

55TH ANNUAL REPORT OF THE

**HAWAIIAN
ELECTRIC
COMPANY, LIMITED**

for the twelve months
ended December 31, 1945



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The Hawaiian Electric Co., Ltd.

900 Richards Street (Palace Square)
Honolulu, Hawaii

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G. M. WINSLEY.....Assistant Treasurer
HENRY DAVIS AUDIT COMPANY.....Auditor

The Hawaiian Electric Co., Ltd.

PRESIDENT'S REPORT

Honolulu, Hawaii, March 28, 1946

To the Directors and Stockholders of
The Hawaiian Electric Company, Limited:

I submit herewith my annual report for the year ended December 31, 1945.

The Company's operations for the closing year of the war period were largely influenced by the preponderance of military activities in the area prior to the cessation of active combat in the Pacific, and thereafter by the rapid changes accompanying demobilization and the initial efforts to restore the civilian economy. The year's business again shows a substantial increase in gross revenues with higher operating expenses due principally to wages, taxes, and fuel costs.

The net income for the year was \$1,169,187, as compared with \$947,829, for the year 1944. However, no provision for contingent tax liabilities was made in 1945 such as were made in 1944 and in prior years including 1940, inasmuch as substantial agreement has been reached with the Treasury Department as to the basis and rates of depreciation allowable for Federal Tax Returns. After the payment of all operating expenses, taxes, depreciation, interest charges and other income deductions, and dividends on preferred stock, there remained earnings of \$3.05 per share of common stock outstanding. Dividends for the year were paid in the amounts of \$1.00 per share on the Series B, 5% preferred stock and \$2.00 per share on the common stock. The earned surplus of the Company stood at \$2,553,713, at the close of 1945, an increase of \$353,830, during the year.

Plant and Property Expenditures

During 1945 expenditures for new plant and properties aggregated \$2,548,395, as follows:

Steam Production Plant	\$ 381,834.69
Transmission and Distribution Plant	668,002.65
General Plant	134,259.25
Ice Plant	3,305.71
Merchandise Plant	11,013.58
Work in Progress: Steam Production Plant	1,191,263.63
Trans. and Dist. Plant	152,238.20
General Plant	6,462.83
Merchandise Plant	14.09
	<u>\$ 2,548,394.63</u>

Construction work on the new 40,000 kilowatt enlargement of the Waiau Power Plant was started on February 24, 1945. Delays in the delivery of materials and apparatus because of Mainland labor difficulties, and the continued local labor shortage have impeded the progress of this work so that this new unit originally scheduled for completion in October, 1946 will not be ready for operation until the following year.

Plans have been prepared and construction begun on a new three-story and basement building on the Company's Ward Avenue property. This structure will house the expanded activities of the Distribution and Engineering Departments and will also have headquarters for the Construction and General Service Departments. When occupied, it will relieve the present crowded conditions in the Company's general office building, providing additional space there for future expansion of commercial and executive activities.

The lack of sufficient generating capacity to permit necessary maintenance work on power plant equipment remains critical. To provide temporary relief until the completion of the new generating unit at Waiau, the Company has leased from the U. S. Government a 20,000 kilowatt steam power plant installed in a converted Liberty ship which has been moored adjacent to the Waiau Power Plant and will be operated as a part of the Company's system.

A new underground 8-duet conduit, 4,600 feet in length, has been installed from Bishop Street to Dillingham Boulevard in downtown Honolulu with new 11,000 volt cables which are now transmitting power direct from the Honolulu Power Plant to the rapidly expanding industrial area in the Kalihi district. At Iwilei and School Street substations, 14,000 volt regulators have been installed to provide improved voltage control and to enable large consumers to be served at 11,000 volts without transformation. Several new substations, short extensions to transmission lines and service facilities generally have been added to the system to provide for anticipated load growth in areas subject to postwar expansion. Highway when-

ing throughout the Island of Oahu has entailed extensive moving and relocating of transmission and distribution lines.

In carrying out the expansion of the Company's Waiau Power Plant, 46.80 acres of land have been acquired by purchase. Two additional small parcels of 1.84 acres remain to be acquired. One of these is Territorial Government land, for which negotiations are progressing satisfactorily, and the other is a privately owned parcel on which the Company has filed condemnation proceedings. When these acquisitions are completed, the Company will have adequate land holdings to provide for all contemplated structures and facilities in this area and to protect its water supply for power plant purposes.

The expansion of the Company's business in recent years has called for commensurate expenditures for new plant and properties as follows:

1941	\$ 2,998,255.20
1942	2,660,487.99
1943	3,040,210.19
1944	2,285,182.89
1945	2,548,394.63
Total for 5 Years	<u>\$13,532,530.90</u>

Property Retirements

Retirements of plant in the year 1945, amounting to \$396,236., consist principally of portions of the condenser intake and discharge tunnels rendered obsolete by Honolulu Power Plant enlargements, circulating and condensate pumps, and of substation, transmission, distribution and general equipment replaced in the course of system expansion.

Utility Department

The power supply situation again became critical during the plant overhaul period in the early part of the year, emphasizing the need for more generating capacity. Cooperative voluntary power curtailment from May 1 to August 1 was asked of the public through newspaper and radio announcements. By special arrangements with the Army and Navy and with sugar plantations, peak loads were curtailed during critical hours, and all possible help was obtained from their generating equipment. During May 1945, when the 35,000 kilowatt unit at the Honolulu Power Plant was out of service for overhaul, the available generating capacity of the system was

reduced to 82,500 kilowatts. The peak load in April 1945 had already reached 111,000 kilowatts. Through the response of the public, the Army and the Navy, and the sugar plantations, the system load was reduced to safe limits. By July 31, all generating equipment overhaul was completed and full capacity restored to the system. The load, however, continued to increase to a monthly output of 54,000,000 kilowatt-hours in August, and a peak demand of 116,300 kilowatts in October. For the remainder of the year, there was a progressive decline in demand, accompanying the curtailment of military operations.

Even before V-J Day, expansion of electric service to Army and Navy establishments on Oahu had slowed down materially, and after V-J Day, further military construction was confined to the new Tripler General Hospital and a few other permanent projects under way. Temporary outlying cantonments of the Army are being rapidly abandoned, and troops remaining on Oahu are being moved back into permanent Army posts. By the close of the year 1945, electric utility revenues from the Army and Navy had declined substantially and further decreases will continue during 1946, accompanying the adjustment to a peacetime garrison basis. Recovery of these losses in revenues through service to new industrial, commercial, and domestic business will not proceed as rapidly as under normal conditions and will depend upon the resumption of deliveries into the Territory of building materials, industrial equipment, and household electrical appliances now all delayed in stockpiled factories, as well as upon the shortage of local labor for needed civilian construction and installation work of all kinds.

The total energy delivered into the system for 1945 was 16.3% greater than for 1944 and approximately two and two-thirds times that of the pre-war year of 1940. The growth of load during the last five years is shown in the following tabulation:

Year	K.W. Hours Generated	K.W. Hours Purchased	Total System Input K.W. Hours	K.W. Capacity at Generating Stations
1941	314,422,990	1,905,080	316,328,070	82,500
1942	395,328,160	7,389,120	402,717,280	82,500
1943	428,858,020	32,728,800	461,586,820	82,500
1944	477,546,700	48,994,600	526,559,300	117,500
1945	599,812,150	12,550,720	612,362,870	117,500

Gross revenues from the sale of electric energy in 1945 increased by \$1,221,592 to an aggregate of \$9,340,729, and the number of

consumers increased by 1,221 to a total of 57,710. The comparative figures for the last five years are as follows:

Year	Revenue from Sales of Electric Energy	Consumers
1941	\$5,385,821.43	54,760
1942	6,043,546.35	54,492
1943	7,158,832.99	54,927
1944	8,119,386.26	56,489
1945	9,340,728.65	57,710

The average price of energy supplied to residential service consumers decreased from 3.08¢ per KWH in 1944 to 3.06¢ per KWH in 1945, and residential use per consumer increased from 1,647 to 1,791 KWH per annum.

Changes in utility operating expenses during 1945 are shown in the following summarized statement of departmental income:

	1945		Increase over 1944
	Amount	Percent of Operating Revenues	
Operating Revenues	\$9,413,217	100.0	\$1,112,962 13.4
Operating Expenses:			
Fuel	\$2,239,171	23.8	\$ 467,043 26.3
Purchased Energy	101,810	1.1	290,947 74.1
Operation	2,162,095	23.0	18,388 0.9
Maintenance	763,739	8.2	119,702 18.6
Taxes	2,057,175	21.8	411,109 24.9
Depreciation	611,231	6.5	82,620 15.6
Total Operating Expenses	\$7,935,221	84.4	\$ 771,139 10.7
Net Operating Income	\$1,477,996	15.6	\$ 341,823 30.1

Of the total utility operating revenues for the year, fuel oil and purchased power absorbed 24.9%; operating expenses 23.0%; taxes 21.8%, an all-time high; maintenance and depreciation 14.7%; leaving 15.6% of operating revenues for bond and other interest charges, dividends, and surplus. Although generating plant efficiency increased 3.1%, from 423 to 436 kilowatt-hours per barrel of fuel oil, the 3.8% increase in fuel costs from \$1.57 to \$1.63 per barrel more than absorbed the savings due to increased plant efficiency. The total of utility operating expenses increased 10.7%

above pre-war levels. The following tabulation shows the variation in Merchandise Department revenues during the war period:

Year	Revenue
1941	\$3,632,128.71
1942	3,397,267.18
1943	3,171,471.83
1944	2,637,578.39
1945	2,428,441.77

With all types of electrical equipment and domestic appliances again becoming available to the public, the satisfaction of accumulated war storages in these types of merchandise indicates increased sales volume for sometime in the future.

Renegotiation of the Company's 1942 non-utility sales to U. S. Government Departments and their contractors was settled by agreement dated June 1, 1945 under which the Company refunded \$2,800 to the Government. Renegotiation of the Company's 1943 and 1944 business with such agencies involving both utility and non-utility sales, and of its 1945 non-utility business of this nature has progressed sufficiently to indicate that settlements thereof will involve only nominal refunds.

Financing

During the year 1945, significant changes were made in the Company's financial structure which resulted in the reduction of bond interest charges and provided new capital funds for the Company's post war expansion program.

The outstanding \$3,000,000 principal amount of the Company's First Mortgage Bonds, Series B, 4% were redeemed on September 1, 1945 by payment of the principal amount and a redemption premium of \$150,000. The Company had previously borrowed \$3,000,000, through the issue of its 1½%—90 day Promissory Notes dated August 28, 1945 and applied the proceeds thereof to this redemption.

On October 9, 1945 the Company offered its common stockholders rights, evidenced by full share warrants, to subscribe to its newly authorized 150,000 shares of Series C, 4¼% (Cumulative) Preferred Stock at the par value of \$20.00 per share, at the rate of one full share of the new preferred stock for each 2-1/3 shares of common stock held of record on September 29, 1945. No rights to subscribe to fractional shares were given. Through the exercise of the warrants, more than 96 percent of the \$3,000,000 issue was subscribed. The shares called for by unexercised warrants and the

above the previous year as compared with a 13.4% increase in utility operating revenues.

Promotional activities during 1945 were devoted largely to maintaining customer contacts, to keeping electrical appliances in operating condition and to the dissemination of information on food preparation and conservation through group meetings, radio broadcasting, and newspaper advertising. The resumption of intensive promotional activities has been scheduled in accordance with the availability of electrical household appliances during 1946.

Ice Department

Ice sales during 1945 amounted to 23,844 tons with receipts of \$134,599. Although both sales and revenue for the year were slightly lower than for 1944, the net operating income remained unchanged. Comparative operations in recent years are as follows:

Year	Revenue	Tonnage	Consumers
1941	\$127,206.25	27,152	311
1942	152,030.44	29,863	330
1943	146,357.54	27,081	380
1944	136,458.07	24,855	420
1945	134,599.84	23,844	441

Cold Storage Department

With the cessation of Government use of civilian facilities, cold storage receipts for the year amounting to \$45,936, have returned to pre-war levels. Operations for the last five years are indicated by the following figures:

Year	Revenue
1941	\$53,376.69
1942	58,013.65
1943	69,565.00
1944	60,388.39
1945	45,935.81

Merchandise Department

The 1945 operations of the Company's Jobbing, Shop Repair, and Wiring Departments produced a revenue of \$2,428,442, with a net operating income for the year of \$58,678, an increase of \$11,687, above 1944. The 1945 volume of merchandise sales, although lower than in any year during the war period, was still well

full shares representing fractional interests were sold to the underwriters, Dillon, Read & Co., Inc. and Dean Witter & Co., at \$20.00 per share plus accrued dividends from October 15, 1945.

The issuance and sale of \$5,000,000. principal amount of the Company's First Mortgage Bonds, Series E, 3½%, dated October 1, 1945 and due October 1, 1970 was concluded on October 29, 1945 with the same underwriters, for which the Company received 101¼ percent of the face amount of the bonds plus accrued interest from date of issue.

From the proceeds of the sale of the Series C Preferred Stock and the Series E Bonds, the Company's \$3,000,000. of 1½%—90 day Promissory Notes were paid off. From the remainder of the proceeds of the new financing, \$1,800,000. of the \$2,000,000. outstanding principal amount of the Company's First Mortgage Bonds, Series A, 4% were redeemed on December 1, 1945 at their par value. Upon the consummation of the year's financing and refunding, there remained new capital funds to the extent of approximately \$3,200,000. for application to the Company's \$9,918,000. construction program for the years 1945, 1946 and 1947, of which the new 40,000 kilowatt enlargement of Waiau generating plant now in progress is the major project.

The balance sheet of the Company at December 31, 1945, shows an excess of current assets over current liabilities of \$5,021,280. of which \$4,286,791. is cash on hand and in banks. These funds together with 1946 reserve accruals should suffice for the Company's budgeted construction expenditures for the ensuing year as well as for additional working capital if required by post war business developments.

Changes in Executive Organization

The growth of the Company's properties and business in recent years and their further expansion in the future has indicated the desirability of changes in its executive organization for more efficient and expeditious administration. At their meeting of June 19, 1945, the stockholders authorized amendments to the Company's by-laws relating principally to the discontinuance of the offices of manager and assistant managers, and the transfer of their respective powers and duties to the president and vice-presidents.

At a subsequent meeting of the Board of Directors, Mr. P. E. Spalding and Mr. H. W. Richards tendered their resignations as vice-presidents. The Board thereupon appointed Mr. P. E. Spalding as Chairman of the Board of Directors, appointed Mr. L. A. Buese and Mr. Kalah B. Johnson as vice-presidents of the Corporation, and prescribed the duties of the president and the vice-presidents, and

established their seniority in the following order: Cassell S. Jacobs, L. A. Buese, and Ralph B. Johnson.

On October 31, 1945, Mr. G. M. Winsley, who has been identified with the Company for 21 years, was appointed an assistant treasurer.

General

Shortages of both skilled and unskilled labor continued to prevail throughout the year. Under the employment ceilings of the War Manpower Commission and its restrictions on referrals, the number of regular workers employed decreased progressively during the early part of the year. In June, the Company's employment ceiling was raised, enabling the Construction Department to advance work on the new 40,000 kilowatt unit at Waiau. Following the lifting of all manpower controls with the end of hostilities in the Pacific, employment increased to a total of 1,065 by the end of the year as compared with 1,038 at the beginning and with the minimum of 1,010 in April. The prevailing spirit of unrest is indicated by the turnover rate of 38.3 percent for the year. Extended absenteeism was the predominant cause for discharges. Time lost from industrial accidents increased more than 20 percent during the year.

An agreement renewing the contract with Local Union B-1260, I.B.E.W., was signed July 20, 1945, extending it to July 1, 1946, with changes covering minor wage adjustments and simplification of the wage structure by elimination of 30 classifications. The Union contract was further amended on September 19, 1945 by dividing it into separate agreements covering utility and non-utility workers respectively. Relations with the Union during the year have been satisfactory.

A complete classification and standardization of job specifications and pay rates for all salaried positions, after approval by the Territorial War Labor Board, was made effective for all monthly paid employees.

Clerical operations of the general office were returned to a 40 hour work week on November 1, 1945 with Saturday closing except for the Retail Sales and Cashier's Departments, but without curtailment of emergency and special services to customers. Shift operators in the Generation Department still remain on a 48 hour work week because of personnel shortage, but all other operating departments were returned to a 44 hour work week. The military services absorbed 43 employees during the year and 24 veterans returned to their former or better positions. At the end of the year 138 employees were still on military leave. Total wages and salaries paid

in 1945 amounted to \$3,437,998, as compared with \$3,717,488, in 1944. This reduction reflects the decrease in men employed and the reduction of overtime following the resumption of the shorter work week.

The Retirement Annuity Plan completed its fifth year with 998 employees participating and a fund balance with the insurance carrier of \$615,484. Outstanding Group Life policies now insure 895 employees in the amount of \$2,723,500. Under the Company's Sick Benefit Plan, hourly paid workers received \$18,141. for working time lost through illness. The Employees' Medical Aid Association with 810 employees paid out claims amounting to \$14,402.

The Company's educational program for workers and supervisors covering job training, job relations, and safety standards, has been maintained throughout the war years and can now be enlarged with attendant advantages to employees and to Company operations.

The award of service emblems not obtainable during the war was resumed with a mass presentation to 405 employees who became eligible during the last three years. Frank J. Lemes and Henry Beerman, Jr. of the Generation Department were presented gold watches in recognition of their 45 years of service.

The following department heads and employees retired during 1945 with past service pensions authorized by the Board of Directors:

Henry Beerman, Jr.
Watch Engineer, Generation Dept., after 45 years of service;
John V. Kerr
Leading Man Mechanic, Generation Dept., after 43 years of service;
Paul L. Carter
General Superintendent, after 35 years of service;
Frank Kelly
Watchman, Generation Dept., after 34 years of service;
A. C. Gibb
Cashier, after 32 years of service;
Thomas Aea
Yard Custodian, Distribution Dept., after 27 years of service;
Ah Chong Au
Meter Reader, Commercial Dept., after 20 years of service;
Ah Wai Chang
Janitor, Building Service Dept., after 18 years of service;
Edward W. Fawcett
Head Yardman, Generation Dept., after 15 years of service

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IN MEMORIAM

We record with deep regret the passing of:

MANUEL P. CORREA

Generation Dept. (Retired)—December 12, 1945

HENRY W. DOANE

Merchandise Dept.—September 10, 1945

EDWARD W. FAIVRE

Generation Dept. (Retired)—October 7, 1945

THOMAS N. HAAE

Distribution Dept.—March 13, 1945

CPL. HIROYUKI HIRAMOTO, A.U.S.

Merchandise Dept.—December 1, 1945
(killed in line of duty)

PFC. HARRY E. NOBRIGA, A.U.S.

Distribution Dept.—June 4, 1945
(killed in action in Philippines)

CHARLES K. REEVES

Construction Dept.—October 2, 1945

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The management officers, department heads and employees of the Company share in the expression of sorrow and tribute recorded in the following resolution adopted on May 31, 1945 by the Board of Directors:

Whereas, FRANK COOKE ATHERTON, director of The Hawaiian Electric Company, Limited from February 24, 1906 to March 18, 1943, its Treasurer from February 24, 1906 to February 27, 1917, and its Vice-President from February 27, 1917 to March 18, 1943, was on May 29, 1945 taken from us by death:

Resolved that we, the directors, express our profound sorrow upon the loss to the community of so distinguished a leader in business, in religion and philanthropy, in social cultural and economic progress, in education and in civic affairs;

That we record our recognition and appreciation of the wise guidance and constructive ability which he contributed as an officer and director of The Hawaiian Electric Company, Limited for more than thirty-seven years to its progress and development;

That we pay tribute to his high ideals, his sympathetic understanding, his warm generosity and his personal devotion which were an inspiration to all of us who were honored by his association and friendship; and

That these resolutions be entered upon our minutes, and that a copy thereof be given to his family with our sincere sympathy.

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The fourth and final year of the war brought to an end the emphasis of military requirements on the Company's operations. From before December 7, 1941, as our Army and Navy strengthened defenses in the Pacific and until V-J Day, the Company's employees, plants and facilities were in effect an integral part of the war organization. The contributions of stockholders, directors, officers, and employees, in money and effort were freely and gladly given, and all have pride in the results accomplished. Now that the war is over, the Company's full resources of men, money, and equipment return to the further upbuilding of public service in Hawaii.

Respectfully submitted,

L. A. Hicks

President

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TREASURER'S REPORT

Honolulu, Hawaii, March 28, 1946.

To the Directors and Stockholders of
The Hawaiian Electric Company, Limited:

Herewith are submitted the following statements of the financial condition of the Company:

- Balance Sheet, December 31, 1945;
- Statement of Income and Surplus for the year ended December 31, 1945;
- Certificate of Audit;
- Additions to Plant and Property Accounts for the year 1945;
- Comparison of Departmental Revenue, Expenses and Net Operating Income for the years 1945 and 1944;
- Comparison of Income and Surplus Accounts for the years 1945 and 1944;
- Comparison of Taxes for the years 1945 and 1944.

Respectfully submitted,

Gastell S. Jacobs

Treasurer

BALANCE SHEET
DECEMBER 31, 1945

ASSETS

FIXED ASSETS:			
Utility Plant in Service.....	\$ 27,722,518.17		
Utility Construction in Progress	1,391,796.33		
Total Utility Plant.....	\$ 29,114,314.50		
Non-Utility Plant:			
Ice and Cold Storage Depts.....	\$ 551,536.12	940,518.56	
Merchandise Dept.....	388,982.44		
Total Fixed Assets.....	\$ 30,054,833.06	\$ 21,429,556.57	
Less Reserve for Depreciation...		\$ 624,976.69	
CURRENT AND ACCRUED ASSETS:			
Cash on Hand and in Banks.....		\$ 4,286,790.88	
Post-War Excess Profits Tax Refund Bonds.....		95,346.03	
Notes and Accounts Receivable:			
Sales Agreements.....	789.23		
Electric Energy.....	1,051,872.01		
Ice and Cold Storage.....	19,529.06		
Merchandise Accounts.....	352,638.91		
Others.....	3,893.21		
	\$ 1,428,722.42		
Less Reserve for Bad and Doubtful Accounts.....		270,239.27	
Merchandise and Supplies:			
Utility Supplies.....	\$ 1,241,581.22	1,158,483.15	
Non-Utility Supplies.....	7,826.50		
Non-Utility Merchandise.....	798,977.93	2,140,225.70	
Jobs in Progress.....	91,840.05		
Prepaid Insurance, Rent, etc.....		47,944.33	
		7,728,190.09	
CONSIGNED MERCHANDISE (Contra).....			\$ 105,649.12
DEFERRED DEBITS:			
Unamortized Bond Discount and Expense.....		\$ 121,497.08	
Other Utility Work in Progress.....		68,404.21	
Undistributed Wiring Dept. Overhead.....		24,783.88	
Deferred Regulatory Commission Expense.....		56,217.64	
Other Deferred Debits.....		5,890.79	
CAPITAL STOCK EXPENSE (Contra).....			\$ 29,562,755.53

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BALANCE SHEET
DECEMBER 31, 1945

LIABILITIES

CAPITAL STOCK:		
Common Capital Stock, Outstanding:		
350,000 Shares, Par Value \$20.00 Each.....	\$ 7,000,000.00	
Preferred Capital Stock, 5% Cumulative Series:		
"B" Outstanding, 100,000 Shares, Par Value \$20.00 Each.....	2,000,000.00	
Preferred Capital Stock, 4 1/2% Cumulative Series:		
"C" Outstanding, 150,000 Shares, Par Value \$20.00 Each.....	3,000,000.00	\$ 12,000,000.00
LONG TERM DEBT:		
First Mortgage Bonds, 4% Series "A", Due 1958.....	\$ 200,000.00	
First Mortgage Bonds, 3 1/2% Series "D", Due 1964.....	5,000,000.00	
First Mortgage Bonds, 3 1/8% Series "E", Due 1970.....	5,000,000.00	10,200,000.00
CURRENT AND ACCRUED LIABILITIES:		
Accounts Payable.....	\$ 554,854.09	
Unamortized Premiums on Debt.....	80,765.96	
Customers' Deposits and Interest Thereon.....	1,894,756.87	
Accrued Taxes.....	112,645.84	
Interest Accrued on Long-Term Debt.....	63,812.74	
Accrued Payroll.....	75.00	2,706,910.50
Other Current and Accrued Liabilities.....		
CONSIGNED MERCHANDISE LIABILITY (Contra).....		\$ 105,649.12
DEFERRED CREDITS:		
Unamortized Premium on Debt.....	\$ 239,665.55	
Customers' Advances for Construction.....	23,716.60	
Deferred Customers' Deposits, etc.....	12,994.84	
Unearned Interest on Sales Agreements.....	56.15	
Employees' Retirement Plan Contributions.....	31,496.22	
Customers' Credit Balances.....	33,847.32	
Clearing Accounts.....	970.33	
Sundry Other Deferred Credits.....	4,444.88	347,191.89
RESERVES:		
Automobile Property Damage Reserve.....	\$ 29,957.63	
Injuries and Damages to Others Reserve.....	25,000.00	
Workmen's Compensation Liability Reserve.....	80,793.46	
Sales Agreement Reimbursement Reserve.....	13,468.88	
Inventory Reserve.....	101,342.89	
Tax Contingency Reserve.....	1,046,784.36	1,297,347.22
		457,622.57
		2,653,713.35
CONTRIBUTIONS IN AID OF CONSTRUCTION:		
EARNED SURPLUS		\$ 29,562,755.53

Note: At December 31, 1945 the Company had a liability, not included in this Balance Sheet, for power plant equipment on order and in process of manufacture, in the amount of approximately \$1,170,000.00.

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STATEMENT OF INCOME AND SURPLUS
FOR THE
YEAR ENDED DECEMBER 31, 1945

Utility Operating Revenues:		
Sales of Electric Energy	\$ 9,940,725.65	\$ 9,413,216.77
Other Electric Revenues	72,488.98	
Utility Operating Costs:		
Operating Expenses	\$ 5,027,022.81	
Depreciation	611,231.27	
Taxes	2,311,714.01	
Less Taxes Charged to Construction	\$ 7,949,968.09	7,955,220.59
Utility Operating Income	14,747.10	\$ 1,477,986.74
Other Income:		
Income from Non-Utility Departments:		
Ice	\$ 14,431.14	
Cold Storage	4,440.60	
Merchandise	58,677.63	
Total Non-Utility Income	\$ 77,549.37	
Income from Leased Properties	962.47	75,576.54
Interest Revenues	66.39	\$ 1,556,573.77
Gross Income		
Income Deductions:		
Interest on Long-Term Debt	\$ 355,909.74	
Amortization of Debt Expense	6,087.91	
Amortization of Premium on Debt, Credit	14,961.82	
Other Interest Charges	11,990.55	
Interest, Charged to Construction, Credit	22,464.31	
Donations	51,126.07	387,357.09
Other Miscellaneous Deductions	7,779.06	\$ 1,469,186.53
Net Income for the Year*		
Earned Surplus Account:		
Earned Surplus January 1, 1945	\$ 2,199,883.22	
Net Profit from Bond Financing	7,288.35	2,207,271.57
Miscellaneous Credits to Surplus	174.90	\$ 2,376,513.15
Gross Surplus		
Deductions from Surplus:		
Cash Dividends on Preferred Stock	\$ 100,000.00	\$22,500.00
Cash Dividends on Common Stock	700,000.00	
Cash Dividends on Common Stock	22,800.00	
War Contracts Renegotiation Settlement for 1942		\$ 2,558,713.15
Earned Surplus at End of Year		

* Note: Attention is directed to the footnote to Comparison of Income and Surplus Accounts for the years 1945 and 1944 on Page 24 hereof.

CERTIFICATE OF AUDIT

We have examined the accounts and records of THE HAWAIIAN ELECTRIC COMPANY, LIMITED, for the year ended December 31, 1945. The Accounting records and supporting data of the Company were examined or tested by us to the extent we considered appropriate in view of the internal system of accounting control regularly maintained.

In 1944 and in prior years including 1940, provisions were made to cover the additional tax liabilities that would have arisen in those years principally from the reduction of depreciation claimed in Federal tax returns on the straight line basis to the amounts of depreciation taken on the books on the sinking fund mortality basis. No provision for such contingent taxes was made in 1945, as substantial agreement has been reached with the Treasury Department as to the basis and rates of depreciation allowable for Federal returns, and the tax liability for 1945 has been calculated accordingly. The provisions for contingent taxes for the preceding three years were as follows: 1942, \$247,696.92; 1943, \$189,898.90; 1944, \$293,697.03. As of December 31, 1945, the Tax Contingency Reserve, in our opinion, based on the present stage of negotiations with the Treasury Department, is greatly in excess of probable tax deficiencies to be assessed for prior years.

The attached Balance Sheet and Statement of Income and Surplus with the foregoing comment, in our opinion, fairly present in accordance with accepted principles of accounting and the Uniform System of Accounts employed, the financial position of the Company as at December 31, 1945, and the results of operations for the year then ended.

HENRY DAVIS AUDIT COMPANY,
By J. J. DELPECH,
Certified Public Accountant.

Honolulu, T. H.,
March 5, 1946.

COMPARISON OF INCOME AND SURPLUS ACCOUNTS
FOR THE YEARS 1945 AND 1944

	1945	1944
Operating Revenues	\$ 12,922,194.15	\$ 11,134,679.34
Operating Revenue Deductions:		
Operating Expenses	\$ 7,421,082.04	\$ 7,323,823.65
Territorial and Federal Taxes	2,412,832.83	1,763,597.19
Depreciation	692,734.17	549,855.36
	\$ 10,466,649.04	\$ 9,637,276.20
Net Operating Income	\$ 1,555,545.11	\$ 1,497,403.14
Other Income	1,028.86	301.33
Gross Income	\$ 1,556,573.97	\$ 1,497,704.47
Income Deductions:		
Interest on Long-Term Debt	\$ 355,909.74	\$ 335,041.08
Amortization of Debt Discount and Expense	5,037.91	2,551.99
Amortization of Premium on Debt—Credit	14,981.93	11,633.16
Other Interest Charges	11,960.55	3,731.76
Interest Charged to Construction—Credit	29,494.31	10,060.07
Donations	51,126.07	27,197.06
Other Income Deductions	7,779.06	
	\$ 387,387.09	\$ 355,213.25
Total Income Deductions	\$ 1,169,186.88	\$ 1,241,325.77
Net Income before Provision for Contingent Taxes	\$ 387,387.09	\$ 256,691.00
Provision for Contingent Taxes*	1,169,186.88	947,833.33
Net Income Transferred to Surplus	\$ 2,199,833.22	\$ 2,061,542.11
Earned Surplus at Beginning of Year	7,268.35	313.15
Net Profit from Bond Financing	174.90	
Miscellaneous Debits to Surplus	\$ 3,376,533.35	\$ 3,005,654.01
Gross Surplus	\$ 1,000,000.00	\$ 100,000.00
Deductions from Surplus:		
Cash Dividends on Series B Preferred Stock	700,000.00	700,000.00
Cash Dividends on Common Stock	22,800.00	9,800.79
War Contracts Renegotiation Settlement for 1942		\$ 809,500.72
Miscellaneous Debits to Surplus	\$ 822,800.00	\$ 1,940,347.64
	\$ 2,555,713.35	\$ 250,548.55
Earned Surplus at End of Year—Unappropriated	\$ 2,553,713.35	\$ 2,199,833.22
Total	\$ 2,553,713.35	\$ 2,199,833.22

* Note: No provision for contingent taxes was made in 1945, as substantial agreement had been reached with the Treasury Department as to the basis and rates in the depreciation allowable for Federal tax returns. The provision in 1944, and tax liabilities that would have arisen in those years, were reduced to the amount of depreciation claimed on the books on the sinking fund mortality basis.

COMPARISON OF TAXES FOR THE YEARS
1945 AND 1944

	1945	1944
Federal:		
Normal Income and Surplus	\$ 476,673.38	\$ 457,739.17
Excess Profits	1,013,208.13	\$480,608.03
Capital Stock		30,000.00
Electric Energy	159,803.24	125,816.13
Total Federal	\$ 1,629,684.75	\$ 1,094,163.33
Territorial:		
Income	91,376.27	\$87,013.48
Public Utility Excise	450,526.82	397,199.82
Franchise Royalty	227,813.14	203,116.03
Real Property	4,740.98	4,777.92
Personal Property	11,459.49	17,157.54
Public Utility Commission Fees	11,978.48	10,999.02
Total Territorial	\$ 797,895.18	\$ 720,263.81
TOTAL	\$ 2,427,579.93	\$ 1,814,427.14
Less Taxes Charged to Construction	14,747.10	50,529.95
Provision for Contingent Taxes	\$ 2,412,832.83	\$ 1,763,897.19
Other Taxes:		
Federal and Territorial Unemployment	21,266.81	36,840.06
Federal Old Age Benefit	28,355.75	30,700.05
Territorial Automobile	7,394.67	7,415.40
Territorial Gross Income and Consumption	36,380.61	39,328.16
TOTAL TAXES	\$ 2,506,230.67	\$ 2,171,877.89

Note: After Adjustment for Contingent Taxes.

HEADS OF DEPARTMENTS

GENERAL OFFICE :

S. T. Carr.....Valuation Engineer
H. N. De Gaa.....Cashier
Geo. Hogg.....Internal Auditor
H. Heinrich.....Manager, General Construction Dept.
L. W. Lengaick.....Design Engineer
C. A. Lesser.....Personnel Manager
F. W. S. Mackenzie.....Chief Accountant
W. L. McCabe.....Manager, General Service Dept.
G. J. Schiffers.....Assistant to the President

ELECTRIC UTILITY DEPARTMENT :

H. P. Field.....Manager, Commercial Dept.
J. P. Michels.....Manager, Distribution Dept.
C. E. Nolan.....Manager, Promotion Dept.
Emil Olson.....Manager, Generation Dept.

NON-UTILITY DEPARTMENT :

P. H. Anderson.....Manager, Merchandise Dept.
R. C. Cooper.....Manager, Shop Repair Dept.
Charles Sey.....Manager, Cold Storage Dept.
H. K. Stern.....Manager, Ice Dept.
C. W. Weatherwax.....Manager, Wiring Dept.