial condition and results of operations. For additional quantitative and qualitative information about the Company's market risks, see pages 90 to 92, HEI's Quantitative and Qualitative Disclosures About Market Risk, in Part II, Item 7A of HEI's 2010 Form 10-K and HECO's Quantitative and Qualitative Disclosures About Market Risk, which is incorporated into Part II, Item 7A of HECO's 2010 Form 10-K by reference to Exhibit 99.2.

ASB's interest-rate risk sensitivity measures as of June 30, 2011 and December 31, 2010 constitute forward-looking statements and were as follows:

Change in interest rates (basis points)	Change in NII Gradual change	June 30, 2011		December 31, 2010		
		NPV ratio	NPV ratio sensitivity*	NPV ratio	NPV ratio sensitivity*	
		Instantaneous change		Instantaneous change		
+300	(2.0)%	12.28%	(205)	(1.3)%	12.04%	(196)
+200	(1.9)	13.10	(123)	(1.3)	12.84	(116)
+100	(0.9)	13.79	(54)	(0.8)	13.52	(48)
Base		14.33			14.00	
-100	(0.5)	14.44	11	(0.6)	14.04	4

\* Change from base case in basis points (bp).

ASB's net interest income (NII) sensitivity was more sensitive for increases in rates as of June 30, 2011 compared to December 31, 2010 as changes in asset mix reduced maturing or repricing cash flows within the 1 year horizon. The base net portfolio value (NPV) ratio increased as of June 30, 2011 due to lower interest rates which led to an increase in the market value of the mortgage portfolio compared to December 31, 2010. There was a modest increase in the NPV sensitivity measure as of June 30, 2011 compared to December 31, 2010 as the balance sheet grew and shifted with increased investments and nonmortgage loans funded by deposits, cash and residential loan repayments.

The computation of the prospective effects of hypothetical interest rate changes on the NII sensitivity, NPV ratio, and NPV ratio sensitivity analyses is based on numerous assumptions, including relative levels of market interest rates, loan prepayments, balance changes and pricing strategies, and should not be relied upon as indicative of actual results. To the extent market conditions and other factors vary from the assumptions used in the simulation analysis, actual results may differ materially from the simulation results. Furthermore, NII sensitivity analysis measures the change in ASB's twelve-month, pre-tax NII in alternate interest rate scenarios, and is intended to help management identify potential exposures in ASB's current balance sheet and formulate appropriate strategies for managing interest rate risk. The simulation does not contemplate any actions that ASB management might undertake in response to changes in interest rates. Further, the changes in NII vary in the twelve-month simulation period and are not necessarily evenly distributed over the period. These analyses are for analytical purposes only and do not represent management's views of future market movements, the level of future earnings, or the timing of any changes in earnings within the twelve month analysis horizon. The actual impact of changes in interest rates on NII will depend on the magnitude and speed with which rates change, actual changes in ASB's balance sheet, and management's responses to the changes in interest rates.





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**Item 4. Controls and Procedures**

**HEI:**

**Changes in Internal Control over Financial Reporting**

During the second quarter of 2011, there were no changes in internal control over financial reporting identified in connection with management's evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Constance H. Lau, HEI Chief Executive Officer, and James A. Ajello, HEI Chief Financial Officer, have evaluated the disclosure controls and procedures of HEI as of June 30, 2011. Based on their evaluations, as of June 30, 2011, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HEI in reports HEI files or submits under the Securities Exchange Act of 1934:

- (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and
- (2) is accumulated and communicated to HEI management, including HEI's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**HECO:**

**Changes in Internal Control over Financial Reporting**

During the second quarter of 2011, there were no changes in internal control over financial reporting identified in connection with management's evaluation of the effectiveness of HECO and its subsidiaries' internal control over financial reporting as of June 30, 2011 that has materially affected, or is reasonably likely to materially affect, HECO and its subsidiaries' internal control over financial reporting.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Richard M. Rosenblum, HECO Chief Executive Officer, and Tayne S. Y. Sekimura, HECO Chief Financial Officer, have evaluated the disclosure controls and procedures of HECO as of June 30, 2011. Based on their evaluations, as of June 30, 2011, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HECO in reports HECO files or submits under the Securities Exchange Act of 1934:

- (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and
- (2) is accumulated and communicated to HECO management, including HECO's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in HEI's Form 10-K (see Part I. Item 3. Legal Proceedings and proceedings referred to therein) and this 10-Q (see Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 4 of HEI's Notes to Consolidated Financial Statements and HECO's Notes to Consolidated Financial Statements) are incorporated by reference in this Item 1. With regard to any pending legal proceeding, alternative dispute resolution, such as mediation or settlement, may be pursued where appropriate, with such efforts typically maintained in confidence unless and until a resolution is achieved. Certain HEI subsidiaries (including HECO and its subsidiaries and ASB) may also be involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

**Item 1A. Risk Factors**

For information about Risk Factors, see pages 28 to 37 of HEI's 2010 Form 10-K, and Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risk, HEI's Consolidated Financial Statements and HECO's Consolidated Financial Statements herein. Also, see Forward-Looking Statements on pages v and vi of HEI's 2010 Form 10-K, as updated on pages iv and v herein.

**Item 5. Other Information**A. Ratio of earnings to fixed charges.

	Six months ended June 30			Years ended December 31			
	2011	2010	2010	2009	2008	2007	2006
HEI and Subsidiaries							
Excluding interest on ASB deposits	2.66	2.81	2.89	2.29	2.06	1.78	2.08
Including interest on ASB deposits	2.51	2.55	2.64	1.95	1.71	1.52	1.73
HECO and Subsidiaries	2.76	2.69	2.88	2.99	3.48	2.43	3.14

See HEI Exhibit 12.1 and HECO Exhibit 12.2.

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#### **Item 6. Exhibits**

HEI Exhibit 4	Letter Amendment effective August 19, 2011, to Trust Agreement (dated as of February 1, 2000) between HEI, ASB and Fidelity Management Trust Company, as Trustee
HEI Exhibit 12.1	Hawaiian Electric Industries, Inc. and Subsidiaries  Computation of ratio of earnings to fixed charges, six months ended June 30, 2011 and 2010 and years ended December 31, 2010, 2009, 2008, 2007 and 2006
HEI Exhibit 31.1	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)
HEI Exhibit 31.2	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of James A. Ajello (HEI Chief Financial Officer)
HEI Exhibit 32.1	Written Statement of Constance H. Lau (HEI Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002
HEI Exhibit 32.2	Written Statement of James A. Ajello (HEI Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002
HECO Exhibit 12.2	Hawaiian Electric Company, Inc. and Subsidiaries  Computation of ratio of earnings to fixed charges, six months ended June 30, 2011 and 2010 and years ended December 31, 2010, 2009, 2008, 2007 and 2006
HECO Exhibit 31.3	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Richard M. Rosenblum (HECO Chief Executive Officer)
HECO Exhibit 31.4	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (HECO Chief Financial Officer)
HECO Exhibit 32.3	Written Statement of Richard M. Rosenblum (HECO Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002
HECO Exhibit 32.4	Written Statement of Tayne S. Y. Sekimura (HECO Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



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**SIGNATURES**

Pursuant to the requirements 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 signature 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/ Constance H. Lau  
Constance H. Lau  
President and Chief Executive Officer  
(Principal Executive Officer of HEI)

By /s/ Richard M. Rosenblum  
Richard M. Rosenblum  
President and Chief Executive Officer  
(Principal Executive Officer of HECO)

By /s/ James A. Ajello  
James A. Ajello  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer of HEI)

By /s/ Tayne S. Y. Sekimura  
Tayne S. Y. Sekimura  
Senior Vice President  
and Chief Financial Officer  
(Principal Financial Officer of HECO)

By /s/ David M. Kostecki  
David M. Kostecki  
Vice President-Finance, Controller  
and Chief Accounting Officer  
(Principal Accounting Officer of HEI)

By /s/ Patsy H. Nanbu  
Patsy H. Nanbu  
Controller  
(Principal Accounting Officer of HECO)

Date: August 4, 2011

Date: August 4, 2011