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1955

**1956**  
**ANNUAL**  
**REPORT**

**THE HAWAIIAN ELECTRIC CO., LTD.**



**ON THE COVER**

At dusk, when electricity spreads its glow over Honolulu, this is the sight that greets a camera-man atop famous Diamond Head. Rising towers of new beach hotels mark the striking growth of Waikiki. Myriad of other lights, points to rapid spread of homes, new business and industry, and Pearl Harbor in distance sparkles with ceaseless activity of the military.



# THE HAWAIIAN ELECTRIC COMPANY, LTD.

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Concentration of population and military areas points up the location of Hawaiian Electric Company power plants and distribution system all over Oahu. Honolulu, capital city of the Territory of Hawaii, is also a county, which takes in the whole of Oahu, an island of 604 square miles and a population of 386,600. Electricity plays a vital part in supporting an enviable standard of living in Hawaii, developing island industry, attracting industries elsewhere to establish here, and building for the future of Hawaii's spectacular tourist trade. Hawaiian Electric is embarked on a multi-million-dollar program to assure ample power for Honolulu's abundant future.

## HIGHLIGHTS

### GENERATORS

A new 50,000 kw generator for the Honolulu power plant is 40% completed at the end of 1956 and estimated date of service is December 1957. Orders were placed during 1956 for a new 50,000 kw generator which is scheduled for operation at the Waiau plant by the middle of 1959.

### PERMANENT FINANCING

150,000 shares of the Company's 5½% series F (cumulative) preferred stock, with a par value of \$20 per share, were sold to underwriters on September 26, 1956. Common stockholders of record on October 1, 1956 were offered a prorata right to purchase 77,000 shares of common stock at \$34 per share.

### MERCHANDISING

Honolulu Electrical Products Co., Ltd., a wholly-owned merchandising subsidiary, was incorporated on January 3, 1956. Net earnings for the year were \$208,995, which is 207% above net earnings of the merchandising operation in 1955. Construction of a new 121,000 sq. ft. building to include warehouse, office and display rooms was started in December to replace present facilities.

### EARNINGS

Net earnings for 1956 were \$3,076,349 or \$3.12 per share on the 847,000 shares outstanding at the year end, as compared with \$2,642,096 or \$3.16 per share on the 700,000 shares outstanding at the end of 1955.

### DIVIDENDS

Quarterly dividends of 55¢ per share were paid in the first three quarters of the year and a dividend of 85¢ per share was paid in the last quarter, making the total for the year \$2.50 per share. A ten per cent stock dividend of 70,000 shares on the common stock of the Company was distributed to the shareholders of record on April 30, 1956.

### THE YEAR'S GROWTH

|               |                 |       |
|---------------|-----------------|-------|
| kwh sales     | 885,045,654 up  | 8.7%  |
| Peak load—kw  | 204,000 up      | 5.7%  |
| Net earnings  | \$ 3,076,349 up | 16.4% |
| Customers     | 99,134 up       | 4.4%  |
| Utility plant | \$77,703,675 up | 8.3%  |
| Payroll       | \$ 5,704,985 up | 5.7%  |
| Taxes         | \$ 4,423,432 up | 28.0% |

# LETTER FROM THE PRESIDENT

*To Shareholders, Employees and Friends*

It is a pleasure to report on the following pages achievements of 1956, for they surpass those of previous years in almost every respect.

Honolulu and its environs have grown steadily over the last decade, and that growth has been reflected in the progress of this Company. While it is always true that a utility develops with the area it serves and that the power we produce is in response to a demand, the role of the utility is not a passive one. It is vital for the utility to foretell coming events and keep a long step ahead of tomorrow—particularly in an area of high growth potential such as we have in Hawaii.

Sugar and pineapple were for years the mainstay of the Territory's economy and they continue to play a major role. Hawaii is one of the biggest sugar exporting areas of the world and is the world's largest producer of pineapple. Both of these industries are now diversifying and developing valuable by-products.

In addition to diversification in the sugar and pineapple industries, growth is occurring in Hawaii's garment industry, food processing, paper and wood products, furniture, specialty chemicals, jewelry and perfume.

Of Hawaii's current industries, tourism is the one anticipating the most spectacular development in the next few years. Since the close of the war in 1945 the annual number of visitors in Hawaii has increased more than five times over, and 1956 tourist expenditures amounted to approximately \$65,000,000. By 1965 it is expected that visitors will number

close to 300,000 during the year and that they will spend more than double this year's figure.

Not only are we experiencing growth in old industries, but several new industries have been established and many more are being planned.

In 1956 it was decided to make Pearl Harbor the control point for all United States military activities in the Pacific and Asia. The U. S. Pacific and Far East commands are to be merged here by the middle of 1957, which will bring another boost in the Territory's economy. Present estimates of military spending for 1957 in Hawaii forecast a 25 per cent increase to \$360,000,000.

Housing for the influx of military personnel and their families will bring additional activity in the field of construction which is already preoccupied with new civilian housing, commercial and industrial building, schools and highways.

Today Hawaii is poised on the threshold of a new era of growth and development which appears to be without limit, and the part which this Company must play is a dual one of leadership and preparation. We move forward into the new year with a high sense of responsibility to our community, our shareholders and our employees.

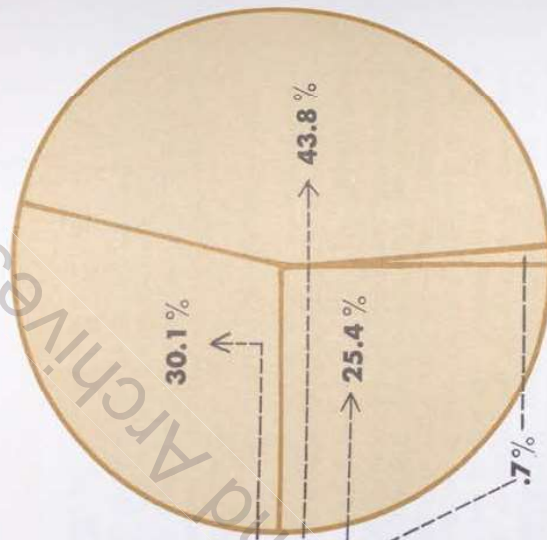


L. A. Hicks, President

## SOURCE AND DISPOSITION OF OUR REVENUE DOLLAR

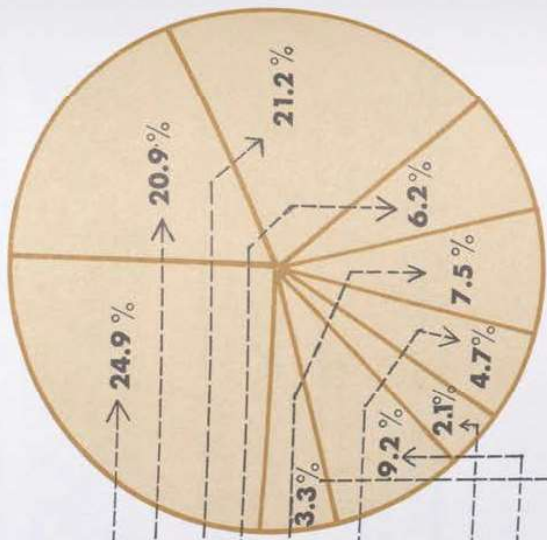
### SOURCE

|                             | 1956         |
|-----------------------------|--------------|
| Electric Sales to Customers |              |
| Small Power . . . . .       | \$ 6,348,740 |
| Residential . . . . .       | 9,256,691    |
| Large Power . . . . .       | 5,352,123    |
| Other . . . . .             | 157,112      |
|                             | \$21,114,666 |



### DISPOSITION

| Expenses for:  | 1956         |
|--|--------------|
| Wages and Salaries, Employee Benefits applicable to operations and maintenance | \$5,267,875  |
| Taxes, Federal and Local . . . . .   | 4,423,432    |
| Fuel Oil . . . . .   | 4,467,652    |
| Wear of Facilities (Depreciation) . . . . .                                    | 1,307,927    |
| Material and Services from Others . . . . .                                    | 1,579,550    |
| Interest on Borrowed Money and Miscellaneous Income Deductions . . . . .       | 991,881      |
| Dividends for Use of Money   |              |
| On Preferred Stock . . . . .   | 436,208      |
| On Common Stock . . . . .  | 1,951,950    |
| Earnings Reinvested in Business . . . . .                                      | 688,191      |
|  | \$21,114,666 |



# President's Report

## Reliable Power for Oahu

We enter 1957 with our facilities in excellent condition. Scheduled overhauls and maintenance of generating equipment were completed, and the maintenance and repair of our buildings and structures is current.

The Company has a generating capability, determined by test, of 280,000 kw. Because of our insular position, this Company does not have interconnections with any other electric utility. Therefore, in order to provide continuity of service, it is our policy to maintain sufficient reserve capacity to cover the loss of our largest operating unit at a time when any other unit is down for routine maintenance. Peak load for the year rose to 204,000 kw and it is estimated that by 1961 our peak load will reach 320,000 kw. Kilowatt hours generated in 1956 totaled 950,590,640 kwh, an increase of 8.3% over 1955.

Our power plants produced 522 kilowatts per barrel of fuel oil, or 12,417 BTU per net kwh, which is considered good by national standards. We anticipate a continued increase in efficiency as additional units are installed.

Investment in property and plant, including work in progress, was increased by \$5,971,338 during 1956 and at year end was \$77,703,675. 1956 expenditures were \$3,401,950 for generation, \$3,125,606 for distribution and \$166,349 for general. At present, 57% of our generating plant is less than nine years old.

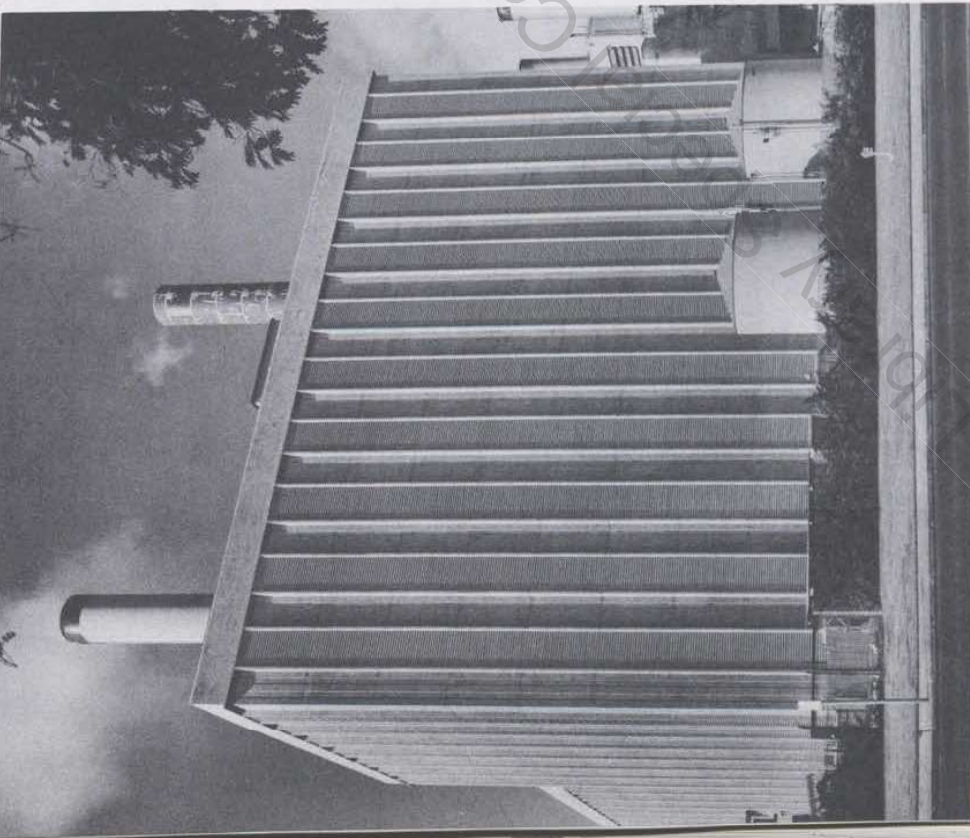
## Growing Power Requirements

Forecasting future power requirements and projecting and planning the growth of our system is a regular activity of the Company's engineers. Early in 1956 they presented a five-year construction program which called for capital expenditures in excess of \$53,000,000. This would mean an increase of almost 68% over today's utility plant.

Expansion of Hawaii's economy is in an obvious state of acceleration with no sign of leveling off for years to come, but in the face of a construction program calling for such an expenditure as this, it was decided to confirm anticipated growth with Stanford Research Institute. We retained them to make a study of expected growth in employment, population and housing on Oahu during the next five years and, on the basis of that study, Bechtel Corporation engineers were asked to translate expected growth into requirements for generation and transmission facilities.

The Bechtel recommendations substantiated those of our own engineers and steps were taken to get the expansion program under way. We will add 150,000 kw of new generating facilities to the Company's system within the next five years. The schedule is being stepped up so that the 50,000 kw unit now being installed at the Honolulu plant can be completed by December 1957 instead of the original date of October 1958. Also, we are going forward with the





New Honolulu plant, built to house twin 50,000-kw generators, got first in 1954, started receiving second in 1956 for completion in 1957. It's part of five-year \$53 million HECO expansion program.

addition of two 50,000 kw units at our Waiau plant instead of the one originally planned. The first of these two Waiau units is to be completed in 1959 and the second one in 1961.

Transmission voltage for a large part of our system will be changed from 44,000 volt to 138,000 volt. Engineering on these new lines has been started, and we are well along on acquiring the necessary land rights of way.

### Atomic Energy

We are closely following developments in the field of atomic energy. The U. S. Atomic Energy Commission has granted some of our officers and several of our engineers Security Clearance "L" to receive classified material on atomic energy. Within the next few years, advanced nuclear research undoubtedly will bring forth one or more types of reactors practical for use in the electric power field.

Benefits will be of great significance to continued growth of the electric utility industry in providing an alternate source of energy as reserves of conventional fuels decline. This will be especially valuable to us in the Islands because natural gas is not available and transportation cost of coal is prohibitive.

When nuclear-electric plants are developed they will be made an integral part of existing facilities and will not replace them.

### Funds for the Year's Expansion

The Company had planned to sell 250,000 shares of preferred stock of the par value of \$20 per share to obtain funds for construction during the year. This financing plan was modified because of market condition changes which occurred.

On September 26, the Company sold to underwriters 150,000 shares of Series F 5½% (Cumulative) Preferred Stock of a total par value of \$3,000,000, which carried accrued dividends from July 16, 1956.

On November 5 the Company completed the sale of 77,000 shares of common stock. Shareholders of common stock of record on October 1 were offered the right to subscribe at \$34 per share for one full share of common stock for each ten shares held and the privilege to oversubscribe (subject to allotment) at \$34 per share, not to exceed the number of shares subscribed for. This was the first time the subscription price in a common stock offering exceeded the par value of \$20 per share.

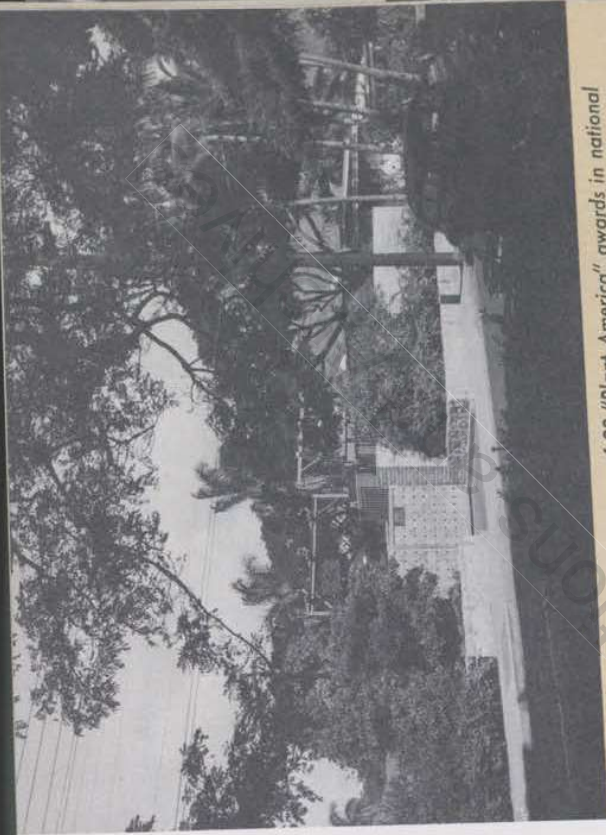
In this common stock offering, warrant holders subscribed for 74,003 shares of stock pursuant to the primary subscription privilege and oversubscribed for 22,640 shares. Inasmuch as only 1,342 shares remained for oversubscription, allotment was necessary.

In addition to the sale of common and preferred stock, a 10% common stock dividend, 70,000 shares of the par value of \$20 per share, was declared by the Board of Directors to holders of common stock of record on April 30, 1956. The issuance of the stock dividend resulted in the transfer of \$1,400,000 from earned surplus to the common stock capital account. The sale of 77,000 shares of common stock at \$34 per share increased this account an additional \$2,618,000.

Section 167 of the Internal Revenue Code of 1954 made it possible to defer payment of certain amounts of Federal income taxes through the use of a declining balance method of accelerated depreciation on all property constructed or purchased after December 31, 1953.

On February 15, 1956 the Public Utilities Commission approved a method of reporting such deferred payment which would not affect the earnings of the Company and would allow us to "normalize" Federal income taxes by a contra credit to a reserve for deferred taxes.

As a result of adopting accelerated depreciation, cash was made available for immediate use. These deferred taxes, amounting to \$139,152 in 1955 and \$185,822 in 1956, are payable at some future date.



This substation won one of 23 "Plant America" awards in national 1956 Industrial Landscaping Competition. Company properties are designed to fit in with natural beauty of Hawaiian surroundings.

We were also able to obtain \$1,824,525 in 1956 from such sources as depreciation, consumer contributions, sale of assets and deferred Federal income taxes.

The Company has applied to the Public Utilities Commission for authority to issue and sell \$7,000,000 of bonds during 1957. Depending on market conditions, it appears that this will constitute 1957 outside financing.

### New Customers

During 1956 there were 115 subdivisions in various stages of construction. Of these, 60 were completed. Seven subdivisions totaling 306 homesites received underground service and 53 subdivisions totaling 2,057 homesites received overhead service.

Sales of electricity to military installations increased 5.6% over 1955. The military load represents 15.7% of our kilowatt hour sales and 8.8% of our revenue as compared with 48% and 33%, respectively, at the end of World War II.

### Promotion of Sales

An important contributing factor to the increased use of electricity on Oahu has been the Company's continuing programs of promotion and advertising. Recognizing the growing emphasis on both new home construction and home remodeling, the program was divided into three major approaches: promoting "all-electric living" in new tracts and individual homes; encouraging home modernization; and stimulating the sale of electric appliances.

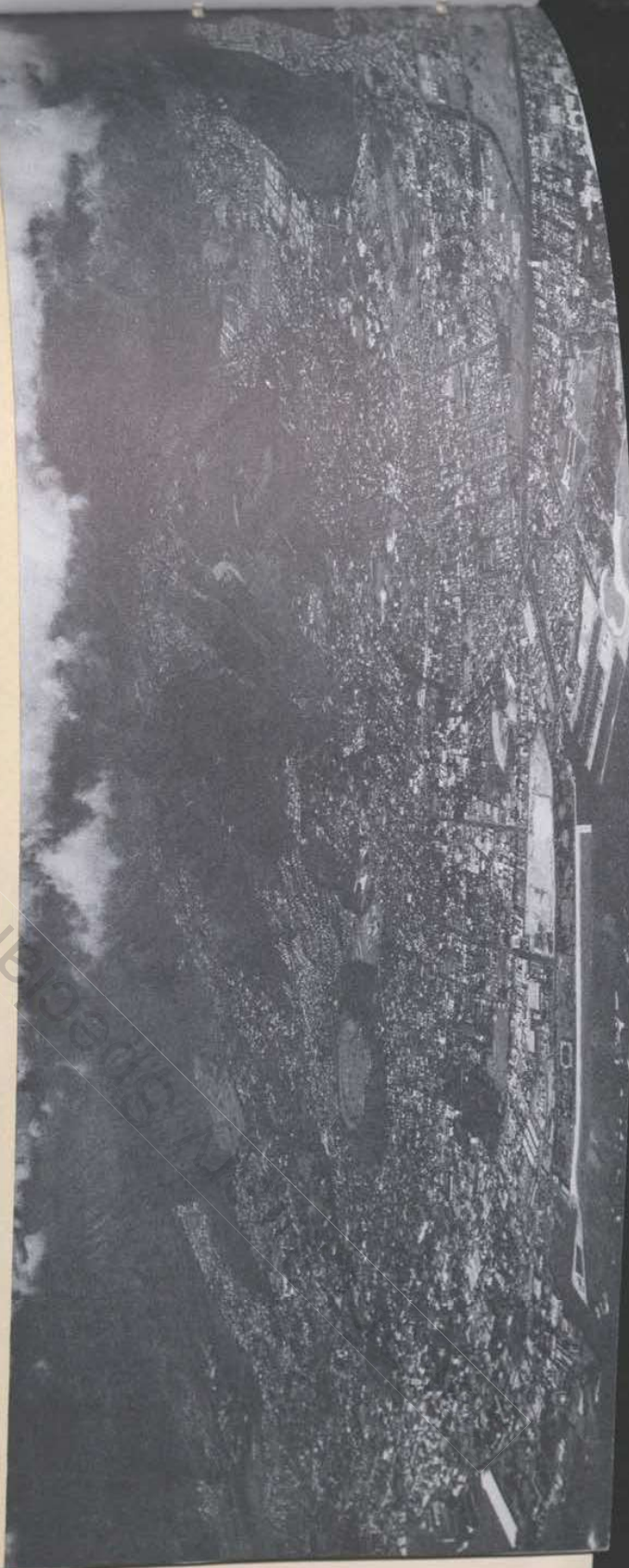
In the promotion of all-electric living, the Company assisted in the advertising of model homes equipped with

Approximately 3,900 new residential units were added to the Company's system as compared with about 3,500 in 1955. Total residential customers increased 5% to a total of 83,309. An even greater increase in new residential units is expected in 1957 because of the need for military and civilian homes.

About 90% of the new homes have electric ranges and 87% are all-electric units. The average annual kilowatt-hour usage by our residential customers is 3,983 kwh, which is 195 kwh above that of 1955 and well above the national average.

New commercial customers increased by 441 as compared with an increase of 416 in 1955. Sales of electricity to our commercial and industrial customers increased 7.4% over 1955. This increase is attributable in general to the increased business and military activity in our service area.

High-level view of mid-Pacific metropolis of Honolulu points directions for growth along shores, up slopes and over cloud-crowned ridge to other shores.



electric appliances, erected signs for the model home showings and provided home economists to demonstrate the electric equipment. Five new all electric homes were featured in The Honolulu Advertiser's "Parade of Homes," an Island and industry-wide promotion in which the Company provided coordination and advertising support.

Similarly, the Company participated in the home modernization promotion which carried the slogan "Live Better Electrically" and was sponsored by The Honolulu Star-Bulletin. This program was coordinated with the seasonal appliance promotions of the Electrical Living and Lighting Committee of the Pacific Coast Electrical Association (Hawaii).

In addition, the Company conducted individual advertising campaigns on all-electric homes, adequate wiring and lighting and electrical living.

Four national advertising awards were presented to the Company for the excellence of its advertising, bringing to a total of 34 the number of commendations received in the past ten years from the Public Utilities Advertising Association. The 1956 recognition included: a first award, in competition with all other utilities of our size in the nation, for the best single advertisement promoting the use of electricity; a first award for the best single advertisement on any subject; a second award for the complete advertising program; and a third award for the annual report to shareholders.

In keeping with its program of encouraging cultural as well as industrial growth in the community, the Company sponsored radio broadcasts of concerts by both the Royal Hawaiian Band and the Honolulu Symphony Orchestra and, for the ninth year, provided study awards in the Hawaiian Electric Music Scholarship Competition as encouragement to young people of Oahu.

#### **Our Home Economists**

To further the desire for electrical living, our home economists conduct classes in cooking, home lighting and laundry.

almost daily for all ages from grade school to grandmothers. Approximately 300 classes were scheduled during the past year with an attendance of 13,296. Audiences included the general public, school children from the grades on through the university, club groups, salesmen, dealers, local blind persons, Girl Scouts, Cubs and Brownies.

Home calls in which newly installed appliances are demonstrated average 300 per month. Demonstrations of new appliances were given at the Company for 870 women who work.

The recipe-testing program developed many new uses for local foods as well as interesting dishes for demonstration in the Home Service Auditorium. Approximately 45,000 recipe



Farm land of a few years ago is now modern home development of Waiatae-Kahala, foreground. Highway and tunnel construction is stimulating growth of new communities on both sides of the island.



Garden lighting sets off natural beauty of Island home surroundings, permits outdoor living after dark, adds liveable space to house.

pamphlets were distributed throughout the year—about 5,000 more than last year.

Kitchen-planning is another service of the home economists which continues to expand. They make plans for new and remodeled homes, churches, stores and home economics departments in schools.

#### **Residential Lighting Service**

The Company's lighting consultant prepares complete lighting layouts for new homes and gives assistance in home remodeling. Evening demonstrations of garden lighting were made throughout the year at private homes and, in a number of cases, garden lighting equipment was installed especially for a large party, thereby stimulating general interest in this artistic technique.

#### **Commercial Kitchens**

Commercial food service establishments are becoming more aware of modern techniques of preparing food. Electronic ranges, infra-red broilers, high-speed fryers, to name a few, together with heat control instruments and timing devices for speed and accuracy, make commercial cooking a technical field.

In addition to making service and inspection calls at restaurants, hotels, clubs and other commercial cooking kitchens, assistance is given dealers, distributors, architects, hospitals, schools and restaurants with modernization problems. Training courses for chefs are held at the Company and assistance is given in the Hotel and Restaurant Training School program.

### Modern Wiring

Activities of our commercial engineering group this year were concentrated to overcome the tendency of home builders to install wiring of insufficient capacity to carry the present and future electric load.

In February the Company inaugurated a promotional program with electrical contractors, architects and builders for the installation of 100-ampere capacity service in both new and existing homes, which proved highly successful.

A program requested by electrical contractors, to be known as "Certified Home Wiring" was developed and adopted by the Pacific Coast Electrical Association (Hawaii) in October. Among other things, this calls for wiring at the 100-ampere level, with circuits for all present-day appliances and additional circuit breaker capacity for future equipment installations.

### Special Customer Services

The continued growth of communities outside of Honolulu proper is calling for the establishment of additional

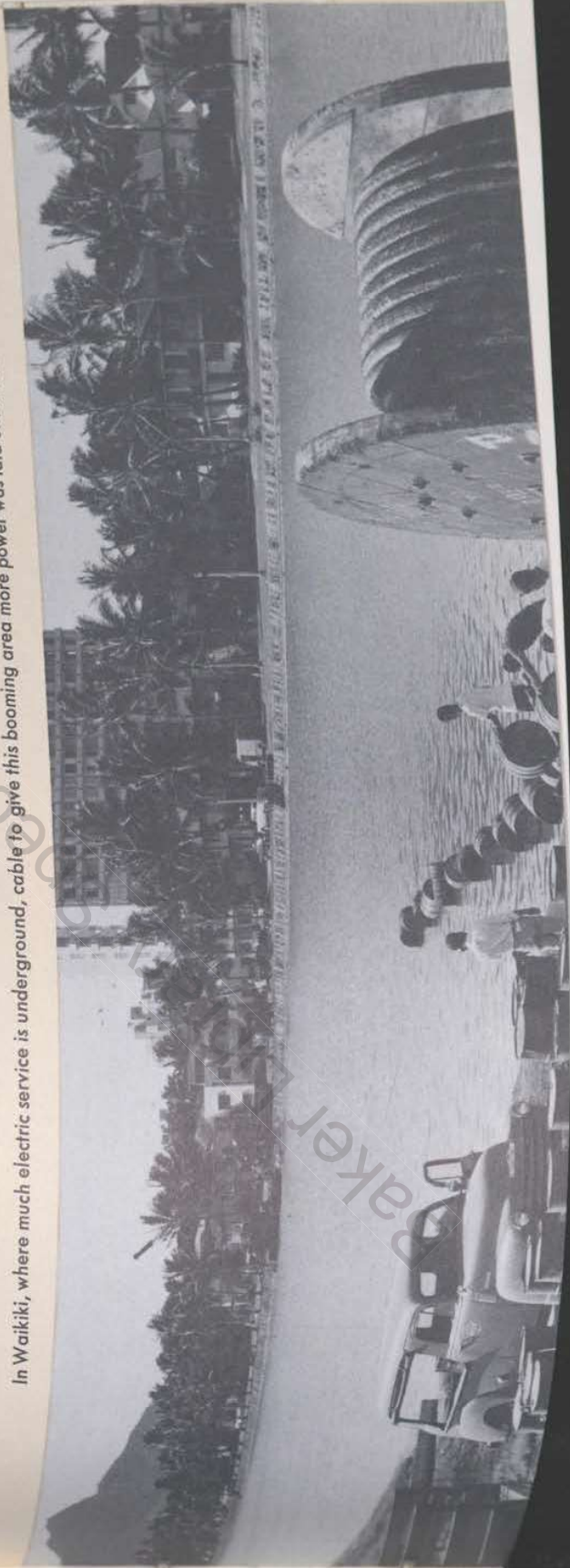
branch offices. With the opening of an office in Waipahu in February 1956, we now have three branch offices—the other two being in Wahiawa and Kailua. Two additional neighborhood offices are being planned for the near future, one in the Kalihi district and one in the proposed Ala Moana Shopping Center.

Our branch offices have proved very useful to our customers. Managers of these offices live in the community, join its activities, know the people and thus are in a good position to understand local problems and give better service.

### Service to Commercial and Industrial Accounts

We have electric sales representatives who make regular calls upon all commercial and industrial accounts. The larger operations normally receive at least one call a month for the purpose of giving advice on any electrical problems. Sometimes it is to the customer's advantage to install additional or different electrical equipment. Rates are regularly reviewed to be sure that customers are given advantage of the best possible schedule.

In Waikiki, where much electric service is underground, cable to give this booming area more power was laid under Ala Wai Canal.



## Shareholders and Investors

Ownership of the Company's common stock was diversified further this year with the addition of 572 shareholders, bringing the total to 4,461. The majority of the stock is held by individuals and institutions residing in the Territory of Hawaii. The largest single shareholder is an eleemosynary trust which owns less than 4% of the voting securities (common stock) of the Company.

The Company endeavors to keep the shareholders and investors in our debt securities fully informed on the Company. In addition to the annual report, interim reports on the preceding twelve months are mailed to shareholders with quarterly dividend checks. Investors are informed of developments and events of importance affecting the Company, and prospective investors and security analysts are supplied with financial and operating data.

The management and directors of the Company are most appreciative of the fine support and confidence evidenced by the shareholders.

## DISTRIBUTION OF COMMON STOCK

| Holder                     | Number of Shareholders | Shares Held |
|----------------------------|------------------------|-------------|
| Male                       | 1,009                  | 189,223     |
| Female                     | 1,576                  | 279,109     |
| Joint accounts             | 1,242                  | 130,070     |
| Fiduciaries—individuals    | 496                    | 153,329     |
| Institutions and all other | 138                    | 95,269      |
| Total                      | 4,461                  | 847,000     |

## Geographical

| Residence              | Number of Shareholders | Shares Held |
|------------------------|------------------------|-------------|
| Territory of Hawaii    | 3,834                  | 767,729     |
| Mainland United States | 622                    | 73,558      |
| Foreign                | 5                      | 5,713       |
| Total                  | 4,461                  | 847,000     |

## New Industry for Oahu

There is no foreseeable limit to the development and progress in full swing in Hawaii today, and our Industrial Development Section is playing an active and significant part in helping to realize the industrial potentials inherent for Oahu.

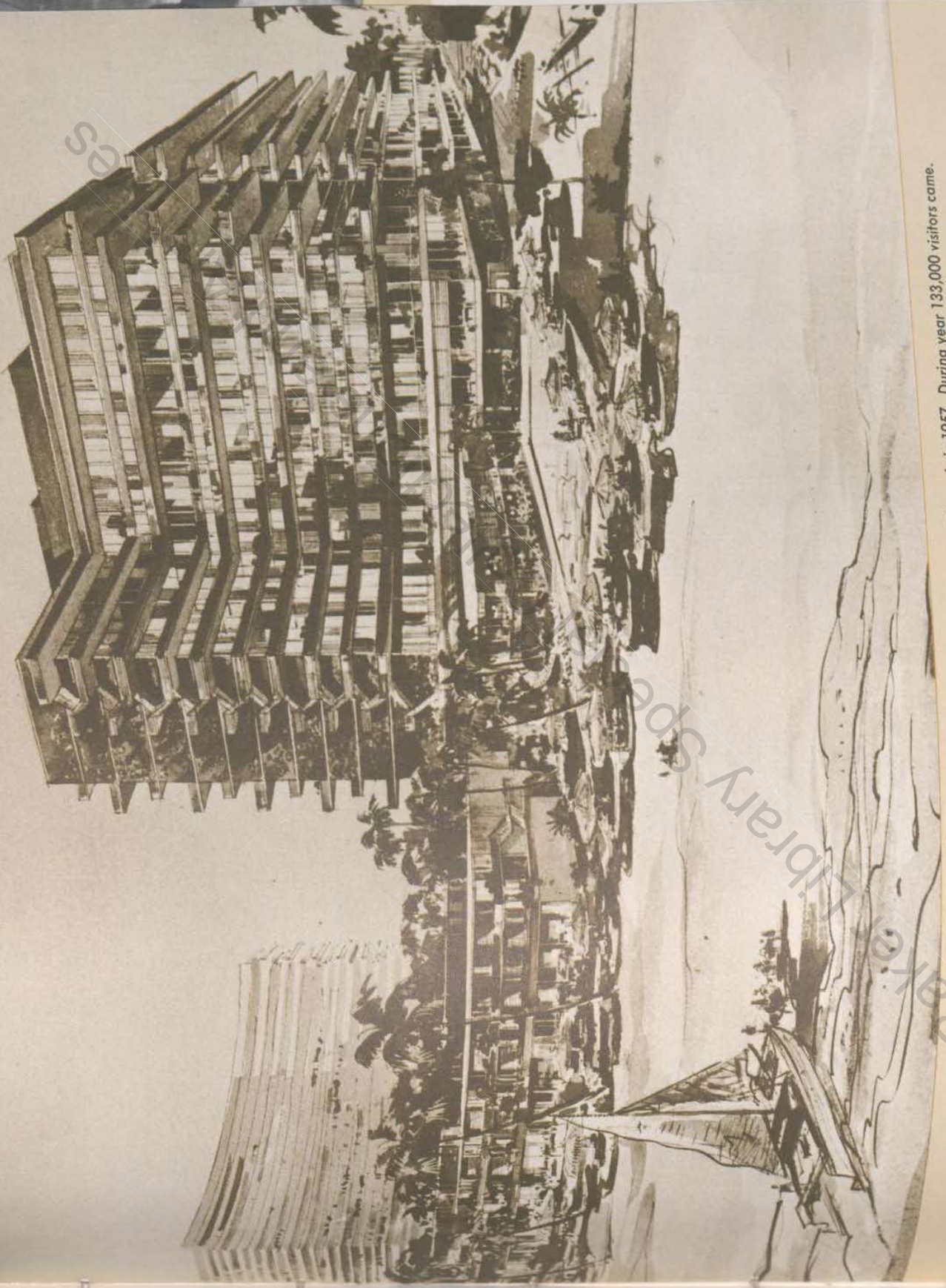
Working both independently and in cooperation with the Trade Committee of the Chamber of Commerce of Honolulu and the Advisory Committee of the Territorial Economic Planning and Coordination Authority, our Section is bringing Oahu to the attention of prospective industrial developers both locally and on the mainland.

Studies conducted for the Company by Stanford Research Institute indicated good possibilities for at least 37 new industries in Hawaii. With this study as a guide, our Industrial Development Section has been carrying out a great deal of promotional work on several of the industries named and extending genuine assistance to those interested in establishing here.

A tangible result of the Section's efforts during 1956 was the establishment of Kentron Hawaii, Ltd., which was incorporated in September. Kentron Hawaii, located on Oahu, will manufacture television picture tubes and supply a wide variety of electronic devices to the armed services in Hawaii. They also will do electronics maintenance and repair work for defense establishments here.

Hawaii has a predominately young population which is adept at learning new skills. More than half of the population is under 24 years of age and approximately 5,000 high school and university graduates are joining the work force each year. Our climate, conducive to year-around operations without the need for expensive heating or building, is another great attraction.

We look forward with confidence to rapid expansion of our industrial community in the years ahead.



New 14-story Kaiser hotel typifies Waikiki growth to meet 20% tourist rise in 1956, 20% again in 1957. During year 133,000 visitors came.



## Residential Electric Bills

There has been a steady increase in the average use of electricity by our residential customers throughout the history of the Company and there was a corresponding decrease in the cost per unit of electricity until 1953 when the Company received its first rate increase. The 1953 rate increase was necessary to offset increased costs of labor, material and fuel, and in 1955 a further increase in rates was necessary to maintain earnings at a satisfactory level.

In 1956 the Company's average revenue per kilowatt hour increased from 2.7 to 2.9 cents, reflecting a full year of the rate increase received in 1955 and two rises in the cost of fuel oil. The fuel oil clause in our rate schedules provides that an increase or decrease in fuel oil cost will be reflected in the customer's bill.

The accompanying price index chart shows that, even with the small increase in cost per kilowatt hour resulting from the new rates and higher cost of fuel oil, the consumer gets much more for his dollar spent on electric light and power than he can get for his dollar spent on other commodities. Since 1940 the cost of living has increased 91% and the cost of electricity has increased only 18%.

## Industrial Relations

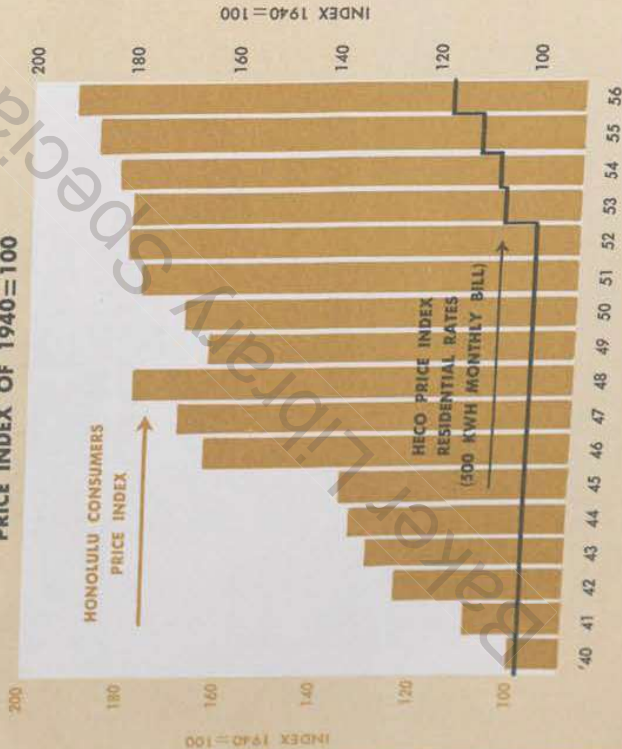
There were 1,127 employees at the end of the year—31 more than in 1955. Of these, 834, or 74%, are covered by a labor agreement with the International Brotherhood of Electrical Workers, Local 1260, AFL-CIO.

A new agreement with the union became effective September 1, 1956 and will continue in effect until February 28, 1959. Wage and salary increases to the Trades and Crafts unit and the Office and Clerical unit amounted to an average of 3.88%. On July 1, 1957 employees will receive another increase of the same amount and ten months later, on May 1, 1958, they will receive a third increase of the same amount. The new agreement also provides for a modified union shop.

### OUR RESIDENTIAL CUSTOMERS



### COMPARISON OF HONOLULU CONSUMER PRICES AND RESIDENTIAL RATES USING PRICE INDEX OF 1940=100



This is the first time a union shop provision has been included in this Company's labor agreements.

This long-term contract, including wage adjustments, is important to the employees individually and to the Company as a whole. Perhaps its greatest significance lies in the fact that it is further evidence of the spirit of cooperation which has existed for many years between the Union and the Company, working together in recognition of responsibilities to each other and to our community.

### Training and Development of Employees

Ten years ago the Company launched an indentured apprenticeship program to develop journeymen. The program calls for approximately four years of applied work and 576 hours of related training. Journeymen graduated from this program have proved to be excellent employees.

In 1956 forty-five apprentices were in the program. Six of them completed it and received journeyman ratings. The related study courses attended by the apprentices have been made available to all employees of the Company who have the technical knowledge for the subject. This year 138 employees other than apprentices attended the courses.

A thirty-hour series of group discussions on supervisory techniques and problems were attended by 102 employees with supervisory responsibilities. In addition, 35 middle management men are attending a series of twelve management training conferences conducted by Professor Henry C. Hawley of the University of Maine.

### Increase in Retirement Benefits

Effective September 1, 1956 the Company's retirement plan which is insured with the Prudential Insurance Company of America and covers all eligible employees was liberalized to provide that 50% of the Social Security Benefits shall be deducted from the final retirement amount instead of 100%. Early retirement at age 50 after 15 years of service was also included in the modified retirement plan.



Skilled journeyman instructs apprentices in power plant operation. On-the-job and classroom training helps prepare for growth ahead.

### PAYROLL AND BENEFITS

|                                 | 1956               | 1955               |
|---------------------------------|--------------------|--------------------|
| Employees at December 31.....   | 1,127              | 1,096              |
| Wages:                          |                    |                    |
| For productive work.....        | \$5,112,459        | \$4,924,310        |
| Non-productive wages.....       |                    |                    |
| Vacations.....                  | 224,798            | 212,997            |
| Holidays.....                   | 205,571            | 130,850            |
| Sickness.....                   | 135,397            | 110,132            |
| Excused absence, etc.....       | 26,760             | 20,283             |
|                                 | <u>\$ 592,526</u>  | <u>\$ 474,262</u>  |
| Total payroll.....              | \$5,704,985        | \$5,398,572        |
| Benefits paid by Company:       |                    |                    |
| Annuity, life insurance.....    | \$ 408,654         | \$ 275,556         |
| Medical aid dues.....           | 129,280            | 107,586            |
| Social Security insurance.....  | 87,940             | 85,697             |
| Unemployment insurance.....     | 32,742             | 28,901             |
| Total benefits.....             | <u>\$ 658,616</u>  | <u>\$ 497,740</u>  |
| Total payroll and benefits..... | <u>\$6,363,601</u> | <u>\$5,896,312</u> |

## FINANCIAL REVIEW

### Revenue

Revenue increased to \$21,112,116 in 1956, which is \$2,810,902, or 15.4% over 1955, and an increase over the 14.6% gain recorded in 1955.

### Operating Expenses

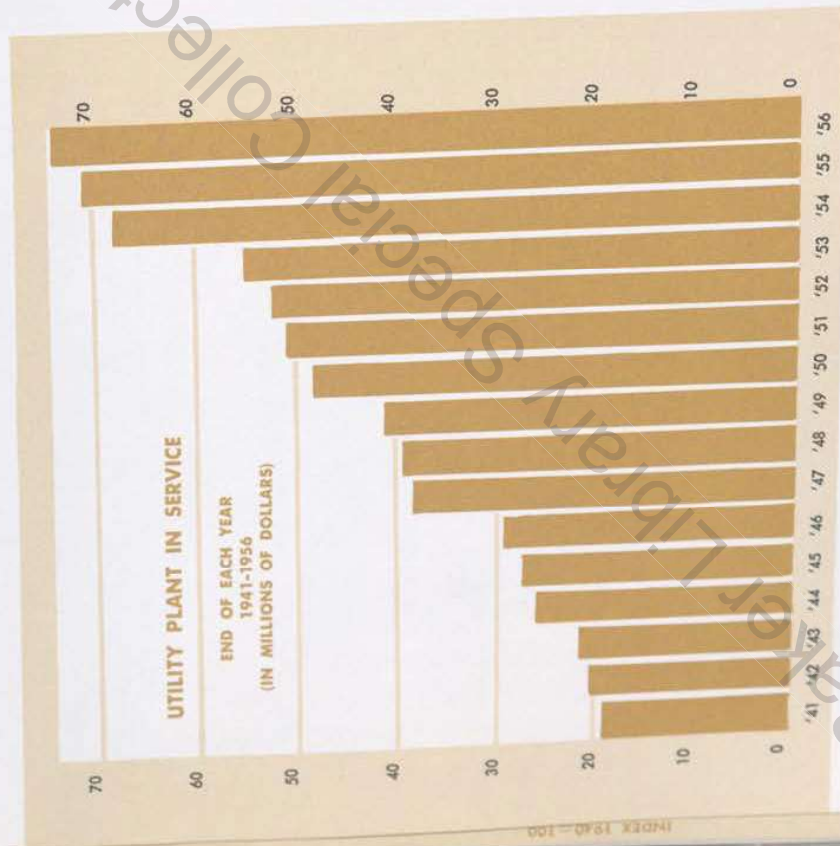
Operating expenses exclusive of taxes and depreciation totaled \$11,325,504, a 12.7% gain over 1955. Of this amount, \$4,467,652 represented fuel oil consumed in the production of electricity, \$1,884,638 the expense of maintaining the Company's facilities, and \$4,973,214 the expense of wages, employees' benefits, insurance, rents, services, etc. required to operate the Company.

### Earnings

Net income was \$3,076,349 as compared with \$2,642,096 for 1955, an increase of 16.4%. This rate of gain was above the 15.7% recorded in 1955. The earnings on common stock were \$3.12 per share on the 847,000 shares outstanding at December 31, 1956. Dividends at the rate of \$2.50 per share were paid on the common stock during the year. After payment of dividends the Company had remaining \$688,191 which was retained in the business to build additional electric production and distribution facilities. Interest on our First Mortgage Bonds was earned 4.2 times and dividends on our Preferred Stock were earned 6.8 times.

### Taxes

Taxes of all kinds continue to increase. Federal and Territorial taxes applying against the current year's operations totaled \$4,480,928. Of this amount, \$4,423,432 was a direct charge against income and \$57,496 was charged through plant and other accounts.



|                         | 1956               | 1955               |
|-------------------------|--------------------|--------------------|
| <i>Federal</i>          |                    |                    |
| Income .....            | \$2,338,336        | \$1,796,639        |
| Payroll and other ..... | 98,953             | 96,411             |
|                         | <u>\$2,437,289</u> | <u>\$1,893,050</u> |
| <i>Territorial</i>      |                    |                    |
| Income .....            | \$ 326,232         | \$ 256,727         |
| Public Utility .....    | 1,121,170          | 819,658            |
| Franchise Royalty ..... | 517,936            | 444,754            |
| Other .....             | 78,301             | 67,825             |
|                         | <u>\$2,043,639</u> | <u>\$1,588,964</u> |
|                         | <u>\$4,480,928</u> | <u>\$3,482,014</u> |

### Depreciation

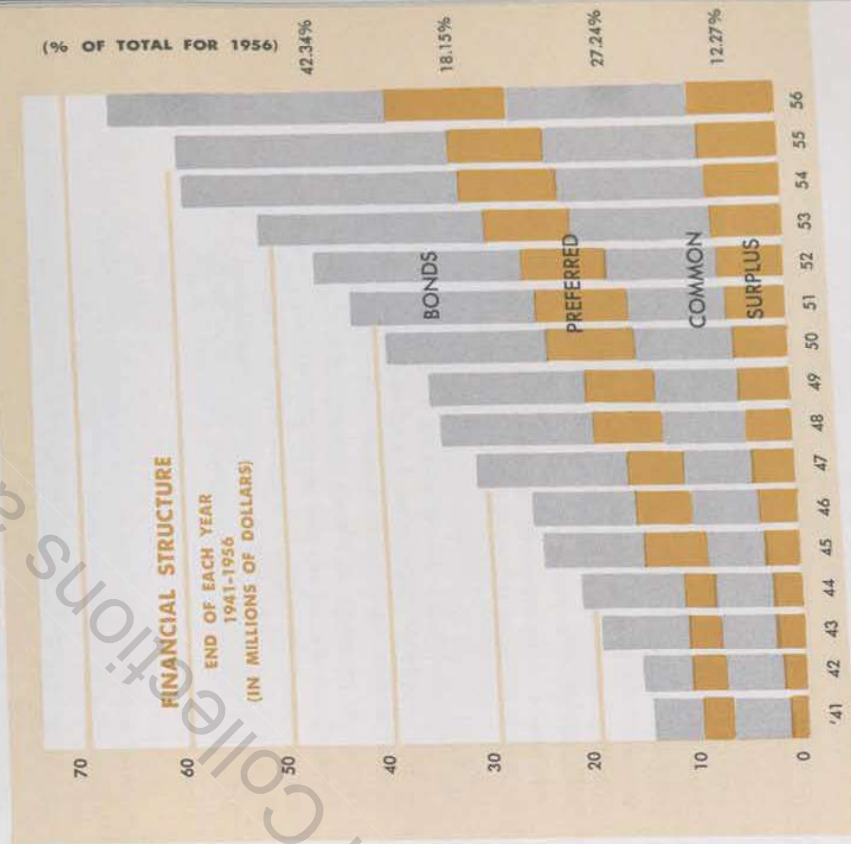
The Company continued to use the 4% sinking fund basis of depreciation using remaining life principles as ordered by the Public Utilities Commission of the Territory of Hawaii in May 1955. An appeal of the Commission's order is still pending before the Supreme Court of the Territory of Hawaii. We believe that the Company should be placed on a whole life rather than on a remaining life basis so that none of the depreciation reserve is amortized through reductions in annual depreciation expenses. The Company's position is supported by decisions of regulatory commissions and by state and Federal courts in similar cases.

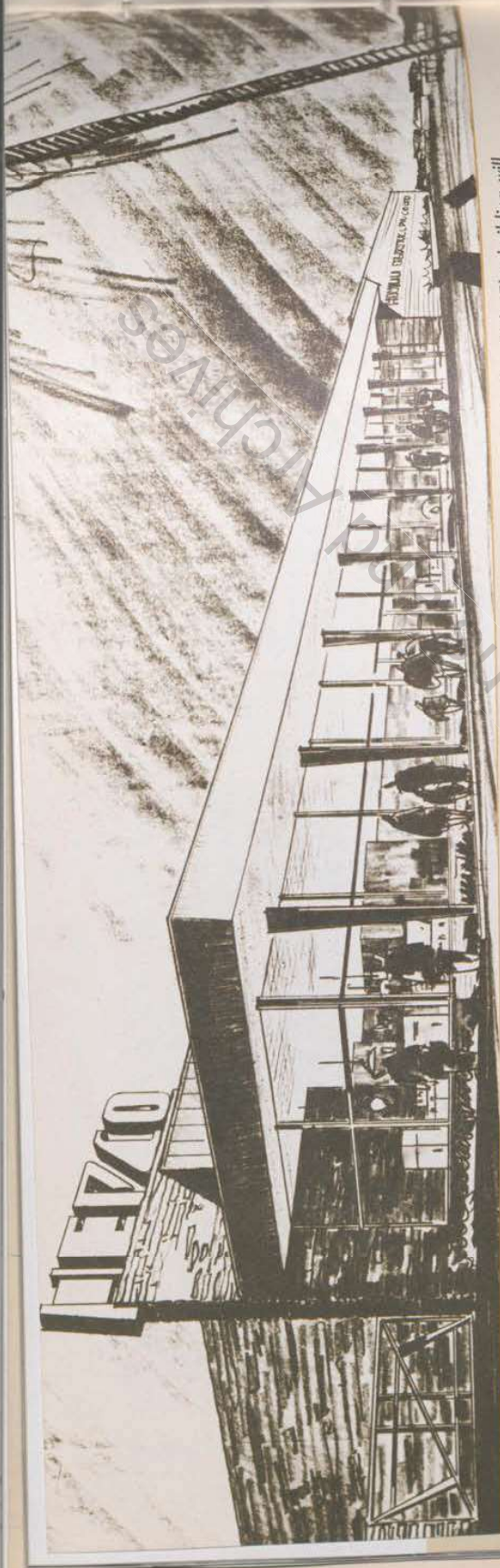
### Fuel Oil

The Company used 1,822,429 barrels of 600 SSF viscosity fuel oil in its generation of electricity during 1956. In February the cost of fuel oil was increased from \$2.32 to \$2.43 per barrel and in March it was increased an additional one cent to \$2.44. In November the Company was notified of a further increase to \$2.92 per barrel. With the unsettled conditions in the Middle East we expect that there will be further increases.

All fuel oil used by the Company is purchased from Standard Oil Company of California under a long-term contract and is transported from the West Coast of the United States in tankers. It is stored in oil tanks owned by the Company.

The rates of the Company are based on fuel oil cost of \$2.00 per barrel delivered in its service tanks. A fuel oil clause in all rates of the Company provides that an increase or decrease in fuel oil cost will be charged to the Company's customers.





This architect's drawing pictures the new home of our merchandise subsidiary, Honolulu Electrical Products Co., Ltd. The building will occupy 121,000 sq. ft. on a 5-acre piece of property bounded by streets located in a fast-developing business district of Honolulu.

Honolulu Electrical Products Company began operations as a wholly-owned subsidiary on January 3, 1956 and in its first year of operation realized a higher net profit on sales than had been reached in the past five years as a department of The Hawaiian Electric Company. Financial results are shown in detail later in this report. Sales volume in 1956 reflected the enormous expansion which is taking place in our area—expansion in civilian and military housing and in commercial and industrial building.

The new company had its beginnings in the early days of the parent company, with the establishment of a merchandise department to carry on the sale and repair of electrical equipment and appliances. Today it represents approximately 250 mainland manufacturers for everything connected with the electrical industry, from home appliances and supplies to central station generators for industry. The most important franchise is that of Westinghouse Electric Corporation, which has been held since 1905.

A branch office is maintained in Hilo, Hawaii and the company has franchise dealers on all of the larger Islands to handle major appliances. The company also has outlets for

housewares and supplies on all of the larger Islands. Sales on the Island of Hawaii have increased to such an extent that it became necessary in December 1956 to lease other property and enlarge the Hilo branch office.

Construction on the building pictured above began in December 1956 and it should be ready for occupancy by the fall of 1957. Including the equipment the company now owns, this represents an investment of \$1,500,000. In addition to beautifully-arranged air conditioned offices and display rooms, the plans call for a warehouse and a 200-seating capacity auditorium. The auditorium will be of great value to the sales department in providing ideal facilities for product demonstrations.

The company has 207 employees; 147, or 71%, are covered by a labor agreement with the International Brotherhood of Electrical Workers, AFL-CIO. The present contract, which was effective December 1, 1956, is for a two-year period without reopening.

With new facilities, stable labor relations and a fine line of products, prospects for our new subsidiary look bright.

**HONOLULU ELECTRICAL PRODUCTS CO., LTD.**



**DIRECTORS**  
 PAUL H. ANDERSON      GEORGE HOGG  
 LESLIE A. HICKS      RALPH B. JOHNSON

**OFFICERS**  
 PAUL H. ANDERSON.....President  
 DUNCAN S. LENNOX.....Vice-President and Treasurer  
 WILLIAM S. WILLIS.....Vice-President  
 DONALD I. SROAT.....Secretary  
 THOMAS E. LUDLAM, III.....Assistant Secretary  
 PAUL J. MCNEILL.....Assistant Treasurer

Paul H. Anderson, President, seated. Standing, from left, Paul J. McNeill, Assistant Treasurer, Duncan S. Lennox, Vice President and Treasurer, William S. Willis, Vice President, Donald I. Sroat, Secretary, and Thomas E. Ludlam, Assistant Secretary. Mr. Anderson had been a Vice President of The Hawaiian Electric Company for ten years when he resigned to become President of the subsidiary.

**DEPARTMENTAL ORGANIZATION**

|  |   |   |
|--|---|---|
| Lyndon W. Clifford<br>Manager, Retail Department                   | Thomas E. Ludlam, III<br>Sales Manager, Apparatus and Supply Department | Paul J. McNeill<br>Accountant                             |
| Walter R. B. Hall<br>Sales Manager, Wholesale Appliance Department | Reginald C. Cooper<br>Manager, Shop and Parts Department                | Richard C. Boyle<br>Supervisor, Advertising and Promotion |
| William S. Willis<br>Manager, Apparatus and Supply Department      | Donald I. Sroat<br>Manager, Credit Department                           | M. Joseph Dias<br>Manager, Hilo Branch Office             |

# THE HAWAIIAN ELECTRIC COMPANY, LTD.

## BOARD OF DIRECTORS



**J. B. ATHERTON**  
*President-Manager*  
Hawaiian Telephone Company



**T. A. COOKE**  
*Trustee of Estates*



**G. W. FISHER**  
*President*  
Bishop Trust Company, Limited



**L. A. HICKS**  
*President*  
The Hawaiian Electric Company, Limited



**GEORGE HOGG**  
*Vice-President, Treasurer*  
The Hawaiian Electric Company, Limited



**RALPH B. JOHNSON**  
*Administrative Vice-President*  
The Hawaiian Electric Company, Limited



**DUDLEY C. LEWIS**  
*Attorney-at-Law*  
Lewis, Buck & Saunders



**U. J. RAINALTER**  
*Retired President*  
Hawaiian Trust Company, Limited



**H. M. RICHARDS**  
*Assistant Secretary*  
Castle & Cooke, Limited



**P. E. SPALDING**  
*Chairman of the Board*  
The Hawaiian Electric Company, Limited



**A. E. STEADMAN**  
*President*  
Cooke Trust Company, Limited



**H. V. VON HOLT**  
*Estate Management*



**HEATON L. WRENN**  
*Attorney-at-Law*  
Anderson, Wrenn & Jenks

# THE HAWAIIAN ELECTRIC COMPANY, LTD.

## OFFICERS

PHILIP E. SPALDING.....Chairman of the Board  
 LESLIE A. HICKS.....President  
 RALPH B. JOHNSON.....Administrative Vice-President  
 GEORGE HOGG.....Vice-President and Treasurer  
 CARL J. SCHIFFERS.....Vice-President and Assistant Secretary  
 HARRY P. FIELD.....Vice-President

LEWIS W. LENGNICK.....Vice-President  
 CHARLES E. NOLAN.....Vice-President  
 RICHARD L. SUMMERS.....Secretary  
 EUGENE A. HELBUSH.....Assistant Secretary  
 JAMES H. WINK.....Assistant Treasurer  
 WILL B. JOHNSTONE, JR.....Assistant Treasurer

### PHYSICAL OPERATIONS

LEWIS W. LENGNICK, *Vice-President and Executive Engineer*

CARL H. WILLIAMS, *Manager, Engineering Department*  
 John A. Roling, Jr., *Principal Electrical Engineer*  
 Francis R. Montgomery, *Principal Mechanical Engineer*  
 Victor E. Larson, *Principal Structural Engineer*  
 Emil Olson, *Power Plant Construction Engineer*  
 John F. Richardson, Jr., *System Planning Engineer*  
 Frank Ah Kan Shim, *Principal Distribution Engineer*  
 James C. Zane, *Principal Cadastral Engineer*

JESSE R. ZEIGLER, *Manager, Generation Department*  
 W. Elmer Harpham, *Supt. Electrical Maintenance and Operation*  
 James H. Yamane, Sr., *Supt. Mechanical Operation*  
 Frank R. Hicks, *Supt. Mechanical Maintenance*

HERBERT HEINRICH, *Manager, Distribution Department*  
 Eric L. Schlemmer, *Supt. General Maintenance Division*  
 Frederick K. Barrels, *Supt. Overhead Division*  
 Allen K. Daniels, *Supt. Substation Division*  
 Erling V. Schoenberg, *Supt. Underground Division*

WILLIAM J. FROOME, *Manager, System Operation Department*  
 John R. Britton, *Supt. Operating Division*  
 James S. Bunnell, *Supt. Meter Division*

### GENERAL ACCOUNTING DEPARTMENT

GEORGE HOGG, *Vice-President and Treasurer*  
 James H. Wink, *Chief Accountant*  
 Will B. Johnstone, Jr., *Budget Director*  
 Eugene A. Helbush, *Internal Auditor*  
 Roy E. Jacobson, *Utility Collection Manager*  
 G. Murray Winsley, *Machine Methods Coordinator*  
 Hallett N. DeGaa, *Cashier*  
 Edward A. Murry, *Statistician and Claims Agent*

### COMMERCIAL DEPARTMENT

HARRY P. FIELD, *Vice-President and Commercial Manager*  
 David M. Moncrief, Jr., *Assistant Commercial Manager*  
 Willard Angell, *Supervisor, Application Division*  
 Rollin C. Bacher, *Industrial Development Section*  
 Charles D. Horton, *Supervisor, Meter Reading Division*  
 Harry J. Palmer, *Supervisor, Electric Sales Division*

### PROMOTIONAL DEPARTMENT

CHARLES E. NOLAN, *Vice-President and Promotional Manager*  
 Francis H. Williams, *Sales Counselor*  
 Bernard F. Young, *Commercial Electric Equipment Specialist*  
 Erma Meeks Boyen, *Home Service Director*

### INDUSTRIAL RELATIONS

CARL J. SCHIFFERS, *Vice-President and Industrial Relations Manager*  
 Curtin A. Leser, *Manager, Personnel Department*



# B A L A N C E S H E E T

December 31, 1956  
(With comparative figures for the previous year)

## ASSETS

|  | 1956         | 1955         | Increase or<br>Decrease |
|--|--------------|--------------|-------------------------|
| <b>UTILITY PLANT (Note 1):</b>   |              |              |                         |
| In service.....  | \$74,021,642 | \$71,224,120 | \$2,797,522             |
| Construction in progress.....  | 3,682,033    | 508,216      | 3,173,817               |
|  | \$77,703,675 | \$71,732,336 | \$5,971,339             |
| Less: reserves for depreciation (Note 2).....                                    | 12,564,948   | 11,689,437   | 875,511                 |
|  | \$65,138,727 | \$60,042,899 | \$5,095,828             |
| <b>INVESTMENTS:</b>  |              |              |                         |
| Capital stock of wholly-owned subsidiary, at cost (Note 3)....                   | 3,000,000    | 3,000,000    |                         |
| Real estate and improvements, at cost less accumulated depreciation.....         | 263,511      | 270,840      | (7,329)                 |
|  | \$ 3,263,511 | \$ 3,270,840 | \$ (7,329)              |
| <b>CURRENT ASSETS:</b>   |              |              |                         |
| Cash.....  | 1,419,643    | 485,549      | 934,094                 |
| Accounts receivable (less allowance of \$70,729 for uncollectible accounts)..... | 2,140,576    | 1,875,932    | 264,644                 |
| Supplies for construction and maintenance, at average cost.....                  | 1,452,905    | 1,335,796    | 117,109                 |
| Prepaid expenses.....  | 89,788       | 61,348       | 28,440                  |
|  | \$ 5,102,912 | \$ 3,758,625 | \$1,344,287             |
| <b>DEFERRED CHARGES:</b>   |              |              |                         |
| Unamortized debt expense.....  | 227,609      | 240,680      | (13,071)                |
| Unamortized rate hearing expense.....  | 110,826      | 166,239      | (55,413)                |
| Clearing accounts.....   | 118,001      | 76,262       | 41,739                  |
| Other.....   | 20,982       | 14,015       | 6,967                   |
|  | \$ 477,418   | \$ 497,196   | \$ (19,778)             |
|  | 684,872      | 499,667      | 185,205                 |
| <b>CAPITAL STOCK EXPENSE</b> .....   | \$74,667,440 | \$68,069,227 | \$6,598,213             |

# B A L A N C E S H E E T

## LIABILITIES

December 31, 1956  
(With comparative figures for the previous year)

|   | 1956         | 1955         | Increase or<br>Decrease |
|---|--------------|--------------|-------------------------|
| <b>CAPITALIZATION:</b>  |              |              |                         |
| Capital stock and surplus   |              |              |                         |
| Common stock (\$20 par value) —                                   |              |              |                         |
| Authorized, 1,100,000 shares                                      |              |              |                         |
| Outstanding, 847,000 shares                                       | \$16,940,000 | \$14,000,000 | \$2,940,000             |
| Premium on common stock   | 1,078,000    |              | 1,078,000               |
| Earnings reinvested in business (\$665,029 restricted—<br>Note 4) | 8,111,607    | 8,776,877    | (665,270)               |
|   | \$26,129,607 | \$22,776,877 | \$3,352,730             |
| Cumulative preferred stock (\$20 par value) —                     |              |              |                         |
| Authorized and outstanding, 600,000 shares                        |              |              |                         |
| Series B, 5%  | 2,000,000    | 2,000,000    |                         |
| Series C, 4 1/4%  | 3,000,000    | 3,000,000    |                         |
| Series D, 5%  | 1,000,000    | 1,000,000    |                         |
| Series E, 5%  | 3,000,000    | 3,000,000    |                         |
| Series F, 5 1/2%  | 3,000,000    | 3,000,000    | 3,000,000               |
|   | \$12,000,000 | \$9,000,000  | \$3,000,000             |
| Total capital stock and surplus                                   | \$38,129,607 | \$31,776,877 | \$6,352,730             |
| First mortgage bonds (Note 5)                                     | 28,000,000   | 28,000,000   |                         |
| Total capitalization  | \$66,129,607 | \$59,776,877 | \$6,352,730             |
| <b>CURRENT LIABILITIES:</b>                                       |              |              |                         |
| Accounts payable  | 598,473      | 424,548      | 173,925                 |
| Owing wholly-owned subsidiary                                     |              | 624,125      | (624,125)               |
| Accrued taxes   | 2,684,535    | 2,381,900    | 302,635                 |
| Accrued interest on long term debt                                | 261,396      | 261,396      |                         |
| Accrued payroll   | 225,065      | 195,555      | 29,510                  |
| Other   | 375,586      | 290,732      | 84,854                  |
|   | \$ 4,145,055 | \$ 4,178,256 | \$ (33,201)             |
| <b>DEFERRED CREDITS:</b>  |              |              |                         |
| Unamortized depreciation reserve adjustment                       | 1,848,000    | 1,936,000    | (88,000)                |
| Unamortized premium on debt                                       | 175,310      | 190,495      | (15,185)                |
| Other   | 67,164       | 76,343       | ( 9,179)                |
|   | \$ 2,090,474 | \$ 2,202,838 | \$ (112,364)            |
| <b>RESERVES:</b>  |              |              |                         |
| Future federal taxes on income (Note 6)                           | 324,974      | 139,152      | 185,822                 |
| Workmen's compensation liability                                  | 90,298       | 84,971       | 5,327                   |
|   | \$ 415,272   | \$ 224,123   | \$ 191,149              |
| CONTRIBUTIONS IN AID OF CONSTRUCTION                              | 1,887,032    | 1,687,133    | 199,899                 |
|   | \$74,667,440 | \$68,069,227 | \$6,598,213             |

## STATEMENT OF INCOME

For the Year Ended December 31, 1956

(With comparative figures for previous year)

|  | 1956                | 1955                | Increase or<br>Decrease |
|--|---------------------|---------------------|-------------------------|
| <b>OPERATING REVENUES:</b>                           |                     |                     |                         |
| Sales of electric energy.....                        | \$20,957,554        | \$18,177,387        | \$2,780,167             |
| Other electric revenues.....                         | 154,562             | 123,826             | 30,736                  |
|  | \$21,112,116        | \$18,301,213        | \$2,810,903             |
| <b>OPERATING COSTS:</b>                              |                     |                     |                         |
| Operating expenses.....                              | 11,325,504          | 10,045,871          | 1,279,633               |
| Depreciation (Note 2).....                           | 1,395,927           | 1,314,659           | 81,268                  |
| Taxes (Note 6).....                                  | 4,455,194           | 3,459,553           | 995,641                 |
| Taxes charged to construction.....                   | (31,762)            | (3,489)             | (28,273)                |
| Amortization of depreciation reserve adjustment..... | (88,000)            | (88,000)            |                         |
|  | \$17,056,863        | \$14,728,874        | \$2,327,989             |
| <b>OPERATING INCOME</b> .....                        | <b>\$ 4,055,253</b> | <b>\$ 3,572,339</b> | <b>\$ 482,914</b>       |
| <b>OTHER INCOME:</b>                                 |                     |                     |                         |
| Miscellaneous income.....                            | 2,551               | 4,923               | (2,372)                 |
| Merchandise department net income (Note 3).....      | 67,982              | 67,982              | (67,982)                |
|  | \$ 2,551            | \$ 72,905           | \$ (70,354)             |
| <b>GROSS INCOME</b> .....                            | <b>\$ 4,057,804</b> | <b>\$ 3,645,244</b> | <b>\$ 412,560</b>       |
| <b>INCOME DEDUCTIONS:</b>                            |                     |                     |                         |
| Interest on long-term debt.....                      | 933,250             | 933,250             |                         |
| Amortization of premium on debt.....                 | (15,185)            | (15,185)            |                         |
| Other interest charges.....                          | 13,071              | 13,071              |                         |
| Interest charged to construction.....                | 58,631              | 11,189              | 47,442                  |
| Donations.....                                       | (63,523)            | (6,379)             | (57,144)                |
| Miscellaneous other deductions.....                  | 48,889              | 42,553              | 6,336                   |
|  | 6,322               | 24,649              | (18,327)                |
|  | \$ 981,455          | \$ 1,003,148        | \$ (21,693)             |
| <b>NET INCOME FOR THE YEAR</b> .....                 | <b>\$ 3,076,349</b> | <b>\$ 2,642,096</b> | <b>\$ 434,253</b>       |

## STATEMENT OF EARNINGS REINVESTED IN BUSINESS

For the Year Ended December 31, 1956

|   |                     |
|---|---------------------|
| BALANCE, JANUARY 1, 1956.....   | \$ 87,607           |
| ((\$705,245 restricted).....)   |                     |
| <b>ADD:</b>   |                     |
| Net income for the year.....  | \$3,076,349         |
| Transfer from contributions in aid of construction (contributions held over 23 years).....  | 3,045               |
| Gain from disposition of real property.....   | 15,101              |
| Sundry (net of charges of \$1,060).....   | 28,393              |
|   | \$11,895,700        |
| <b>DEDUCT:</b>  |                     |
| Cash dividends.....   | \$ 436,208*         |
| Preferred stock.....  |                     |
| Common stock (\$.55 a quarter on common stock outstanding plus \$.30 extra in December).....  | 1,951,950           |
|   | \$2,388,158         |
| Amount transferred to common capital stock in respect of stock dividend (70,000 shares), as approved by the Public Utilities Commission of the Territory of Hawaii..... | 1,400,000           |
|   | \$ 3,788,158        |
| <b>BALANCE, DECEMBER 31, 1956</b> .....   | <b>\$ 8,111,000</b> |
| (\$665,029 restricted—Note 4).....  |                     |

\* The annual dividend requirement on the preferred stock outstanding at December 31, 1956, will be \$592,500 in 1957.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1—UTILITY PLANT

Plant constructed by the company is stated at cost of construction, which includes indirect costs and, in certain instances, a mark-on allowed the company's subsidiary on materials and equipment obtained through the subsidiary. During the year, the company marked materials aggregating \$3,418,045 from its wholly-owned subsidiary; the subsidiary's mark-on on these purchases amounted to \$65,111 less related gross income taxes of \$85,451. The major portion of the inter-company purchases related to capital additions. The actual amount of inter-company profit on such materials is not ascertainable due to the inability to determine the amount of applicable expenses of the subsidiary but, after deducting such expenses, it is not considered to be material in relation to total utility plant expenditures.

### NOTE 2—RESERVE FOR DEPRECIATION

Pursuant to an order of the Public Utilities Commission of the Territory of Hawaii, the company, since January 1, 1955, has computed depreciation on a four per cent, sinking-fund, group method utilizing the remaining-life principle. The company has appealed the Commission's order in so far as it relates to the remaining-life principle to the Supreme Court of the Territory of Hawaii. If the company's position is sustained by the court, the provision for depreciation would be increased by approximately \$100,000 a year in 1955 and 1956.

In reporting for federal taxes on income, the company has taken deductions for depreciation on the straight-line method, at rates accepted by the Treasury Department, except that deductions for depreciation on new additions since December 31, 1954, have been computed under the accelerated depreciation provisions of the 1954 Internal Revenue Code. The deductions for depreciation taken for federal income tax purposes exceeded the amounts provided by the accounts by \$1,121,770 in 1954 and \$1,040,000 in 1955, which amounts included approximately \$350,000 and \$280,000 of accelerated depreciation.

### NOTE 3—INVESTMENT IN CAPITAL STOCK OF WHOLLY-OWNED SUBSIDIARY

In December 1955, the company formed a subsidiary corporation, Honolulu Electrical Products Co., Ltd., to assume the merchandising operations formerly performed by the merchandising division of the company. As of December 31, 1956, the company's equity in the net assets of the subsidiary amounted to \$3,208,995. Net income of the subsidiary for 1956 amounted to \$208,995. The accounts of the company and the subsidiary have not been consolidated on the accompanying financial statements.

### NOTE 4—EARNINGS REINVESTED IN BUSINESS

The restriction on earnings reinvested in business was created in January 1953, through a credit to the historical cost of the investment in the carrying value of the utility plant to agree with the amount of dividends paid by the Public Utilities Commission. The restricted reinvested earnings are reduced as the related assets are retired from service, and accordingly the amount so restricted as to payment of dividends had been reduced to \$665,029 as of December 31, 1956.

### NOTE 5—FIRST MORTGAGE BONDS

The following series of first mortgage bonds were outstanding as of December 31, 1956:

|                            |                     |
|----------------------------|---------------------|
| Series D, 3 1/2%, due 1964 | \$ 5,000,000        |
| Series E, 3 1/2%, due 1970 | 5,000,000           |
| Series F, 3 1/2%, due 1977 | 5,000,000           |
| Series G, 3 1/2%, due 1981 | 3,000,000           |
| Series H, 3 1/2%, due 1982 | 4,000,000           |
| Series I, 3 1/2%, due 1984 | 6,000,000           |
|                            | <u>\$28,000,000</u> |

These bonds are secured by a trust indenture which by its terms purports to be a lien on all of the property of the company. Counsel for the company have expressed no opinion as to the validity of the lien on property other than the fixed property and the stock of the subsidiary pledged under the indenture. The company proposes to issue an additional \$7,000,000 of first mortgage bonds early in 1957.

### NOTE 6—RESERVE FOR FUTURE FEDERAL TAXES ON INCOME

Permission has been granted by the Public Utilities Commission of the Territory of Hawaii to charge to income amounts equal to tax reductions arising from accelerated depreciation deductions under the provisions of the Internal Revenue Code of 1954. Accordingly, income was charged to a reserve for "future federal taxes on income" was credited with \$185,822 for 1956 and \$159,152 for 1955.

### NOTE 7—COMMITMENTS AND CONTINGENT LIABILITIES

Pension costs for past services under the company's supplementary pension plan which had not been funded or otherwise provided for at December 31, 1956, are estimated to amount to approximately \$1,270,000. At December 31, 1956, the company had purchase commitments approximating \$4,350,000 in connection with its plant expansion program.

## AUDITOR'S CERTIFICATE

PEAT MARWICK MITCHELL & CO.  
CERTIFIED PUBLIC ACCOUNTANTS  
(INCORPORATED IN CALIFORNIA, TARRANT & DUNN)

TRINITY TRUST BUILDING  
P. O. BOX 3256  
HONOLULU 11, HAWAII

February 1, 1957

The Stockholders of  
The Hawaiian Electric Company, Limited  
Honolulu, Hawaii

We have examined the balance sheets of The Hawaiian Electric Company, Limited, and its wholly-owned subsidiary, Honolulu Electrical Products Co., Ltd., as of December 31, 1956, and the related statements of income and earnings reinvested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to final adjudication of the appeal referred to in Note 2 to the financial statements, the accompanying balance sheets and statements of income and earnings reinvested in business present fairly the financial position of The Hawaiian Electric Company, Limited, and its wholly-owned subsidiary, Honolulu Electrical Products Co., Ltd., as of December 31, 1956, and the results of their respective operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co.



**TEN YEARS OF GROWTH:**  
**Statistics for decade**  
**from 1947 to 1956**  
**show extent and rapidity**  
**of Company's progress.**

**FINANCIAL STATISTICS**

|  | 1956                | 1955                | 1954                |
|--|---------------------|---------------------|---------------------|
| Utility Plant in Service.....          | \$74,021,642        | \$71,224,120        | \$68,447,623        |
| Construction Work in Progress.....     | 3,682,033           | 508,216             | 193,132             |
| <b>TOTAL UTILITY PLANT.....</b>        | <b>\$77,703,675</b> | <b>\$71,732,336</b> | <b>\$68,640,755</b> |
| Depreciation Reserve.....              | 12,564,948          | 11,689,437          | 11,016,309          |
| Capital Structure (Dec. 31)            |                     |                     |                     |
| Bonds.....                             | 28,000,000          | 28,000,000          | 28,000,000          |
| Preferred Stock @ \$20.00 Par.....     | 12,000,000          | 9,000,000           | 9,000,000           |
| Common Stock @ \$20.00 Par.....        | 16,940,000          | 14,000,000          | 14,000,000          |
| Premiums on Capital Stock.....         | 1,078,000           |                     |                     |
| Surplus.....                           | 8,111,607           | 8,776,877           | 8,284,495           |
| <b>TOTAL.....</b>                      | <b>\$66,129,607</b> | <b>\$59,776,877</b> | <b>\$59,284,495</b> |
| Bond Interest.....                     | 933,250             | 933,250             | 877,475             |
| Preferred Dividends.....               | 436,208             | 427,500             | 427,500             |
| Common Dividends.....                  | 1,951,950           | 1,750,000           | 1,395,000           |
| Earned per Share Common*               | 3.12                | 3.16                | 2.65                |
| Common Dividend Rate.....              | 2.50                | 2.50                | 2.00                |
| Common Equity per Share.....           | 30.85               | 32.54               | 31.83               |
| <b>OPERATING STATISTICS</b>            |                     |                     |                     |
| Electric Energy Sales.....             | \$20,957,554        | \$18,177,388        | \$15,861,032        |
| Other Utility Revenue.....             | 154,561             | 123,825             | 113,238             |
| <b>TOTAL UTILITY REVENUE.....</b>      | <b>\$21,112,115</b> | <b>\$18,301,213</b> | <b>\$15,974,270</b> |
| Operating Expenses:                    |                     |                     |                     |
| Fuel and Purchased Power.....          | 4,483,059           | 3,686,714           | 3,507,805           |
| Other Operating.....                   | 4,957,808           | 4,420,757           | 4,289,780           |
| Maintenance.....                       | 1,884,638           | 1,938,400           | 1,662,111           |
| Depreciation.....                      | 1,395,927           | 1,314,639           | 1,316,300           |
| Federal Taxes†.....                    | 2,423,619           | 1,881,301           | 1,627,715           |
| Territorial Taxes†.....                | 2,031,574           | 1,578,252           | 1,390,380           |
| Taxes to Construction.....             | (31,762)            | ( 3,189)            | (161,539)           |
| Depreciation Reserve Amortization..... | (88,000)            | (88,000)            | ( 88,000)           |
| Utility Net Expense.....               | \$17,056,863        | \$14,728,874        | \$13,164,964        |
| Utility Operating Income.....          | 4,055,252           | 3,572,339           | 2,809,306           |
| Other Income.....                      | 2,551               | 72,905              | 83,940              |
| Income Deductions.....                 | 981,454             | 1,003,148           | 609,459             |
| <b>CORPORATE NET INCOME.....</b>       | <b>\$ 3,076,349</b> | <b>\$ 2,642,096</b> | <b>\$ 2,283,787</b> |
| <b>MISCELLANEOUS STATISTICS</b>        |                     |                     |                     |
| Kilowatt Hour Sales.....               | 885,045,654         | 814,090,642         | 729,582,908         |
| KWH Annual Residential Use.....        | 3,983               | 3,788               | 3,501               |
| Cents per Residential KWH.....         | 2.85¢               | 2.71¢               | 2.65¢               |
| Customers (Dec. 31).....               | 99,134              | 94,915              | 90,576              |
| Residential Customers (Dec. 31).....   | 83,309              | 79,348              | 75,274              |
| Installed KW Capability (Dec. 31)..... | 280,000             | 280,000‡            | 275,000             |
| Peak KW Demand.....                    | 204,000             | 193,000             | 172,200             |

\* On Interest

|           | 1953         | 1952         | 1951         | 1950         | 1949         | 1948         | 1947         |
|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 7,623     | \$53,666,675 | \$53,005,275 | \$51,228,431 | \$48,667,329 | \$41,490,618 | \$39,791,280 | \$37,692,603 |
| 23,132    | 4,732,984    | 453,526      | 262,053      | 330,508      | 3,104,512    | 972,525      | 294,713      |
| 40,735    | \$60,499,659 | \$53,458,801 | \$51,490,484 | \$48,997,837 | \$44,595,131 | \$40,763,805 | \$37,987,316 |
| 116,309   | 10,558,766   | 12,959,458   | 12,026,744   | 11,209,255   | 10,393,922   | 9,720,256    | 9,029,132    |
| 00,000    | 22,000,000   | 18,000,000   | 18,000,000   | 15,200,000   | 15,200,000   | 15,200,000   | 15,200,000   |
| 00,000    | 9,000,000    | 9,000,000    | 9,000,000    | 9,000,000    | 6,000,000    | 6,000,000    | 5,000,000    |
| 000,000   | 11,000,000   | 10,000,000   | 10,000,000   | 10,000,000   | 9,000,000    | 9,000,000    | 7,000,000    |
| 284,495   | 7,703,892    | 5,501,570    | 5,355,015    | 5,199,720    | 4,847,206    | 4,575,720    | 4,153,678    |
| 284,495   | \$51,703,892 | \$47,501,570 | \$42,355,015 | \$39,399,720 | \$35,047,206 | \$34,775,720 | \$31,353,678 |
| 877,475   | 726,250      | 609,583      | 523,667      | 489,250      | 489,250      | 489,250      | 413,833      |
| 427,500   | 427,500      | 427,500      | 427,500      | 359,268      | 277,500      | 235,835      | 227,500      |
| 325,000   | 1,150,000    | 1,025,000    | 1,000,000    | 1,225,000    | 900,000      | 800,000      | 875,000      |
| 2.65      | 2.13         | 2.30         | 3.06         | 3.06         | 2.57         | 2.46         | 4.39         |
| 2.00      | 2.00         | 2.00         | 2.50         | 2.50         | 2.00         | 2.00         | 2.50         |
| 31.85     | 30.00        | 30.71        | 30.40        | 30.40        | 30.77        | 30.17        | 31.87        |
| 8,61,002  | \$13,020,553 | \$11,879,223 | \$10,728,425 | \$10,728,425 | \$10,627,745 | \$10,360,292 | \$ 9,071,379 |
| 113,238   | 121,529      | 79,854       | 50,786       | 50,786       | 39,158       | 77,470       | 134,124      |
| 5,974,770 | \$13,142,082 | \$11,959,077 | \$10,779,211 | \$10,779,211 | \$10,666,903 | \$10,437,762 | \$ 9,205,503 |
| 3,507,805 | 2,979,835    | 2,631,634    | 2,122,380    | 2,122,380    | 2,739,163    | 3,012,198    | 2,288,436    |
| 4,289,780 | 3,408,487    | 3,059,594    | 2,883,084    | 2,883,084    | 2,642,830    | 2,432,382    | 2,335,802    |
| 7,47,540  | 1,399,669    | 1,160,135    | 996,410      | 996,410      | 1,012,430    | 1,176,800    | 1,023,658    |
| 3,916,300 | 1,248,268    | 1,086,230    | 936,696      | 936,696      | 874,083      | 802,650      | 685,254      |
| 1,162,715 | 1,165,737    | 1,086,230    | 936,696      | 936,696      | 874,083      | 802,650      | 685,254      |
| 1,990,380 | 1,248,211    | 1,063,744    | 931,008      | 931,008      | 717,637      | 578,079      | 593,057      |
| (161,591) | 1,092,671    | 1,053,453    | 992,120      | 992,120      | 1,022,192    | 876,870      | 776,884      |
| ( 88,000) | (1,625)      | (4,351)      | (74,188)     | (74,188)     | (35,244)     | (6,220)      | (88,726)     |
| 3,164,944 | \$12,485,862 | \$11,039,839 | \$10,050,439 | \$ 8,787,510 | \$ 8,973,091 | \$ 8,872,759 | \$ 7,614,365 |
| 2,802,308 | 2,549,227    | 2,102,243    | 1,908,638    | 1,991,701    | 1,693,812    | 1,565,003    | 1,591,138    |
| 83,946    | 148,543      | 155,389      | 264,960      | 295,324      | 217,656      | 300,395      | 449,091      |
| 609,657   | 679,834      | 658,578      | 598,491      | 599,171      | 478,705      | 520,814      | 276,648      |
| 2,283,787 | \$ 1,599,054 | \$ 1,575,107 | \$ 1,887,854 | \$ 1,887,854 | \$ 1,432,763 | \$ 1,344,584 | \$ 1,763,581 |
| 9,582,908 | 647,314,521  | 575,221,538  | 522,324,630  | 522,324,630  | 507,418,883  | 494,404,760  | 460,256,365  |
| 3,501     | 3,076        | 2,867        | 2,688        | 2,688        | 2,551        | 2,359        | 2,124        |
| 7,654     | 2,566        | 2,626        | 2,666        | 2,666        | 2,706        | 2,786        | 2,894        |
| 90,574    | 83,708       | 80,307       | 76,229       | 76,229       | 73,913       | 68,996       | 64,645       |
| 75,774    | 68,882       | 65,683       | 61,956       | 61,956       | 60,049       | 55,788       | 52,577       |
| 275,000   | 220,000      | 220,000      | 220,000      | 220,000      | 170,000      | 170,000      | 170,000      |
| 172,200   | 150,500      | 140,000      | 126,000      | 126,000      | 116,000      | 110,000      | 104,000      |

\* On shares outstanding Dec. 31. † Does not include taxes charged through clearing accounts or capitalized. ‡ 5,000 KW capability added by boiler improvements.

# HONOLULU ELECTRICAL PRODUCTS CO., LTD.

A Wholly-Owned Subsidiary of The Hawaiian Electric Company, Limited

## BALANCE SHEET December 31, 1956

| A S S E T S  |                    |
|--|--------------------|
| <b>CURRENT ASSETS</b>  |                    |
| Cash   | \$ 264,678         |
| Receivables (less allowance of \$90,686 for uncollectible accounts)  | 1,367,624          |
| Merchandise inventory, at approximate cost, not in excess of market (less provision of \$129,432 for losses) | 1,945,094          |
| Prepaid expenses   | 25,831             |
|  | <u>\$3,603,227</u> |
| <b>PROPERTY, PLANT AND EQUIPMENT, at cost</b>  |                    |
| Land   | \$ 357,065         |
| Buildings and equipment (less reserve of \$391,741 for depreciation)   | 158,053            |
| Construction in progress (Note 3)  | 117,625            |
|  | <u>692,743</u>     |
| <b>ORGANIZATION EXPENSE</b>  | 6,017              |
|  | <u>\$4,241,987</u> |
| <b>LIABILITIES</b>   |                    |
| <b>CURRENT LIABILITIES</b>   |                    |
| Accounts payable   | \$ 738,576         |
| Federal and territorial income taxes payable   | 194,000            |
| Other current liabilities  | 72,084             |
|  | <u>\$1,004,630</u> |
| <b>DEFERRED INCOME</b>   | 28,362             |
| <b>CAPITAL STOCK AND SURPLUS</b>   |                    |
| Common stock (\$20 par value)—   | \$3,000,000        |
| Authorized and outstanding 150,000 shares  | 208,995            |
| Earned surplus (Note 1)  | 3,208,995          |
|  | <u>\$4,241,987</u> |
| <b>STATEMENT OF INCOME</b>   |                    |
| Year Ended December 31, 1956   |                    |
| <b>INCOME</b>  |                    |
| Sales of merchandise and services  | \$9,150,211        |
| Cost of sales  | 7,515,179          |
|  | <u>\$1,635,032</u> |
| Gross profit on sales (Note 2)   | 133,152            |
| Other income   | \$1,770,184        |
| <b>OPERATING EXPENSES</b>  |                    |
| Salaries and wages   | \$ 816,456         |
| Employee benefits  | 60,730             |
| Taxes other than taxes on income   | 212,995            |
| Depreciation   | 27,640             |
| Other expenses   | 249,458            |
|  | <u>1,367,189</u>   |
| <b>NET INCOME BEFORE TAXES ON INCOME</b>   | \$ 402,995         |
| <b>PROVISION FOR FEDERAL AND TERRITORIAL INCOME TAXES</b>  | 194,000            |
| <b>NET INCOME FOR THE YEAR</b>   | <u>\$ 208,995</u>  |

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1—EARNED SURPLUS

The company was incorporated in December 1955, and began doing business as of January 3, 1956. Earned surplus as of December 31, 1956, represents the net income from the first year's operations. No dividends were paid during the year.

#### NOTE 2—GROSS PROFIT ON SALES

Included in sales and cost of sales are sales to the parent company and the related cost of sales. Comparable sales were not reflected on the statement of income of the parent company in prior years when the subsidiary was a division of the company.

The gross profit on sales, \$1,635,032, includes \$365,111 of gross profit on inter-company sales of merchandise. Gross income taxes amounting to \$85,451 which were directly attributable to these inter-company sales have not been deducted in computing the gross profit.

#### NOTE 3—COMMITMENTS AND CONTINGENT LIABILITIES

Pension costs for past services under the company's supplementary pension plan which had not been funded or otherwise provided for at December 31, 1956, are estimated to amount to approximately \$207,382.

The company is presently constructing a building to provide a warehouse, office and display rooms for the company's operations. It is estimated that the new building and equipment will cost approximately \$950,000, of which \$17,653 had been expended as of December 31, 1956, and contracts have been entered into for a substantial portion of the remainder. To finance the building, the company has secured a commitment for a loan of \$750,000 which will be secured by a first mortgage on the building and on the land on which it is to be situated.

**THE HAWAIIAN ELECTRIC COMPANY, LTD.**  
#40 RICHARDS STREET (PALACE SQUARE)  
HONOLULU, HAWAII

The Hawaiian Electric Company, Limited is a corporation existing under the laws of the Territory of Hawaii, originally incorporated under the laws of the Kingdom of Hawaii on October 13, 1891.

The Company is an operating public utility engaged principally in the production, transmission, distribution and sale of electric energy for domestic, commercial, industrial, agricultural and governmental purposes on the Island of Oahu, Territory of Hawaii, U.S.A. All electric energy produced by the Company is manufactured in steam power plants which burn fuel oil imported from sources outside the Territory.

The Public Utilities Commission of the Territory of Hawaii has regulatory jurisdiction with respect to the Company's electric utility operations. Under the laws of the Territory of Hawaii the Company has the right of eminent domain.

Honolulu Electrical Products Co., Ltd., a wholly-owned subsidiary of the Company, is engaged in the merchandising

of electrical equipment, fixtures, appliances and accessories, as well as the repairing of electric apparatus, and represents in the Territory of Hawaii approximately two hundred and fifty mainland manufacturers. Honolulu Electrical Products is the sole representative in the Territory for Westinghouse Electric Corporation, continuing a relationship that has existed since 1905 between The Hawaiian Electric Company, Limited and Westinghouse.

All properties of the Company are located on the Island of Oahu. The Company derives all of its income from sources in the Territory of Hawaii and operates as a public utility on the Island of Oahu only. It is not affiliated in any manner with a holding company nor with any other corporation.

A trust mortgage to the Hawaiian Trust Company, Limited was executed on December 1, 1938 to provide for the issuance of First Mortgage Bonds in series equally secured thereunder. Common Stock, Series B, C, D and E Preferred Stock and Series D, E and F Bonds of The Hawaiian Electric Company, Limited are listed on the Honolulu Stock Exchange.

REGISTRARS

J. P. Morgan & Co., Incorporated  
23 Wall Street  
New York 8, N. Y.

The Bank of California, National Association  
400 California Street  
San Francisco 20, California

Cooke Trust Company, Limited  
926 Fort Street  
Honolulu 13, Hawaii

TRANSFER AGENTS

Guaranty Trust Company  
140 Broadway  
New York 15, N. Y.

Wells Fargo Bank  
Market Street at Montgomery  
San Francisco 20, California

The Hawaiian Electric Company, Limited  
900 Richards Street  
Honolulu 13, Hawaii