

HAWAIIAN ELECTRIC INDUSTRIES INC
Form DEF 14A
April 05, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Hawaiian Electric Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Robert F. Clarke
*Chairman, President and
Chief Executive Officer*

April 5, 2006

Dear Fellow Shareholder:

On behalf of the Board of Directors, it is once again my pleasure to invite you to attend the Annual Meeting of Shareholders of Hawaiian Electric Industries, Inc. (HEI). The meeting will be held on the Company's premises in Room 805 on the eighth floor of the American Savings Bank Tower in Honolulu, Hawaii on May 2, 2006, at 9:30 a.m. A map showing the location of the meeting site appears on page 39 of the Proxy Statement.

The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items of business to be conducted during the meeting. In addition, we will review significant events of 2005 and their impact on you and your Company. Corporate officers will be available before and after the meeting to talk with you and answer any questions you may have.

As a shareholder of HEI, it is important that your views be represented. Please help us obtain the quorum needed to conduct business at the meeting by promptly voting your shares.

After holding various positions with HEI for 19 years, I will be retiring in May. The Board has elected Constance Lau to succeed me as President and CEO and has named Jeffrey Watanabe as nonexecutive Chairman of the Board. I join Connie, Jeff, and the management team of HEI in expressing our appreciation for your confidence and support. I look forward to seeing you at the Annual Meeting in Honolulu.

Sincerely,

Recycled

Hawaiian Electric Industries
900 Richards Street
Honolulu, Hawaii 96813

NOTICE OF ANNUAL MEETING

Date and time Tuesday, May 2, 2006, at 9:30 a.m.

Place American Savings Bank Tower, 1001 Bishop Street, 8th floor, Room 805,
Honolulu, Hawaii 96813.

Items of Business

1. Elect four Class I directors.
2. Elect KPMG LLP as the Company's independent registered public accounting firm.
3. Approve amending Article Fourth of the Restated Articles of Incorporation to increase the number of authorized common shares to 200,000,000.
4. Approve the 1990 Nonemployee Director Stock Plan, as amended and restated.
5. Approve amending Article Sixth of the Restated Articles of Incorporation to modify provisions related to the independent registered public accounting firm.
6. Transact any other business properly brought before the meeting.

Record Date February 23, 2006

Annual Report The 2005 Annual Report to Shareholders (Appendix A) and Summary Report to Shareholders, which are not a part of the proxy solicitation materials, have been mailed along with this Notice and accompanying Proxy Statement.

Proxy Voting Shareholders of record may appoint proxies and vote their shares in one of three ways:

- Via Internet pursuant to the instructions on the proxy card;
- Calling the toll-free number on the proxy card; or
- Signing, dating, and mailing the proxy card in the prepaid envelope provided.

Shareholders whose shares are held by a bank, broker, or other financial intermediary (street name) should follow the voting instruction card included by the intermediary.

Any proxy may be revoked in the manner described in the accompanying Proxy Statement.

Attendance at Meeting If your shares are registered in street name, please bring a letter from your bank or broker or provide other evidence of your beneficial ownership if you plan to attend the Annual Meeting.

By Order of the Board of Directors

April 5, 2006 Patricia U. Wong
Vice President-Administration and Secretary

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Proxy Statement

Hawaiian Electric Industries, Inc. is soliciting proxies for the Annual Meeting of Shareholders scheduled for May 2, 2006. The mailing address of the principal executive offices of the Company is P.O. Box 730, Honolulu, Hawaii 96808-0730.

The approximate mailing date for this Proxy Statement, form of proxy, and annual and summary reports to shareholders for the fiscal year ended December 31, 2005, is April 5, 2006. The annual report and summary report are not considered proxy soliciting materials.

About the Meeting

Who can attend the meeting?

Attendance will be limited to:

shareholders of record;

beneficial owners of HEI Common Stock ("Common Stock") having evidence of ownership and entitled to vote at the meeting;

authorized representatives of absent shareholders; and

invited guests of management.

If you own shares of Common Stock in the name of a bank, brokerage firm or other holder of record, you must show proof of ownership. This may be in the form of a letter from the holder of record or a recent statement from the bank or broker showing ownership of Common Stock.

Any person claiming to be an authorized representative of a shareholder must produce written evidence of the authorization.

What are shareholders being asked to vote on?

Election of four Class I directors for a three-year term expiring at the 2009 Annual Meeting of Shareholders.

Election of KPMG LLP as the Company's independent registered public accounting firm.

Approval to amend Article Fourth of the Restated Articles of Incorporation to increase the number of authorized common shares to 200,000,000.

Approval of the 1990 Nonemployee Director Stock Plan, as amended and restated.

Approval to amend Section (b) of Article Sixth of the Restated Articles of Incorporation to modify provisions related to the independent registered public accounting firm.

Voting Procedures

Who is eligible to vote?

Only shareholders of record at the close of business on February 23, 2006 (the record date) are entitled to vote.

How many shares are outstanding and entitled to vote?

On February 23, 2006, 81,051,976 shares of Common Stock were outstanding. Each shareholder is entitled to one vote for each share held. Under the By-Laws of the Company, shareholders do not have cumulative voting rights in the election of directors.

What constitutes a quorum?

A quorum is needed to conduct business at the Annual Meeting. A majority of the shares entitled to vote at the meeting constitutes a quorum. Abstentions and broker nonvotes will be counted in the number of shares present, in person or by proxy, for purposes of determining a quorum. A broker nonvote occurs when a broker does not have discretionary voting power to vote on a specific matter (such as nonroutine proposals) and has not received voting instructions from the beneficial owner.

How do shareholders vote?

Whether or not you plan to attend the Annual Meeting, please take the time to vote. You may vote by mail, telephone, or on-line via the Internet. The telephone and Internet procedures are designed to authenticate and confirm that your voting instructions are followed. You do not need to return your proxy if you vote by telephone or via the Internet.

BY MAIL: Please mark your vote and sign, date, and promptly return the proxy in the enclosed postage-paid envelope. If you return the signed proxy but do not mark the boxes showing how you wish to vote, your votes will be cast following the recommendations of management on all proposals.

BY TELEPHONE: Please call the toll-free telephone number on the proxy (1-888-693-8683). Once connected, you will be prompted to record and confirm your vote. Telephone voting is available 24 hours a day, through Monday, May 1, 2006, 11:59 p.m. (EDT).

BY INTERNET: You may vote on-line by using the following Internet address: <http://www.cesvote.com>. Specific instructions will be available allowing you to record and confirm your vote. Internet voting is available 24 hours a day, through Monday, May 1, 2006, 11:59 p.m. (EDT).

IN PERSON: You may vote your shares by attending the Annual Meeting and voting in person. If you wish to give your proxy to someone other than the individuals listed on the enclosed proxy, cross out all three names and insert the name of another person to vote your shares at the meeting.

How do shareholders vote if their shares are held in street name?

If your shares are held in "street name" (that is, through a broker, trustee or other holder of record), you will receive a proxy card from your broker seeking instruction as to how your shares should be voted. If no instructions are given, your broker or nominee may vote your shares at its discretion on your behalf on routine matters (such as the election of directors and the independent registered public accounting firm) under New York Stock Exchange rules.

You may not vote shares held in "street name" at the Annual Meeting unless you obtain a legal proxy from your broker or holder of record.

How do shareholders vote if their shares are held in the Dividend Reinvestment and Stock Purchase Plan (DRIP) and/or the 401(k) Hawaiian Electric Industries Retirement Savings Plan (HEIRS)?

If you own shares held in DRIP and HEIRS (including shares previously received under the Tax Reduction Act Stock Ownership Plan (TRASOP)), the respective plan trustees will vote the shares of stock held in these Plans according to your directions. For both DRIP and HEIRS, the respective trustees will vote all the shares of Common Stock for which they receive no voting instructions in the same proportion as they vote shares for which they receive instruction.

Can shareholders change their vote?

If you execute and return a proxy, you may revoke it at any time before the Annual Meeting in one of three ways:

submit a properly signed proxy with a later date or vote again at a later time by telephone or Internet;

notify the Secretary of the Company in writing; or

vote in person at the Annual Meeting (if your shares are registered directly on the Company's books or, if your shares are held in "street name", you have a legal proxy from your broker or holder of record).

How many votes are required?

If a quorum is present at the Annual Meeting, then:

directors shall be elected by a plurality of the votes cast in the election;

the Company's independent registered public accounting firm shall be elected if more votes are cast in favor of election than against election;

Articles Fourth and Sixth of the Articles of Incorporation shall be amended if no less than two-thirds of the shares entitled to vote are cast in favor of the amendment; and

the 1990 Nonemployee Director Stock Plan, as amended and restated shall be approved if a majority of the votes cast are in favor of the amendments and the total vote cast on the proposal represents more than 50% of all shares entitled to vote.

Abstentions and broker nonvotes will count in establishing a quorum, but will not otherwise affect the outcome of the election of directors or the Company's independent registered public accounting firm. Abstentions and broker nonvotes, if any, will have the same effect as voting against the amendments to the Articles of Incorporation. Abstentions and broker nonvotes will not affect the outcome of the proposal to approve the 1990 Nonemployee Director Stock Plan, as amended and restated unless they cause the total votes cast to be less than 50% of the shares entitled to vote.

Who will count the votes and are the votes confidential?

Corporate Election Services will act as tabulator for broker and bank proxies as well as the proxies of the other shareholders of record. Your identity and vote will not be disclosed to persons other than those acting as tabulators except as follows:

as required by law;

to verify the validity of proxies and the results of the voting in the case of a contested proxy solicitation; or

when you write a comment on the proxy form.

Proposals You May Vote On

1. Election of Class I Directors

The Board of Directors currently consists of 12 directors divided into three classes with staggered terms so that one class of directors must be elected at each Annual Meeting.

This year, the four Class I nominees being proposed for election at this Annual Meeting are:

Shirley J. Daniel

Constance H. Lau

A. Maurice Myers

James K. Scott

Robert F. Clarke, a Class I director, has announced his retirement from the Company and his service as a director will end at the 2006 Annual Meeting of Shareholders. Constance H. Lau is being proposed for election to the Board of Directors as a Class I director, replacing Mr. Clarke. She will succeed Mr. Clarke, as President and Chief Executive Officer of the Company at the Annual Meeting of Shareholders on May 2, 2006. Ms. Lau was previously a director of HEI from June 2001 to December 2004.

Each nominee, except Ms. Lau, is currently a member of the Board of Directors and has consented to serve for the new term expiring at the 2009 Annual Meeting. If a nominee is unable to stand for election, the proxy holders listed in the proxy may vote in their discretion for a suitable substitute.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR CLASS I DIRECTORS.

Detailed information on each nominee and Class II and III directors is provided on pages 9 to 11.

2. Election of Independent Registered Public Accounting Firm

KPMG LLP, an independent registered public accounting firm, has been the auditor of the Company since 1981. The Audit Committee selected KPMG LLP as its independent registered public accounting firm for 2006. The Board of Directors, upon the recommendation of its Audit Committee, recommends the election of KPMG LLP as the independent registered public accounting firm of the Company for fiscal year 2006 and thereafter until its successor is elected. Representatives of KPMG LLP will be present at the Annual Meeting and will be given the opportunity to make a statement and to respond to appropriate questions.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR KPMG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY.

3. Amend the Restated Articles of Incorporation to Increase Authorized Shares of Common Stock

On January 31, 2006, the Company's Board of Directors recommended, pursuant to Section 414-283 of the Hawaii Business Corporation Act, that the shareholders approve at the Annual Meeting an amendment to Article Fourth of the Company's Restated Articles of Incorporation to increase the authorized number of shares of the Company's Common Stock, without par value, from 100,000,000 shares to 200,000,000 shares. If the proposed amendment is adopted, the total number of shares of all classes of stock which the Company is authorized to issue would be 210,000,000. The text of the proposed amendment is set forth in Appendix B to this Proxy Statement.

Reasons for Approval of the Proposed Increase in Authorized Common Shares

On June 10, 2004, the Company effected a two-for-one stock split, which increased the number of issued shares to 80,373,804. As of December 31, 2005, 80,983,326 shares of Common Stock were issued (of which 80,983,326 were outstanding and zero were held as treasury shares of the Company) leaving a balance of only 19,016,674 authorized but unissued shares of Common Stock available for issuance without further action by the shareholders. As of December 31, 2005, none of the Company's 10,000,000 shares of Preferred Stock, without par value, have been issued.

Although the Company's management currently has no plan or intention to take any of the following actions, the Board of Directors believes that it is necessary, and in the best interests of the Company, to have additional shares of Common Stock available for future stock splits or stock dividends, financings, acquisitions and other general corporate purposes. The Board considers this amendment advisable to provide the Company's management with greater flexibility to pursue transactions in which an issuance of Common Stock might be appropriate or desirable without the expense and delay of calling and holding a special shareholders' meeting for such a purpose at a later date. Aside from the issuance of Common Stock pursuant to employee stock options and the nonemployee director stock plan, the Company has not entered into any agreements, commitments or plans with respect to the sale or issuance of additional shares of Common Stock.

The increase in the authorized number of shares of Common Stock and the subsequent issuance of such shares could be used by the Board to delay or make more difficult a change of control of the Company. The proposed amendment is not prompted by any specific effort or takeover threat and management of the Company is not currently aware of any efforts to obtain control of the Company.

If the proposed amendment is approved by the shareholders, the Board may issue such additional shares without further action of, or authorization by, the shareholders, except as may be required by applicable law. The additional shares, when issued, will have the same rights and privileges as the shares of Common Stock currently outstanding. Shareholders have no preemptive rights to subscribe for or purchase any additional shares of Common Stock, except as may be agreed from time to time by the Board.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR THE AMENDMENT TO THE RESTATED ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 100,000,000 TO 200,000,000.

4. Amend the 1990 Nonemployee Director Stock Plan

The 1990 Nonemployee Director Stock Plan, as previously amended ("the Plan"), provides nonemployee directors with incentives to improve the Company's performance by increasing the level

of stock owned by nonemployee directors to reinforce their role in enhancing shareholder value and to provide an additional means of attracting and retaining nonemployee directors.

As further described below, 200,000 shares of Company Common Stock (as adjusted for the Company's 2004 stock split) had been reserved for issuance under the Plan (176,722 shares of which have been issued as of the date hereof). The Board of Directors has amended the Plan, subject to your approval of this proposal, to reserve an additional 100,000 shares of Common Stock for issuance.

Attached as Appendix C to this proxy statement is a copy of the Plan as it would be amended and restated upon approval of the proposed amendment. The following summary of the Plan is qualified in its entirety by reference to the full text of the Plan, which is incorporated herein by reference.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE AMENDMENTS TO THE 1990 NONEMPLOYEE DIRECTOR STOCK PLAN.

Summary of Plan Terms

The Plan was originally adopted by the Company in 1990. It was subsequently amended in certain respects and, in 2002, was amended to incorporate provisions formerly memorialized in the Company's 1999 Nonemployee Company Director Stock Grant (the "1999 Plan"), which was thereupon superseded. The Plan has been amended in certain respects since 2002.

The plan is administered in the discretion of the Company's Nominating and Corporate Governance Committee or such other committee as may be appointed from time to time by the Company's Board of Directors (the "Committee"). The Plan provides benefits to nonemployee directors of the Company ("Nonemployee Company Directors") and nonemployee directors of Company subsidiaries ("Nonemployee Participating Company Directors") whose participation in the Plan has been approved by the Company's Board of Directors (a "Participating Company"). Currently, 11 HEI and 9 American Savings Bank, F.S.B. ("ASB") and Hawaiian Electric Company, Inc. ("HECO") directors participate in the Plan. ASB and HECO are subsidiaries of the Company.

Under the terms of the Plan: (i) each Nonemployee Company Director who serves in that capacity immediately following the date of an Annual Meeting of Shareholders of the Company receives a grant of Common Stock (a "Stock Payment") equal to one thousand four hundred (1,400) shares of Common Stock (two thousand (2,000) shares in the case of the first Stock Payment to a Nonemployee Company Director); and (ii) each nonemployee director of Company subsidiaries who serves in that capacity immediately following the date of an Annual Meeting of Shareholders receives a Stock Payment equal to one thousand (1,000) shares of Common Stock. Each individual who, during any calendar year, becomes a Nonemployee Company Director or Nonemployee Participating Company Director for the first time, other than at the Annual Meeting of Shareholders (whether by election or appointment as a director of the Company or a Participating Company), receives a Stock Payment equal to two thousand (2,000) shares of Common Stock (in the case of the Company) or one thousand (1,000) shares of Common Stock (in the case of a Participating Company). The dollar value of such Stock Payments will vary with changes in the fair market value of Company Common Stock. Such Stock Payments are paid by the Company as soon as practicable following the date the director is first elected or appointed to the Board of Directors of the Company or the Board of Directors of a Participating Company, as the case may be.

Once granted, the shares of Common Stock are not subject to forfeiture.

Before its amendment as described in this proposal, the Plan provided that the maximum number of shares of Company Common Stock that may be issued under the Plan, when taken together with any shares ever granted under the 1999 Plan, is 200,000 (as adjusted for the Company's 2004 stock split). As noted above, the proposed amendment would increase that amount by 100,000 shares to 300,000 shares (subject to appropriate adjustments upon changes in capitalization, such as a stock split).

The Board of Directors of the Company in its discretion may amend, suspend or terminate the Plan at any time. However, no such amendment will, without approval of the shareholders of the Company, change the class of persons eligible to receive Stock Payments under the Plan or otherwise modify the requirements as to eligibility for participation in the Plan, or increase the number of shares of Common Stock which may be issued under the Plan. Moreover, no amendment, suspension or termination of the Plan will, without the consent of any affected Nonemployee Company Director or Nonemployee Participating Company Director, alter, terminate, impair, or adversely affect any right or obligations under any Stock Payment previously granted under the Plan unless such amendment, suspension or termination is required by applicable law. Notwithstanding the foregoing, the Board of Directors of the Company may, without further action by the shareholders of the Company, amend the Plan or modify Stock Payments under the Plan in response to changes in securities or other laws, or rules, regulations or regulatory interpretations thereof, applicable to the Plan, or to comply with stock exchange rules or requirements.

Unless terminated earlier by the Board of Directors of the Company, the Plan will expire on April 27, 2010.

5. Amend the Restated Articles of Incorporation to modify provisions related to the independent registered public accounting firm.

On March 6, 2006, the Audit Committee of the Company's Board of Directors, which is comprised of independent directors, recommended, and on March 7, 2006, pursuant to Section 414-283 of the Hawaii Business Corporation Act, the Company's Board of Directors recommended, that the shareholders approve at the Annual Meeting an amendment to Section (b) of Article Sixth of the Company's Restated Articles of Incorporation to provide for the authority of the Audit Committee over the appointment, removal, compensation and oversight of the Company's independent registered public accounting firm; to provide for shareholder ratification, rather than election, of the appointment of the independent registered public accounting firm; to eliminate certain historical language; and make certain other changes in that provision. The text of the proposed amendment is set forth in Appendix D to this Proxy Statement.

Reasons for Approval of the Proposed Amendment

Currently the Company's Restated Articles of Incorporation provide that the Company's auditor shall be elected by the shareholders and serve until a successor is elected, but do not reflect the important role that the Company's Audit Committee plays in the auditor retention process. The proposed amendment to the Restated Articles of Incorporation would address this issue by embodying in the Company's Restated Articles of Incorporation one of the hallmarks of good corporate governance contained in the Sarbanes-Oxley Act of 2002, namely that the Audit Committee shall be responsible for the appointment, compensation and oversight of the independent registered public accounting firm. The Audit Committee and the Board believe that elevating this requirement into the Company's fundamental organizational document underscores their commitment to this central principle of good corporate governance.

More particularly, by requiring that the shareholders elect the auditor, the existing provision constrains the ability of the Audit Committee to remove and replace the Company's independent registered public accounting firm at any time other than when recommending an independent registered public accounting firm to the shareholders in connection with the Company's annual meeting of shareholders, because changing the auditor at other times of the year would require a special meeting of shareholders to effect the change. The need to remove or replace the independent registered public accounting firm can arise, however, at any time throughout the year, such as when the Audit Committee determines that it is in the best interest of the Company and its shareholders that the independent registered public accounting firm be removed or replaced or when the existing independent registered public accounting firm resigns. The delay occasioned in calling a special meeting of shareholders could impair the Audit Committee's ability to respond effectively in such circumstances.

The proposed amendments avoid the potential issues present in the existing provision by empowering the Audit Committee to appoint and remove the independent registered public accounting firm in these circumstances. In addition, the Audit Committee believes that enhancing the Audit Committee's authority over appointment and removal of the independent registered public accounting firm will increase the independent registered public accounting firm's accountability to the Audit Committee, because the independent registered public accounting firm will know that retention decisions can be made without the added delay and uncertainty of a shareholder meeting. The proposed revisions would require that any such appointment be subject to later ratification by the shareholders, thereby ensuring that shareholders would retain a voice in the independent registered public accounting firm retention process.

The other changes to Section (b) of Article Sixth of the Restated Articles of Incorporation are designed to specify that the stockholders ratify not elect the independent registered public accounting firm, to eliminate certain historical language, and to clarify that the independent auditor shall be an independent registered public accounting firm.

THE AUDIT COMMITTEE AND THE BOARD OF DIRECTORS RECOMMEND THAT YOU VOTE FOR THE AMENDMENT TO THE RESTATED ARTICLES OF INCORPORATION TO MODIFY PROVISIONS RELATING TO THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Nominees for Class I directors whose terms expire at the 2009 Annual Meeting

**Shirley J. Daniel, Ph.D.,
C.P.A.
Age 52
Director Since 2002**

Professor of Accountancy,
College of Business
Administration, University of
Hawaii-Manoa since 1986.
Director of American
Savings Bank, F.S.B., Pacific
Asian Management Institute,
and University of Hawaii
Center for International
Business Education and
Research. Henry A. Walker, Jr.
Distinguished Professor of
Business Enterprise, College
of Business Administration,
University of Hawaii-Manoa.
Managing director of Pacific
Asian Center for
Entrepreneurship and
E-Business.

**Constance H. Lau
Age 53**

President, chief executive
officer and director of
American Savings Bank,
F.S.B. since June 2001. Chief
operating officer and senior
executive vice president of
American Savings Bank,
F.S.B. from December 1999 to
June 2001.
Director of Hawaiian
Electric Industries Charitable
Foundation, Maunalani
Foundation, Consuelo Zobel
Alger Foundation, and
Alexander & Baldwin, Inc.
Trustee, Punahou School and
Kamehameha Schools.
President, Hawaii Bankers
Association.

**A. Maurice Myers
Age 65
Director Since 1991**

Chairman, president and chief
executive officer of Waste
Management, Inc.
(environmental services),
Houston, Texas from
November 1999 to
November 2004; now retired.
Director of Hawaiian
Electric Co., Inc. and Tesoro
Petroleum. Member, Oceanic
CableVision Advisory Board.
Chairman of the Board,
Emeritus, Keep America
Beautiful Inc.

**James K. Scott, Ed.D.
Age 54
Director Since 1995**

President of Punahou School.
Director of Hawaiian
Electric Company, Inc., Pacific
and Asian Affairs Council,
Hawaii Public Television, and
Hawaii Association of
Independent Schools.
President, Secondary School
Admission Test Board.
Member, Hawaiian
Educational Council and
Young Presidents
Organization. Trustee, Blood
Bank of Hawaii.

Continuing Class II directors whose terms expire at the 2007 Annual Meeting

Diane J. Plotts
Age 70
Director Since 1987

Business advisor since 2000.
 Director of Hawaiian
 Electric Company, Inc. and
 American Savings Bank,
 F.S.B. Trustee, Kamehameha
 Schools.

Kelvin H. Taketa
Age 51
Director Since 1993

President and chief executive
 officer of the Hawaii
 Community Foundation.
 Director of Hawaiian
 Electric Company, Inc., Grove
 Farm Company, Inc., and
 Civic Ventures. President and
 director of Sunrise Capital,
 Inc.

Jeffrey N. Watanabe
Age 63
Director Since 1987

Senior partner in the law firm
 of Watanabe Ing & Komeiji
 LLP.
 Director of Hawaiian
 Electric Company, Inc.,
 American Savings Bank,
 F.S.B., Alexander and
 Baldwin, Inc., Cellular
 Bioengineering, Inc., First
 Insurance Company of Hawaii,
 Grace Pacific Corporation,
 LOEA Corporation, Matson
 Navigation Company, Inc.,
 Oahu Publications, Inc., Tissue
 Genesis, Inc., and Trex
 Enterprises Corporation.
 Trustee, Sesame Workshop,
 The Nature Conservancy of
 Hawaii and Hawaii
 Community Foundation. Chair,
 The Consuelo Zobel Alger
 Foundation.

Thomas B. Fargo
Age 57
Director Since 2005

Chairman, LOEA Corporation
 and SAGO Systems since
 April 2005 (high technology
 companies). President, Trex
 Enterprises Corporation
 (research and development for
 defense and homeland
 security). Commander, U.S.
 Pacific Command from May
 2002 to February 2005.
 Commander-in-Chief of the
 Pacific Fleet from October
 1999 to May 2002.
 Director of Hawaiian
 Electric Company, Inc.,
 Hawaiian Holdings, Inc. and
 Japan-America Society of
 Hawaii. Member, board of
 governors of Iolani School.
 Trustee, Hawaii Pacific
 University.

Continuing Class III directors whose terms expire at the 2008 Annual Meeting

Don E. Carroll
Age 64
Director Since 1996

Chairman of Oceanic Cablevision from February 2001 to April 2005; now retired. Vice president of Time Warner Cable from 1985 to April 2005.

Director of American Savings Bank, F.S.B., Pacific Guardian Life, Island Insurance, American Red Cross-Hawaii Chapter, Executive Board of the Boy Scouts of America-Aloha Council, The 200 Club Advisory Board, and Hawaii Nature Center. Chairman, Broadband Interactive Television Board. Member, Oceanic CableVision Advisory Board and Finance Committee, Aloha United Way.

Victor Hao Li, S.J.D.
Age 64
Director Since 1988

Co-chairman, Asia Pacific Consulting Group. President, Li Xing Foundation. Chairman, Shanghai Li Xing School.

Director of American Saving Bank, F.S.B. Trustee, Japan-America Institute of Management Science.

Bill D. Mills
Age 54
Director Since 1988

Chairman of The Mills Group. Director, Grace Pacific Corporation and Hawaii Public Television. Trustee, Hawaii Pacific University, St. Andrew's Priory, and The Nature Conservancy of Hawaii. Member, board of governors, Iolani School.

Barry K. Taniguchi
Age 58
Director Since 2004

President and chief executive officer of KTA Super Stores. Director of Hawaiian Electric Company, Inc., American Savings Bank, F.S.B. and Hawaii Island Economic Development Board. Trustee, Hawaii Community Foundation, Public Schools of Hawaii Foundation, Tax Foundation of Hawaii, Hawaii Food Industry Association, and Lyman House Memorial Museum. Chairman, board of governors of Hawaii Employers Council.

Corporate Governance

What are the Company's governance policies and guidelines?

In 2005, the Board of Directors and management continued to review and monitor corporate governance trends and best practices to comply with the New York Stock Exchange ("NYSE") Listed Company Manual relating to corporate governance and Securities and Exchange Commission regulations. As part of an annual review, the HEI Corporate Governance Guidelines, Revised Code of Conduct (which includes the code of ethics for the HEI chief executive officer, financial vice president and controller), charters for the Audit, Compensation, Executive, and Nominating and Corporate Governance Committees were reviewed and revised as appropriate by the HEI Board of Directors. These documents, as well as HEI's Insider Trading Policy, may be found on the Company's website at www.hei.com and are available in print to any shareholder who requests them.

How does the Board select nominees for the Board?

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. The Committee may retain a third-party search firm to help identify candidates from time to time.

Among the qualifications considered in the Committee's assessment of a proposed candidate are knowledge, experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, and absence of conflicts of interest. The Committee believes that the Board should reflect a diversity of experience, gender, ethnicity, and age. The Committee also considers other relevant factors as it deems appropriate including, but not limited to, current composition of the Board, balance of independent and nonindependent directors, and need for financial expertise.

Once potential candidates are identified, the Committee may review publicly available information to assess whether the candidate should be considered further. If the Committee determines that the candidate warrants further consideration, the Chairman or another member of the Committee will contact the person, and if the person indicates a willingness to be considered for service on the Board, the candidate will be asked to provide information such as accomplishments and qualifications and one or more interviews may be conducted. The Committee members may contact one or more references provided by the candidate or other members of the business community who may have greater first hand knowledge of the candidate's qualifications and accomplishments. The evaluation process does not vary based on whether or not a candidate is recommended by a shareholder.

How can shareholders communicate with the directors?

Shareholders and all interested parties may contact (1) any member of the Board, including the Lead Director (nonemployee Chairman of the Board effective May 2, 2006) and an employee director or (2) just the nonemployee directors as a group, by mail. To communicate with the Board of Directors, any individual director or any group of directors, correspondence should be addressed to the Board of Directors or any such individual or group by either name or title. All such correspondence should be sent in care of the Corporate Secretary, Hawaiian Electric Industries, Inc., P. O. Box 730, Honolulu, HI 96808-0730. The mail will be forwarded, unopened, to the named individual director or, in the case of a group, to the Lead Director or the Chairman of the Board, effective May 2, 2006.

How does the Board evaluate itself?

Since 1996, the Board of Directors has followed an annual process of evaluating the operations and effectiveness of the Board as a whole as well as self-evaluations by individual directors up for election. In reviewing the Board as a whole, directors evaluate and comment on board structure, Board meetings (content, conduct, mechanics), Board responsibilities, performance of directors and relationship between the Board and management. Directors who are nominees for reelection evaluate their own individual meeting preparation, participation in Board meetings, contributions to the group, knowledge of the issues and concerns of the Company and understanding of the role of the Board in the governance of the Company. The Board and self-evaluation forms are submitted to the Nominating and Corporate Governance Committee for its review, after which the Committee recommends to the Board any procedures and practices to be adopted to improve the operations of the Board. The Chairman of the Nominating and Corporate Governance Committee may meet with individual directors to discuss their performance, as appropriate.

As required by the NYSE corporate governance listing standards, the Audit, Compensation and Nominating and Corporate Governance Committees developed a process for self-evaluation whereby committee members reviewed and evaluated their respective committee charters and committee meetings (content, conduct, and mechanics). The Audit Committee also reviewed and evaluated its duties and responsibilities, relationship with management and internal and external auditors, and the qualifications of its members.

Who are the independent directors of the Board?

For a director to be considered independent, the board must affirmatively determine that the director does not have any direct or indirect material relationship with the Company. The Board has established categorical standards to assist it in determining director independence. In addition to applying the standards, which are listed below, the Board considers all relevant facts and circumstances in making a determination of independence.

A director who is an employee, or whose immediate family member is an executive officer, of the company is not "independent" until three years after the end of such employment relationship.

A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.

A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the company is not "independent" until three years after the end of the affiliation or the employment or auditing relationship.

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that other company's compensation committee is not "independent" until three years after the end of such service or the employment relationship.

A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.

A director or any member of the director's immediate family who serves as an officer, director or trustee of a charitable organization that receives from the Company or its charitable foundation contributions which, in any fiscal year, exceed the greater of \$1 million or 2% of such charitable organization's total annual charitable receipts is not "independent" until three years after falling below such threshold.

In its annual review of director independence, the board affirmatively determined that all directors of the Company are independent with the exception of Robert F. Clarke, an employee director.

In addition, the Board also determined that the Company did not make contributions to any tax exempt organization in which an independent director serves as an executive officer that exceeded the greater of \$1 million, or 2% of such tax exempt organization's consolidated gross revenues.

What other Board practices does the Company have?

The nonemployee directors meet regularly in executive sessions without management. In 2005, these sessions were chaired by the Lead Director, Bill D. Mills. Beginning in May 2006 these sessions will be chaired by Jeffrey N. Watanabe, who has been named Chairman of the Board, effective at the Annual Meeting.

Information, material related to issues to be considered at a Board or Committee meeting, and other material important to the directors' understanding of the business are distributed, to the extent practical, to the directors in advance of the meeting to allow for careful review prior to the meeting.

Board of Directors

How often did the Board of Directors meet in 2005?

In 2005, there were six regular meetings of the Board of Directors. All directors attended at least 75% of the combined total meetings of the Board and Board committees on which they served (during the periods they served).

Did all directors attend last year's Annual Meeting?

All the members of the Board of Directors attended the 2005 Annual Meeting of Shareholders. The Company has a policy of encouraging the directors to attend each year's Annual Meeting of Shareholders.

How are directors compensated?

Only nonemployee directors are compensated for their service as directors. Director compensation beginning on April 1, 2005 is as follows:

Stock Grant

A one-time grant of 2,000 shares of Common Stock to new directors.

1,400 shares of Common Stock are granted annually to directors for the purpose of further aligning directors' and shareholders' interests in improving stockholder value.

Fiscal Year Board Retainer commencing April 1 each year (no meeting fees are paid)

\$32,500 paid in quarterly installments.

Additional annual fees are paid in quarterly installments to directors as follows:

Lead Director	\$ 10,000
Audit Committee Chair	15,000
Compensation Committee Chair	5,000
Nominating and Corporate Governance Chair	5,000
Audit Committee Member	5,000

Subsidiary Board Fees

Nonemployee directors of HEI who serve on the Board of Directors of Hawaiian Electric Company, Inc. ("HECO") or American Savings Bank, F.S.B. ("ASB") receive a fiscal year retainer of \$20,000 for each such Board position.

Diane J. Plotts, who serves as chair of the ASB Audit Committee, and Barry K. Taniguchi, who serves as chair of the HECO Audit Committee, receive an additional \$10,000 annual fee for chairing each Audit Committee. An additional annual fee of \$4,000 is paid to Don E. Carroll and Jeffrey N. Watanabe for serving on the ASB Audit Committee and to Thomas B. Fargo and Diane J. Plotts for serving on the HECO Audit Committee.

Do nonemployee directors receive a retirement benefit?

At the meeting of the Board of Directors on December 17, 1996, the Board voted to terminate the Nonemployee Director Retirement Plan, which had been approved by the shareholders on April 17, 1990. Pursuant to the terms of the termination, the right of previously retired directors to receive benefits continues in accordance with the terms of the Plan as in effect at termination, and the present value of the accrued benefit of directors age 55 or younger or with 5 years of service or less as of April 22, 1997 has been paid out. The retirement benefit for all other directors who had been participating in the Plan (Mr. Myers and Ms. Plotts) was frozen as of December 31, 1996, and will be paid according to the terms of the Plan as in effect at termination. Accordingly, upon their retirement from service as a director, Mr. Myers and Ms. Plotts will each receive an annual payment of \$15,000 (their annual retainer in effect at December 31, 1996) for a period equal to the number of years of their active service through December 31, 1996 (7 years for Mr. Myers and 10 years for Ms. Plotts).

Committees of the Board**What committees has the Board established and how often did they meet?**

The Board of Directors has four standing committees: Audit, Compensation, Executive, and Nominating and Corporate Governance. The names of the current committee members are shown on the table below. In addition, the table below also shows the number of meetings held in 2005.

Name	Audit	Compensation	Executive	Nominating and Corporate Governance
Don E. Carroll			X	
Robert F. Clarke*				X
Shirley J. Daniel	X			
Thomas B. Fargo	X			
Victor Hao Li			X	
Bill D. Mills			X**	X** X
A. Maurice Myers			X	
Diane J. Plotts	X**	X	X	
James K. Scott	X***			X***
Kelvin H. Taketa				X**
Barry K. Taniguchi	X			
Jeffrey N. Watanabe				X
Number of Meetings in 2005	8	3	0	1

* Employee director

** Committee chair

*** Effective March 7, 2006

What are the primary functions of each of the four committees?

Audit Committee

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The Audit Committee operates and acts under a written charter, which was adopted and approved by the HEI Board of Directors. The Committee provides independent and objective oversight of the Company's (1) financial reporting processes, (2) audits of the financial statements, including appointment, compensation and oversight of the external auditor, (3) internal controls, and (4) risk assessment and risk management policies set by management. The Committee also reviews and approves related party transactions and reviews and resolves complaints from any employee regarding accounting, internal controls or auditing matters. All members of the Committee are independent directors as independence for audit committee members is defined in the listing standards of the NYSE and none of them are members of audit committees of other publicly traded companies. See pages 35 and 36 for the Audit Committee Report.

Compensation Committee

The Compensation Committee operates and acts under a written charter, which was adopted and approved by the HEI Board of Directors. The Committee oversees the Company's compensation and employee benefit plans and its incentive compensation and equity based plans. All members of the Committee are independent directors as defined in the listing standards of the NYSE. The Compensation Committee meets in executive session to set the compensation level of the Chief Executive Officer ("CEO") after receiving input on the CEO's performance from all the nonemployee directors meeting in executive session. The Committee then sets the compensation level of the CEO. See pages 28 to 33 for the Compensation Committee Report on Executive Compensation.

Executive Committee

The Executive Committee operates and acts under a written charter, which was adopted and approved by the HEI Board of Directors, and is authorized to act on matters brought before it when a meeting of the full Board is impractical. It may also consider any other matter concerning the Company that may arise from time to time. The Committee is comprised of the Lead Director, the CEO and one other independent director. Beginning in May 2006, the Committee will be comprised of the Chairman of the Board, the CEO and one other independent director.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee operates and acts under a written charter, which was adopted and approved by the HEI Board of Directors. All members of the Committee are independent directors as defined in the listing standards of the NYSE. Its functions include (1) reviewing the background and qualifications of potential nominees for the board of directors of HEI and its subsidiary companies presented by shareholders, directors and management, (2) recommending to the Board the slate of nominees to be submitted to the shareholders for election at the next Annual Meeting, (3) advising the Board with respect to matters of Board composition and procedures, (4) overseeing the annual evaluation of the Board, (5) reviewing nonemployee director compensation and (6) overseeing corporate governance matters generally.

See the section on Corporate Governance for a discussion concerning the involvement of this Committee on matters relating to corporate governance.

Stock Ownership Information**How much stock do the Company's directors and executive officers own?**

The following table shows how many shares of Common Stock were owned as of February 23, 2006 by each director, Named Executive Officer (as listed in the Summary Compensation Table on page 20) and by all directors and executive officers as a group.

Amount of Common Stock and Nature of Beneficial Ownership

Name of Individual or Group	Sole Voting or Investment Power	Shared Voting or Investment Power(1)	Other Beneficial Ownership(2)	Stock Options/ Stock Appreciation Rights(3)	Total
Nonemployee directors					
Don E. Carroll	10,985				10,985
Shirley J. Daniel	6,659				6,659
Thomas B. Fargo	3,519				3,519
Victor Hao Li	1,026	11,204	917		13,147
Bill D. Mills	22,700		10		22,710
A. Maurice Myers	26,016	3,689			29,705
Diane J. Plotts	11,380				11,380
James K. Scott	12,275				12,275
Kelvin H. Taketa	10,021				10,021
Barry K. Taniguchi		11,255			11,255
Jeffrey N. Watanabe	14,875			4	14,879
Employee director and Named Executive Officer					
Robert F. Clarke	42,082	53,746	4,056		