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1965 ANNUAL REPORT / HAWAIIAN ELECTRIC



THE OLD — Iolani Palace, Hawaii's State Capitol, is the only former royal palace in the United States. Here in 1886 electricity came to Oahu for the first time when a string of arc lights illuminated the palace grounds during a birthday celebration for King Kalakaua. Five years later Hawaiian Electric Company was founded, ultimately establishing headquarters on the Palace Square. As Hawaiian Electric approaches its 75th anniversary, on October 13, 1966, construction has begun on a new Capitol (see inside back cover) and Iolani Palace is destined for restoration and a place of honor.



**ANNUAL REPORT FOR THE YEAR 1965
HAWAIIAN ELECTRIC COMPANY, INC.**

ON THE COVER—THE CHANGING FACE OF HONOLULU. Growth in our island community is forcing itself upward in the form of "high-rise" construction. The photograph from a slope overlooking Honolulu shows the dramatic emergence of tall apartments, especially condominiums, in the city's life.

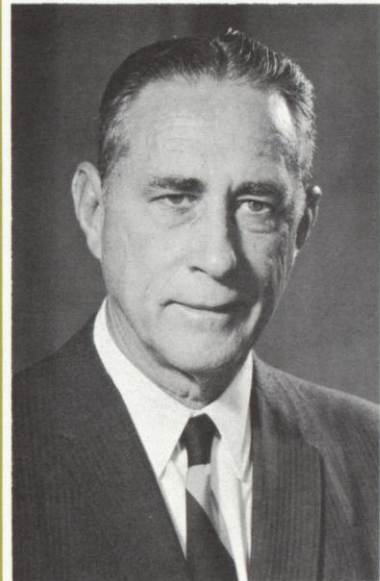
**HIGHLIGHTS
1965**

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	Increase Over 1964
SALES	6.9%
Sales of kilowatt-hours were 2,107,708,838 for the year, a record high in the Company's history	
OPERATING REVENUES	6.5%
Increased to \$44,211,047, a gain of \$2,710,130	
NET INCOME	2.5%
Totalled \$6,059,035, an increase of \$148,286	
UTILITY PLANT	5.3%
Utility Plant in service and construction in progress now has a total worth of \$195,740,334, an increase of \$14,955,160	
PEAK DEMAND	4.5%
Maximum kilowatt demand increased by 19,000 kw to 445,000	
CUSTOMERS	5,552
Number served now totals 140,904	
RESIDENTIAL USE KWH	255
Average annual residential use increased to 6,058 kwh, approximately 23% greater than the national average	

LETTER FROM THE PRESIDENT



To the Stockholders of
Hawaiian Electric Company, Inc.

Hawaiian Electric Company revenues were 6.9 per cent above the preceding year. Net earnings per share were \$1.37 after a 5 per cent dilution of common stock in November as compared to \$1.39 in 1964. On an average share basis the results showed net earnings of \$1.42.

The State of Hawaii and the Island of Oahu especially showed substantial economic growth in 1965. The Viet Nam War has had some effect on our economy. Although there has been a movement of troops from Hawaii to forward areas, others have come to take their place and there is an influx of civilians for work required at the shipyard and other military installations. The work load at Pearl Harbor is increasing and will continue to increase in the next few years, reflecting the recent policy to use the base to its fullest.

Oahu is experiencing the largest construction boom in its history. While much of this building is in residential homes, most of it is in large new office buildings, hotels and apartments, the impact of which will not be felt in added kwh sales until another year or so. It does mean that there are plenty of jobs to be had. In fact, there is a shortage of skilled labor and we have noticed considerable migration from the continental United States. Highway construction is at a peak with at least \$248 million of new highway to be completed in the next few years. Exclusive of this, Hawaii's construction program for 1965 exceeded \$340 million; and, although the 43rd largest city in the United States, Honolulu ranked fifth in dollar volume of building permits.

In other sectors sugar, pineapple and diversified agriculture remained at high levels of production. Diversified manufacturing showed an 8 per cent gain and exceeded tourism in dollar volume. The tourist industry again set a record. Visitors to our shores numbered more than 600,000, a 16 per cent gain over 1964. The airlines servicing Hawaii have increased the number of flights to cope with tourist requirements and already have made plans for a greater volume of traffic in 1966. Increased incentives for the more sophisticated traveler to visit Hawaii include excellent convention facilities in Honolulu and new attractive hotel accommodations on the Islands of Hawaii, Maui and Kauai.

During the year considerable attention was directed toward research and development programs in Hawaii and discussions centered on the potential for certain types of research specially suited to the Islands. Examples are the Navy's underwater weaponry tests off the coast of Kauai and the Mohole project, an exploration of the crust of the earth beneath the sea, soon to commence off the Hawaiian Islands. Our high mountains in the middle of the Pacific provide sites for important major tracking and observation stations.

I anticipate continued growth at a strong rate for the next five years as all economic indicators show an upward trend, and demand for our service will be substantial. As a result, the Company is planning for a construction program of \$103 million for the 1966-1970 period.

The success of our operations naturally depends on the cooperation of everyone in the Company. I therefore wish to take this opportunity to thank all the employees, the officers, and the Directors for their loyal support and guidance during the year.

After this introduction, I hope you will read about the Company's activities detailed in the body of this report.



Ralph B. Johnson
President

March, 1966

REVIEW
OF THE
YEAR
1965

REVENUE AND
SALES

Operating revenues for the year totaled \$44,211,047, an increase of 6.5 per cent over the previous year, while kilowatt hour sales were 2,107,708,838, a 6.9 per cent gain over 1964.

Increases in revenues were experienced in all classes of service. The largest gain was in our sales to residential customers, due primarily to the increasing population in our service area and resultant large number of new homes being built. Revenue from these customers increased \$1,278,900 or 7.6 per cent.

SUMMARY OF FINANCIAL RESULTS

(Dollars in Thousands)

	% of Total	1965 Amount	1964 Amount	% Increase or (Decrease)
WE RECEIVED FROM				
Operating Revenues	99.9	\$44,211	\$41,501	6.5
Other Income	0.1	66	161	(59.1)
Total	100.0	\$44,277	\$41,662	6.3
WE HAD THESE EXPENSES				
Wages and Employee Benefits Charged to Operations	21.1	\$ 9,344	\$ 8,629	8.3
Fuel Oil	19.7	8,730	8,601	1.5
Other Materials and Services .	8.0	3,518	3,927	(10.4)
Depreciation	9.5	4,195	3,672	14.2
Federal and Local Taxes	20.6	9,135	8,309	9.9
Interest on Borrowed Money and Other Miscellaneous Expenses ...	7.4	3,296	2,613	26.1
Total	86.3	\$38,218	\$35,751	6.9
LEAVING AS NET INCOME	13.7	\$ 6,059	\$ 5,911	2.5
FROM WHICH WE PAID STOCKHOLDERS				
Preferred Dividends	2.4	\$ 1,080	\$ 1,077	0.3
Common Dividends	8.0	3,516	3,265	7.7
AND WE RETAINED IN OUR BUSINESS	3.3	\$ 1,463	\$ 1,569	(6.8)



Waiiau Generating Station was center of expansion. Seventh unit under construction there at cost of \$12.2 million will add 86,000 kilowatts to system when completed in late 1966.

EXPENSES

The year's total expenses increased 6.9 per cent over the previous year.

Wages and employee benefits are our largest single expense. They were 8.3 per cent over last year. Principal causes of the increase were the amount of overtime wages paid; agreements negotiated with the unions, including added costs of our retirement and

medical plans; and a small increase in the number of employees.

Two other large increases in expenses during 1965 were in depreciation and interest paid. Both of these items reflect the costs incurred as a result of adding to our utility plant.

EARNINGS

Common shares outstanding were increased by 5 per cent in

November of 1965. Based on the total number of shares outstanding at the year end, our earnings were \$1.37 per share; but based on the weighted average of common shares outstanding during the year, our earnings were \$1.42 per share. This compares with our earnings per share in 1964 of \$1.39.

Interest charged to construction, which results in a credit to earnings, was 10 cents less in 1965 than in 1964, based on year end shares.

DIVIDENDS

Dividends on common stock were \$1.00 per share and were paid at the rate of 25 cents per share quarterly. After payment of \$1,079,907 to preferred stockholders, a balance of \$4,979,128 was available for owners of common stock.

After payment of \$3,516,472 to holders of common stock, \$1,462,656 was retained to help pay for the Company's capital improvements.

The Company estimates that 35 per cent of 1965 common stock dividends were non-taxable for Federal income tax purposes. The non-taxable status results primarily from the difference between the depreciation shown on our statements and that allowed for tax purposes. This difference is accentuated by the use of accelerated depreciation for income tax purposes.

TAXES

Taxes charged to operations for State and Federal governments amounted to \$9,135,000, a 9.9 per cent increase over 1964. These taxes were \$2.50 per share of common stock. This is particularly significant when we note that it is almost twice the amount available for the owners of common stock.

The accompanying table shows details of taxes charged to income from operations for the years 1965 and 1964.

TAXES

	1965	Percent of Operating Revenue	1964	Percent of Operating Revenue
Taxes Other than Income				
Public Service	\$3,254,987	7.4	\$2,920,626	7.0
Franchise Royalty ...	1,084,425	2.5	1,028,886	2.5
F.I.C.A. and Unemployment ...	288,429	0.6	311,477	0.8
Other	107,148	0.2	96,777	0.2
	<u>\$4,734,989</u>	<u>10.7</u>	<u>\$4,357,766</u>	<u>10.5</u>
Income Taxes				
State				
Current	298,904	0.7	256,658	0.6
Deferred	169,048	0.4	162,882	0.4
	<u>\$ 467,952</u>	<u>1.1</u>	<u>\$ 419,540</u>	<u>1.0</u>
Federal				
Current	2,508,885	5.7	2,118,695	5.1
Deferred	1,423,216	3.2	1,413,047	3.4
	<u>\$3,932,101</u>	<u>8.9</u>	<u>\$3,531,742</u>	<u>8.5</u>
Total Income Taxes	\$4,400,053	10.0	\$3,951,282	9.5
Total Taxes Charged to Operations	\$9,135,042	20.7	\$8,309,048	20.0

Note: Above does not include taxes charged to plant, clearing and other non-operating expense accounts amounting to \$92,319 in 1965 and \$204,844 in 1964.

FINANCING

In March, 1965 the Company sold \$11 million of 4.55 per cent First Mortgage Bonds, Series N, and retired \$6,750,000 of short-term bank loans.

In November, 1965 the Company issued and sold 173,652 additional shares of common stock at \$30 per share, offering shareholders of record on October 8, 1965 one share for each 20 held.

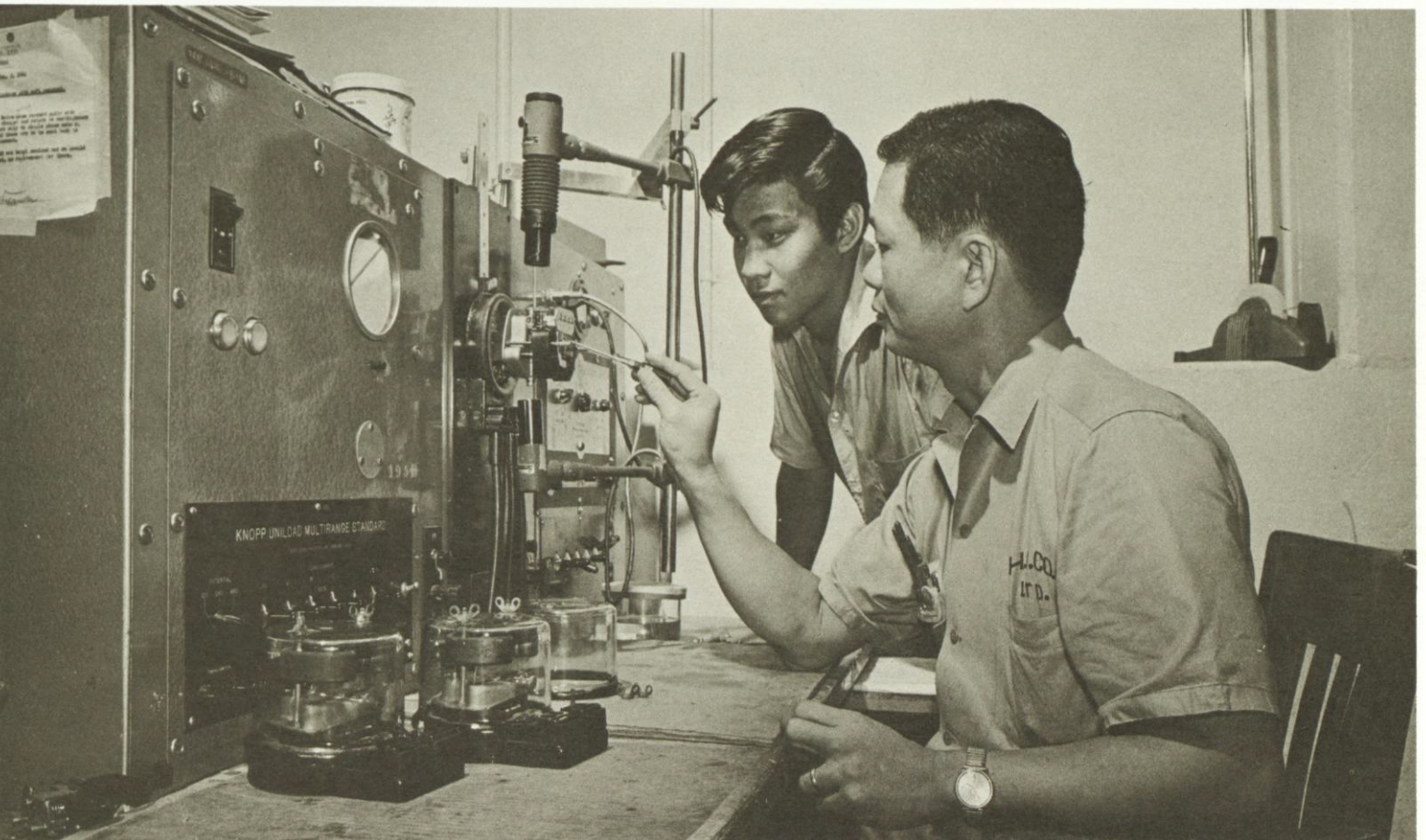
The Company also offered shares of common stock to employees for subscription at the

same price as offered to shareholders. Employees subscribed to a total of 12,391 shares out of 12,500 offered. The remaining 109 shares were purchased by shareholders under the oversubscription privilege provided in the offering. Of the shares subscribed for by employees, 29 shares were issued before the end of the year.

The balance of the net proceeds of these two financings will help pay for 1965 and 1966 capital improvement programs.

Funds from internal sources were also used in part to finance

Hawaiian Electric gave more than 500 electric meters to Oahu's schools for study purposes. Company's rigid meter-checking policy dictates replacing over-age ones even though still in good order. Meterman William S. K. Au is shown explaining testing methods to a student.



our capital expenditures. Details of sources and disposition of funds are shown with the financial statements.

CAPITAL EXPENDITURES

Capital expenditures in 1965 amounted to \$16,063,286. Of this amount, \$4,449,964 was for our new generating unit No. 7 at Waiiau which will be completed in the

lion in 1966 and a total of \$103 million during the five-year period 1966 through 1970.

OWNERSHIP

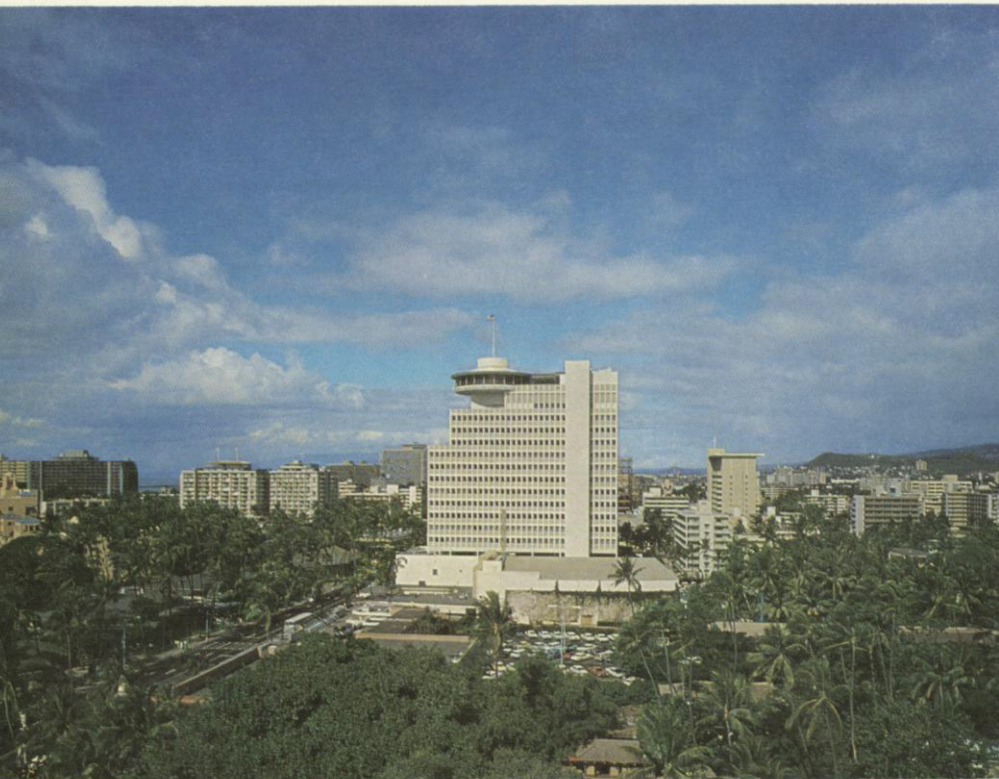
The diversity of ownership in the Company continues to increase each year. At the close of the year there were 10,596 common stockholders, a net increase of more than 5 per cent over the previous year. Of these, 7,169 were residents of Hawaii, owning just under two-thirds of the 3,646,822 shares of common stock. Remaining stockholders are located in 47 other states and 10 foreign countries.

Employee participation in our 1965 common stock offering brought the total number of employee owners from 200 prior to the offering to 783 afterwards, or more than 50 per cent of the total number of employees.

EXPANSION PROGRAM

Generating Stations. A peak demand of 445,000 kilowatts was recorded for the year, a rise of 4.5 per cent above the 1964 peak. A greater rate of growth is anticipated in the future. We are, therefore, maintaining a program of expansion of service which is in keeping with island growth.

As a major 1965 undertaking, construction of our 17th generating unit was begun. This \$12.2 million oil-burning unit is the first of two companion units to be added at the Waiiau Station, bordering on Pearl Harbor. The twin



Waikiki Business Plaza, a new addition to the Waikiki scene, stands out boldly against rapidly-changing skyline. Construction in state hit a new high of \$340 million in hotel, office, apartment, shopping center and residential building, 90 per cent of it on Oahu, Company's service area.

latter part of 1966. We spent \$2,835,585 in our transmission system and \$7,637,123 in our distribution system for improvements and additions.

Present plans call for capital expenditures of more than \$22 mil-

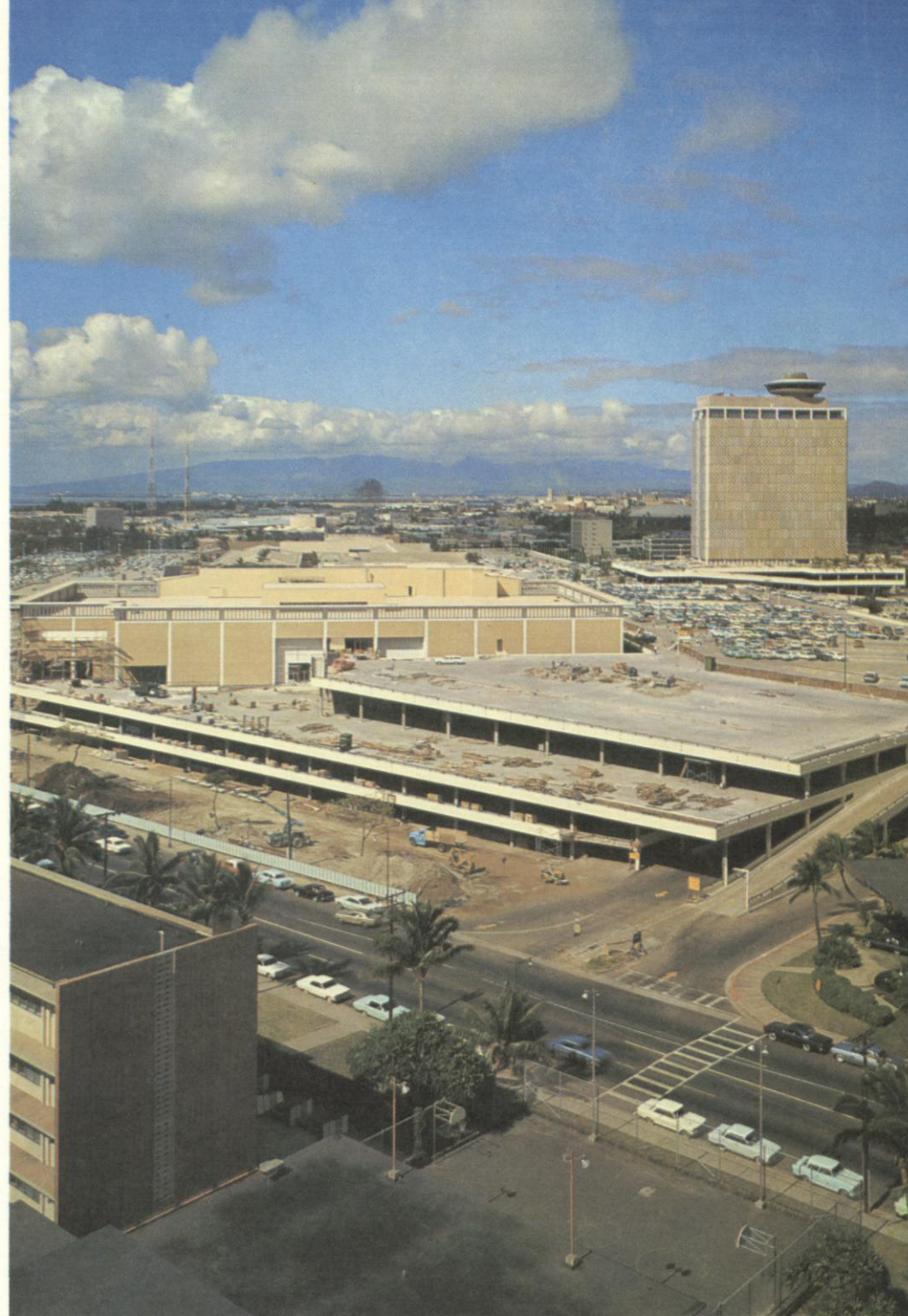
Additions to Ala Moana Center will make it nation's largest shopping center, constructed at a cost of \$37.5 million and occupying 50 acres in midtown Honolulu. Retail stores here in 1965 shared total sales of \$64.5 million.

installations, Waiau 7 and 8, will be the most modern type of steam turbine generating units, each capable of producing 86,000 kilowatts.

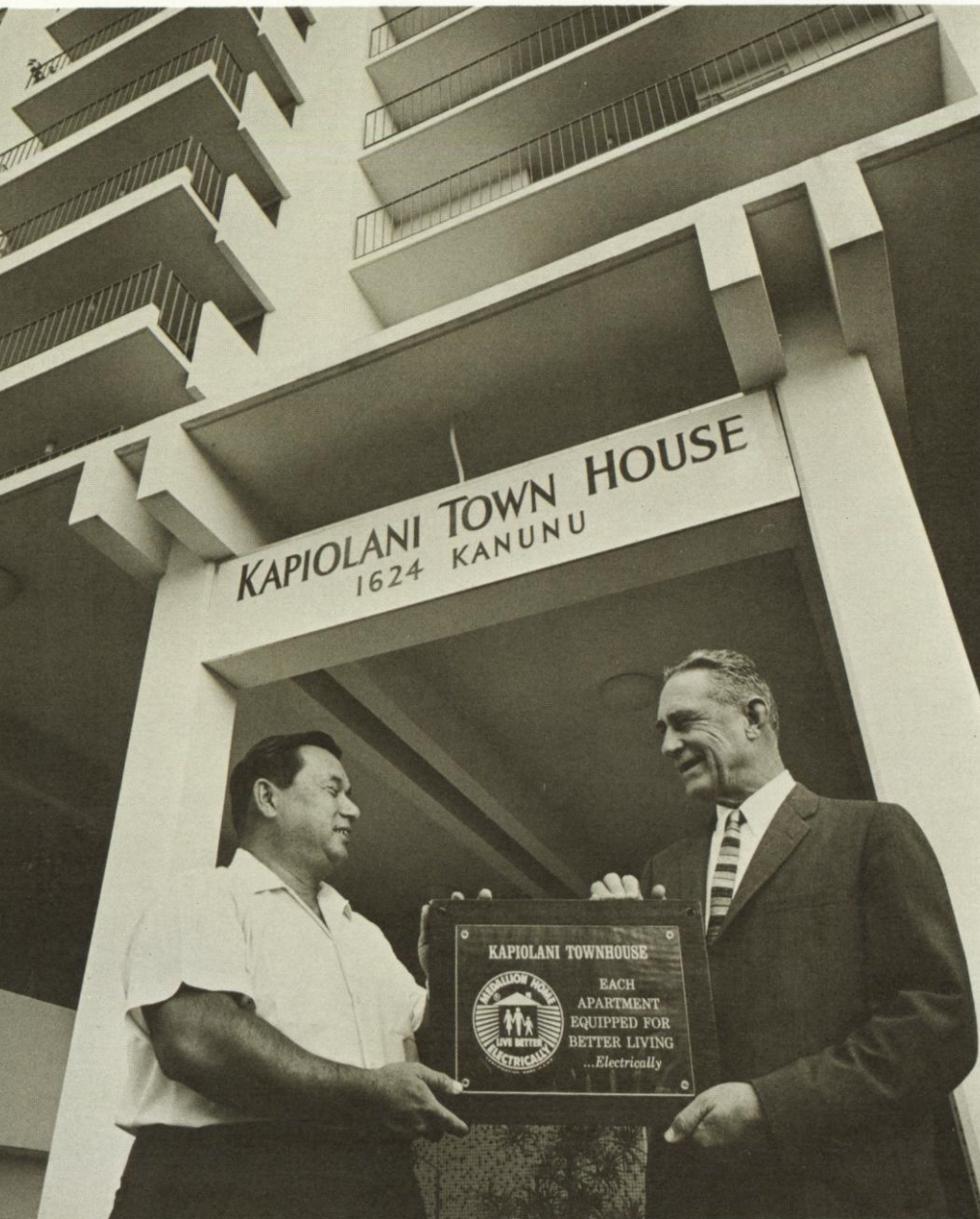
When completed in September, 1966, the addition of Waiau 7 will increase the total capability of our system to 709,000 kilowatts. Waiau 8, now in the design stage, is planned for commercial use in mid-1968.

Long-range plans call for the establishment of a fourth power station on the windward side of the island. The Company has obtained a 219-acre site at Heeia-Kea on the shores of Kaneohe Bay, which will be developed as system growth dictates. Initially a portion will be used as a baseyard to serve Kaneohe and the north shore.

Transmission and Distribution. Four years ago Hawaiian Electric began transmitting power over new 138,000-volt lines — three times the previous voltage and highest in island history. Important extensions to this system were made in 1965.



The loads served by the Koolau substation on the Windward side of the island have increased greatly. In order to provide the necessary capacity for this increase, a third 80,000-kva transformer was installed at the Koolau substation and the capacity of the two transmis-



President Ralph B. Johnson presents Bronze Medallion Award for electrical living standards to Al Ching, builder-developer of 90-unit Kapiolani Town House condominium in mid-town Honolulu. Medallion Home program increased 10 per cent.

sion lines from Waiau to this substation was doubled during 1965.

Also, work was begun on a second 138,000-volt line from Koolau substation below the Pali near Kaneohe to the Pukele substation in upper Palolo Valley.

Because of load growth in the downtown area, modifications were made during the year to the Honolulu downtown network system to increase its capacity.

Substations. The construction of a new 138,000-volt substation was begun at Halawa which, when completed near the end of 1966, will bring the number of these stations to six.

A new 46,000-volt substation was completed at Kahuku and the capacity of numerous other substations was increased in order to serve additional loads.

Land and Buildings. At mid-year the Company acquired a warehouse and more than an acre of mid-town land on Cooke Street, adjoining the Ward Avenue operations and engineering center. The acquisition helped relieve congestion by providing additional warehouse space there.

Additional office facilities were also built in the Honolulu Power Plant on the waterfront.

OPERATIONS

Fuel Oil Savings. Due to the use of an Automatic Dispatch System,

FINANCIAL
SECTION

BALANCE SHEET
LIABILITIES

December 31, 1965
(with comparative figures for 1964)

	1965	1964	Increase (Decrease)
CAPITALIZATION:			
Common Equity:			
Common Stock of \$6 ² / ₃ Par Value Per Share:			
Authorized, 4,500,000 Shares			
Issued, 3,646,822 and 3,473,032 Shares	\$ 24,312,147	\$ 23,153,547	\$ 1,158,600
Subscribed, 12,362 Shares	82,413	—	82,413
Premium on Common Stock Issued	15,294,017	11,238,917	4,055,100
Premium on Common Stock Subscribed	288,447	—	288,447
Capital Stock Expense	(1,053,921)	(977,824)	(76,097)
Retained Earnings	17,333,008	15,795,236	1,537,772
	<u>\$ 56,256,111</u>	<u>\$ 49,209,876</u>	<u>\$ 7,046,235</u>
Cumulative Preferred Stock of \$20 Par Value Per Share (Note 2)	22,293,140	22,293,140	—
Total Proprietary Capital	<u>\$ 78,549,251</u>	<u>\$ 71,503,016</u>	<u>\$ 7,046,235</u>
First Mortgage Bonds (Note 3)	79,000,000	68,000,000	11,000,000
Total Capitalization	<u>\$157,549,251</u>	<u>\$139,503,016</u>	<u>\$18,046,235</u>
CURRENT LIABILITIES:			
Notes Payable	—	6,000,000	(6,000,000)
Accounts Payable	1,725,075	1,720,354	4,721
Customer Deposits	187,383	107,532	79,851
Taxes Accrued	2,421,142	2,206,922	214,220
Interest Accrued	790,095	592,804	197,291
Payroll Accrued	422,534	361,514	61,020
Pension Premiums Accrued	—	230,881	(230,881)
Preferred Dividends Accrued	224,981	224,981	—
Other	177,759	177,695	64
	<u>\$ 5,948,969</u>	<u>\$ 11,622,683</u>	<u>\$ (5,673,714)</u>
DEFERRED CREDITS:			
Deferred Income Taxes (Note 1)	8,242,446	6,650,182	1,592,264
Unamortized Depreciation Adjustment	1,056,000	1,144,000	(88,000)
Unamortized Investment Credit (Note 4)	1,135,204	896,914	238,290
Unamortized Premium on Debt	54,613	61,465	(6,852)
Other	231,612	233,847	(2,235)
	<u>\$ 10,719,875</u>	<u>\$ 8,986,408</u>	<u>\$ 1,733,467</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	4,923,866	4,496,799	427,067
	<u>\$179,141,961</u>	<u>\$164,608,906</u>	<u>\$14,533,055</u>

See accompanying notes to financial statements.

BALANCE SHEET

ASSETS

December 31, 1965

(with comparative figures for 1964)

	1965	1964	Increase (Decrease)
UTILITY PLANT, at Cost:			
In Service:			
Land	\$ 5,177,537	\$ 4,755,845	\$ 421,692
Plant and Equipment	183,336,183	174,238,451	9,097,732
	<u>\$188,513,720</u>	<u>\$178,994,296</u>	<u>\$ 9,519,424</u>
Construction in Progress	7,226,614	1,790,878	5,435,736
	<u>\$195,740,334</u>	<u>\$180,785,174</u>	<u>\$14,955,160</u>
Less Accumulated Depreciation (Note 1)	(30,504,817)	(27,127,586)	(3,377,231)
	<u>\$165,235,517</u>	<u>\$153,657,588</u>	<u>\$11,577,929</u>
OTHER PROPERTY AND IMPROVEMENTS, at Cost			
Less Accumulated Depreciation	\$ 225,230	\$ 230,841	\$ (5,611)
CURRENT ASSETS:			
Cash	2,168,300	2,123,335	44,965
Temporary Investments	2,003,245	—	2,003,245
Notes Receivable	633,171	844,228	(211,057)
Accounts Receivable	4,568,688	3,933,587	635,101
Provision for Uncollectible Accounts	(37,826)	(58,730)	20,904
Employees Stock Subscription Receivable	317,974	—	317,974
Construction and Operating Materials and Supplies, at Average Cost	2,925,315	2,829,869	95,446
Prepayments	174,870	192,520	(17,650)
	<u>\$ 12,753,737</u>	<u>\$ 9,864,809</u>	<u>\$ 2,888,928</u>
DEFERRED CHARGES:			
Unamortized Debt Expense	735,687	686,931	48,756
Clearing Accounts	46,377	45,121	1,256
Other	145,413	123,616	21,797
	<u>\$ 927,477</u>	<u>\$ 855,668</u>	<u>\$ 71,809</u>
	<u>\$179,141,961</u>	<u>\$164,608,906</u>	<u>\$14,533,055</u>

See accompanying notes to financial statements.

STATEMENT OF INCOME

Year Ended December 31, 1965
(with comparative figures for 1964)

	1965	1964	Increase (Decrease)
OPERATING REVENUES:			
Sales of Electricity	\$44,047,809	\$41,341,118	\$2,706,691
Other Operating Revenues	163,238	159,799	3,439
Total Operating Revenues	<u>\$44,211,047</u>	<u>\$41,500,917</u>	<u>\$2,710,130</u>
OPERATING EXPENSES:			
Fuel Oil	8,730,087	8,600,532	129,555
Operation — Production, Transmission, Distribution	4,087,558	3,929,076	158,482
Operation — Customer Accounts, Sales, Administration and General	5,610,206	5,199,415	410,791
Maintenance	2,925,590	2,945,127	(19,537)
Depreciation	4,194,619	3,671,801	522,818
Taxes, Other than Income Taxes	4,734,989	4,357,766	377,223
Income Taxes	2,807,789	2,375,353	432,436
Income Taxes Deferred (Note 1)	1,592,264	1,575,929	16,335
Investment Credit Deferred, Net (Note 4)	238,290	482,649	(244,359)
Total Operating Expenses	<u>\$34,921,392</u>	<u>\$33,137,648</u>	<u>\$1,783,744</u>
OPERATING INCOME	\$ 9,289,655	\$ 8,363,269	\$ 926,386
OTHER INCOME:			
Interest	101,111	6,511	94,600
Adjustments Applicable to Prior Years, Net	—	110,455	(110,455)
Gain on Sale and Exchange of Assets, Net	9,515	46,871	(37,356)
Miscellaneous	(44,889)	(2,979)	(41,910)
Total Other Income	<u>\$ 65,737</u>	<u>\$ 160,858</u>	<u>\$ (95,121)</u>
TOTAL INCOME	\$ 9,355,392	\$ 8,524,127	\$ 831,265
MISCELLANEOUS INCOME DEDUCTIONS	97,126	80,901	16,225
INCOME BEFORE INTEREST CHARGES	\$ 9,258,266	\$ 8,443,226	\$ 815,040
INTEREST CHARGES:			
Interest on Long-Term Debt	3,247,943	2,832,250	415,693
Amortization of Debt Expense and Premium	27,982	26,574	1,408
Other Interest Expense	61,076	172,056	(110,980)
Interest Charged to Construction, Cr.	(137,770)	(498,403)	360,633
Total Interest Charges	<u>\$ 3,199,231</u>	<u>\$ 2,532,477</u>	<u>\$ 666,754</u>
NET INCOME	\$ 6,059,035	\$ 5,910,749	\$ 148,286

See accompanying notes to financial statements.

**STATEMENT OF
SOURCE AND
DISPOSITION
OF FUNDS**

Year Ended December 31, 1965
(with comparative figures for 1964)

	1965	1964
SOURCE OF FUNDS:		
Net Income	\$ 6,059,035	\$ 5,910,749
Depreciation and Amortization	4,342,972	3,761,501
Deferred Income Taxes	1,592,264	1,575,929
Investment Credit, Net	238,290	482,649
Funds Available from Operations	\$12,232,561	\$11,730,828
Contributions in Aid of Construction	502,183	378,596
Sale of First Mortgage Bonds, Series M	11,000,000	—
Sale of Preferred Stock, Series K	—	3,500,000
Sale of Common Stock	5,584,560	—
Settlement of Antitrust Suit	—	912,274
Short-Term Bank Loans	—	6,000,000
Miscellaneous, Net	—	236,210
TOTAL	\$29,319,304	\$22,757,908
DISPOSITION OF FUNDS:		
Plant Construction Expenditures	\$16,063,286	\$13,827,501
Dividends on Preferred Stock	1,079,907	1,076,538
Dividends on Common Stock	3,516,472	3,264,650
Redemption of Preferred Stock, Series G	—	3,500,000
Premium and Expense on Redemption of Preferred Stock, Series G	—	334,266
Payment of Short-Term Bank Loans	6,000,000	—
Temporary Investments	2,003,245	—
Other Changes in Net Current Assets	559,397	754,953
Miscellaneous, Net	96,997	—
TOTAL	\$29,319,304	\$22,757,908

AUDITORS' OPINION

January 28, 1966

The Stockholders
Hawaiian Electric Company, Inc.:

We have examined the balance sheet of Hawaiian Electric Company, Inc. as of December 31, 1965 and the related statements of income, retained earnings and premium on common stock 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, the accompanying balance sheet and statements of income, retained earnings and premium on common stock present fairly the financial position of Hawaiian Electric Company, Inc. at December 31, 1965 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and disposition of funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

NOTES TO
FINANCIAL
STATEMENTS

**NOTE 1 — DEPRECIATION AND
FEDERAL INCOME TAXES**

The company computes the depreciation recorded in its accounts on a 4% sinking fund, group method, utilizing the remaining-life principle. For income tax purposes, the company computes depreciation using an accelerated method on qualifying properties and the straight-line method on the remainder of the plant.

Reductions in taxes currently payable of \$1,592,264 in 1965 and \$1,575,929 in 1964 arising from the use of accelerated depreciation and variations in service lives have been charged to income and credited to deferred income taxes. The company has consistently followed the policy of making no similar provision for deferred income taxes for reductions in taxes currently payable resulting from the use of the straight-line method rather than the sinking-fund method of computing depreciation and deducting interest and certain overhead expenses charged to construction. These differences between taxable income and book income amounted to \$1,318,588 in 1965 and \$1,532,126 in 1964.

It is the opinion of management, that, if in the future, income reported for income tax purposes should exceed book income as a result of the above amounts for which no deferred income taxes are being provided, taxes then payable on such excess represent allowable expenses in determination of future rates.

NOTE 2 — PREFERRED STOCK

The following series of preferred stock were authorized and outstanding at December 31, 1965 and 1964:

	1965	1964
Series C, 4 1/4% — 150,000 shares ...	\$ 3,000,000	\$ 3,000,000
Series D, 5% — 50,000 shares ...	1,000,000	1,000,000
Series E, 5% — 150,000 shares ...	3,000,000	3,000,000
Series H, 5 1/4% — 250,000 shares ...	5,000,000	5,000,000
Series I, 5% — 89,657 shares ...	1,793,140	1,793,140
Series J, 4 3/4% — 250,000 shares ...	5,000,000	5,000,000
Series K, 4.65% — 175,000 shares ...	3,500,000	3,500,000
	<u>\$22,293,140</u>	<u>\$22,293,140</u>

NOTE 3 — FIRST MORTGAGE BONDS

The following series of first mortgage bonds were outstanding at December 31, 1965 and 1964:

	1965	1964
Series E, 3 1/8%, due 1970	\$ 5,000,000	\$ 5,000,000
Series F, 3%, due 1977	5,000,000	5,000,000
Series G, 3 1/2%, due 1981	3,000,000	3,000,000
Series H, 3 1/2%, due 1982	4,000,000	4,000,000
Series I, 3.45%, due 1984	6,000,000	6,000,000
Series J, 4.70%, due 1987	7,000,000	7,000,000
Series K, 4.75%, due 1989	10,000,000	10,000,000
Series L, 4.65%, due 1991	12,000,000	12,000,000
Series M, 4.45%, due 1993	16,000,000	16,000,000
Series N, 4.55%, due 1995	11,000,000	—
	<u>\$79,000,000</u>	<u>\$68,000,000</u>

These bonds are secured by a trust indenture which by its terms purports to be a lien on substantially all of the property of the company.

NOTE 4 — INVESTMENT CREDIT

The investment credit allowed under the Revenue Act of 1962 reduced the company's income tax liability by \$270,345 in 1965 and \$497,299 in 1964. The company has elected to amortize the entire amount of the investment credit over the service lives of the properties.

NOTE 5 — COMMITMENTS AND GENERAL

At December 31, 1965, the company had purchase commitments approximating \$14,500,000 in connection with its plant expansion program.

Pension costs for past services under the company's pension plan which have not been funded or otherwise provided for at December 31, 1965 are estimated to amount to \$3,275,000.

**STATEMENT
OF RETAINED
EARNINGS**

Year Ended December 31, 1965
(with comparative figures for 1964)

	1965	1964	Increase (Decrease)
BALANCE, JANUARY 1	\$15,795,236	\$14,528,793	\$1,266,443
ADD:			
Net Income for the Year	6,059,035	5,910,749	148,286
Transfers from Contributions in Aid of Construction	75,116	31,148	43,968
	<u>\$21,929,387</u>	<u>\$20,470,690</u>	<u>\$1,458,697</u>
DEDUCT:			
Cash Dividends on Preferred Stock	1,079,907	1,076,538	3,369
Cash Dividends on Common Stock	3,516,472	3,264,650	251,822
Premium Paid on Redemption of Series G Preferred Stock, 175,000 Shares @ \$1	—	175,000	(175,000)
Capital Stock Expense Applicable to Preferred Stock Redeemed	—	159,266	(159,266)
	<u>\$ 4,596,379</u>	<u>\$ 4,675,454</u>	<u>\$ (79,075)</u>
BALANCE, DECEMBER 31	<u>\$17,333,008</u>	<u>\$15,795,236</u>	<u>\$1,537,772</u>

**STATEMENT OF
PREMIUM ON
COMMON STOCK**

Year Ended December 31, 1965
(with comparative figures for 1964)

	1965	1964
PREMIUM ON COMMON STOCK ISSUED:		
Balance, January 1	\$11,238,917	\$11,238,917
Premium from Sale of 173,790 Common Shares at \$23.33 Per Share	4,055,100	—
Balance, December 31	<u>\$15,294,017</u>	<u>\$11,238,917</u>
PREMIUM ON COMMON STOCK SUBSCRIBED:		
Premium on 12,362 Common Shares Subscribed at \$23.33 Per Share	288,447	—
	<u>\$15,582,464</u>	<u>\$11,238,917</u>

See accompanying notes to financial statements.

STATISTICAL SUMMARY

FINANCIAL STATISTICS (Millions of Dollars)	1965	1964	1963	1962	1961	1960	1955
Utility Plant in Service	\$188.51	\$178.99	\$163.09	\$138.75	\$129.78	\$113.43	\$ 71.22
Construction in Progress	7.23	1.79	6.21	15.14	5.95	6.16	.51
TOTAL UTILITY PLANT	\$195.74	\$180.78	\$169.30	\$153.89	\$135.73	\$119.59	\$ 71.73
Accumulated Depreciation	\$ 30.50	\$ 27.13	\$ 24.62	\$ 22.16	\$ 20.04	\$ 18.25	\$ 11.70
Capitalization (December 31)							
Bonds	\$ 79.00	\$ 68.00	\$ 68.00	\$ 57.00	\$ 57.00	\$ 45.00	\$ 28.00
Preferred Stock @ \$20 Par	22.29	22.29	22.29	24.93	20.19	20.26	9.00
Common Stock @ \$6 $\frac{2}{3}$ Par	24.31	23.15	23.15	23.15	21.05	20.96	14.00
Common Stock Subscribed @ \$6 $\frac{2}{3}$ Par .....	.08	—	—	—	—	—	—
Premium on Common Stock Issued	15.29	11.24	11.24	11.24	6.63	6.36	—
Premium on Common Stock Subscribed .....	.29	—	—	—	—	—	—
Capital Stock Expense	(1.05)	(.98)	(1.06)	(1.20)	(.98)	(.97)	(.50)
Retained Earnings	17.34	15.80	14.53	13.86	11.66	10.91	8.78
TOTAL	\$157.55	\$139.50	\$138.15	\$128.98	\$115.55	\$102.52	\$ 59.28
Bond Interest	\$ 3.25	\$ 2.83	\$ 2.57	\$ 2.30	\$ 2.13	\$ 1.74	\$.93
Preferred Dividends	1.08	1.08	1.20	1.16	1.04	.78	.43
Common Dividends	3.52	3.26	3.20	2.98	2.69	2.40	1.75
OPERATING STATISTICS							
Sales of Electricity	\$ 44.05	\$ 41.34	\$ 38.41	\$ 36.35	\$ 33.00	\$ 30.67	\$ 18.18
Other Operating Revenue .....	.16	.16	—	.07	.07	.06	.12
TOTAL OPERATING REVENUES ..	\$ 44.21	\$ 41.50	\$ 38.41	\$ 36.42	\$ 33.07	\$ 30.73	\$ 18.30
Operating Expenses:							
Fuel Oil	\$ 8.73	\$ 8.60	\$ 7.94	\$ 7.76	\$ 6.85	\$ 6.70	\$ 3.68
Operation — Production, Transmission, Distribution	4.09	3.93	4.07	3.56	3.23	2.65	1.98
Operation — Customer Accounts, Sales, Administration and General ..	5.61	5.20	4.80	4.40	4.22	3.80	2.36
Maintenance	2.93	2.95	2.38	2.37	1.84	1.99	1.94
Depreciation	4.19	3.67	3.15	2.87	2.56	2.34	1.31
Taxes Other than Income Taxes	4.73	4.36	4.05	3.45	3.09	2.78	1.40
Federal Income Taxes	2.51	2.12	2.63	3.08	3.67	3.53	1.66
Federal Income Taxes Deferred	1.42	1.41	1.11	1.09	.60	.55	.14
Investment Credit Deferred, Net .....	.24	.48	.29	.12	—	—	—
State Income Taxes .....	.30	.26	.29	.33	.38	.36	.26
State Income Taxes Deferred .....	.17	.16	.13	.13	.08	.07	—
Total Operating Expenses	\$ 34.92	\$ 33.14	\$ 30.84	\$ 29.16	\$ 26.52	\$ 24.77	\$ 14.73
Operating Income	9.29	8.36	7.57	7.26	6.55	5.96	3.57
Other Income .....	.07	.16	.09	.52	.11	.04	.07
Income Deductions and Interest Charges	(3.30)	(2.61)	(2.26)	(1.82)	(1.84)	(1.73)	(1.00)
NET INCOME	\$ 6.06	\$ 5.91	\$ 5.40	\$ 5.96	\$ 4.82	\$ 4.27	\$ 2.64
COMMON SHARES (Millions)*	3.65	3.47	3.47	3.47	3.16	3.14	2.10
COMMON STOCK STATISTICS							
Earned Per Share Common:							
On Average Shares	\$ 1.42	\$ 1.39	\$ 1.21	\$ 1.48 [†]	\$ 1.20	\$ 1.20	\$ 1.05
On Year End Shares	1.37	1.39	1.21	1.38 [†]	1.20	1.11	1.05
Common Dividend Rate	1.00	.94	.92	.92	.85 ⁵	.83	.83
Common Equity Per Share	\$ 15.43	\$ 14.17	\$ 13.78	\$ 13.55	\$ 12.15	\$ 11.85	\$ 10.61
MISCELLANEOUS STATISTICS							
Kilowatt Hour Sales (Billions)	2.11	1.97	1.80	1.69	1.52	1.37	.81
Average Annual Residential Use (KWH) ..	6,058	5,803	5,588	5,349	5,085	4,920	3,788
Revenue Per Residential KWH	2.55¢	2.57¢	2.61¢	2.65¢	2.66¢	2.72¢	2.71¢
Customers December 31 (Thousands)							
Residential	120	115	111	107	103	99	79
Total	141	135	130	126	122	117	95
Generating Capability December 31 (Thousand KW)	623	623	540	457	457	400	280
Peak Demand (Thousand KW)	445	426	389	372	341	313	193

* Reflects 3 for 1 split made in 1962. Prior years adjusted.

† Includes non-recurring dividend payment from merchandising subsidiary amounting to 14 cents on average shares and 13 cents on year end shares.

which was installed in 1964, and to the higher efficiency of the units in full operation at Kahe, the number of barrels of oil used increased only 2.2 per cent as compared to an increase in output of 6.5 per cent. In addition to this, our fuel costs have been reduced by the use of a heavier type of residual fuel, 1500 viscosity, at Kahe. By April, 1966 all units at Waiuu will also be using the heavier fuel oil.

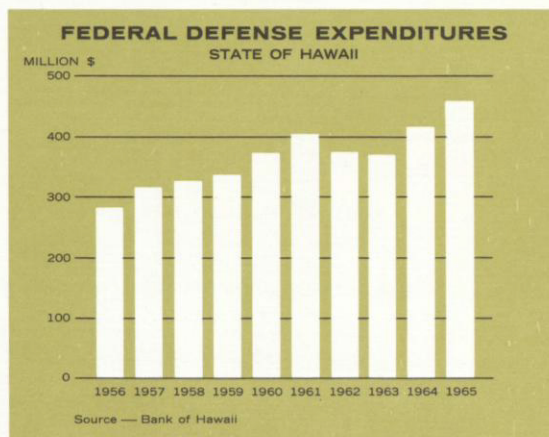
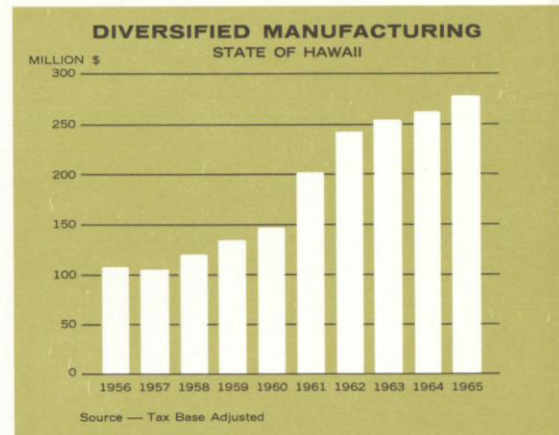
OUR GROWING ECONOMY

Construction in the State has been moving at record levels during the past ten years, with 90 per cent of it in our service area of Oahu. In dollar volume it has increased from \$97 million in 1955 to \$340 million in 1965.

It is anticipated that building will continue at its present high volume through 1966. During the first 10 months of 1965, Honolulu ranked fifth in the nation in dollar volume of building permits issued.

The population on Oahu has increased 24 per cent in the past five years, and it is expected that a similar rate of growth will continue in the immediate future.

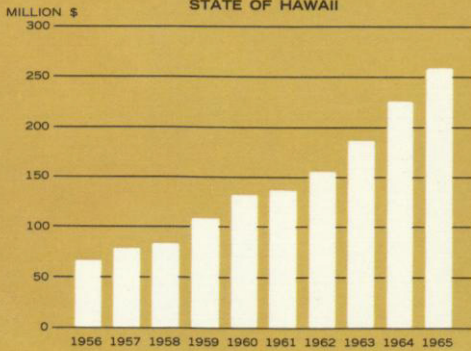
In 1965, manufacturing for local and export consumption showed its biggest gain since 1961. This was accomplished without the establishment of any new major industrial plant. Sales of products by diversified manufacturing concerns totaled \$281 million in 1965. The



Automatic Dispatcher promotes efficiency by maintaining close frequency control and distributing power load among Company's ten largest generators. Substantial saving in fuel oil is also expected from this method. Frederick Colburn, load dispatcher, is at the controls and Manuel Reis, acting supervisor, in background.



TOURISM
STATE OF HAWAII



Source — Hawaii Visitors Bureau

addition of numerous small plants and increased sales by existing manufacturers accounted for the gain. The gain in population and greater local procurement of supplies by the military were leading factors contributing to the increase.

Federal defense spending in Hawaii, most of it on Oahu, contributed a large share of the State's

one-billion-plus economy. The escalation of the war in Viet Nam has caused increased military activity in Hawaii. In addition, establishment of a nuclear submarine training center at Pearl Harbor and a major policy change which transferred naval repair work from other yards to Pearl Harbor indicate further growth in local defense expenditures.

Armed Forces spending in Hawaii during 1965 reached an all-time high of \$460 million.

The tourist industry continues to grow at an average rate of about 20 per cent per year. During the past five years, the number of tourists and the amount spent by them has almost doubled. In 1965 more than 600,000 visitors spent an estimated \$260 million.

Increased visitor facilities on all the islands has permitted the growth to take place. There are over 10,000 hotel rooms available on Oahu today, and 3,000 additional rooms will be available in the near future.

Several hotels are adding improved convention facilities, and Hawaii is now able to attract major conventions.

BEAUTIFICATION PROGRAM

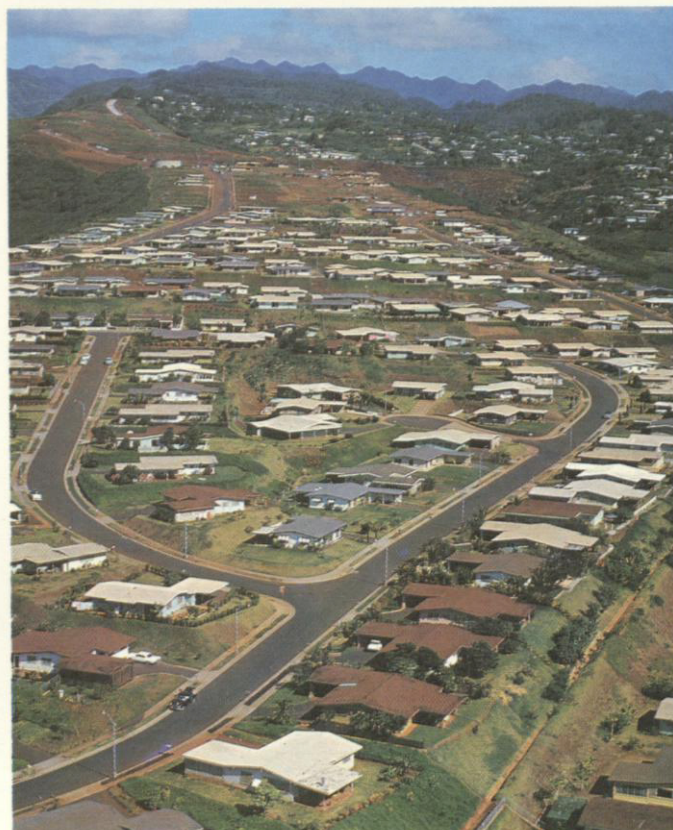
In harmony with President Lyndon B. Johnson's national beautification program, utilities across the country have embarked on a policy of "beautility," coined from "beauty" and "utility." One of the salient aims is to increase the use of underground wiring.

Since the 1920's Hawaiian Electric has had an underground program. Through continuing research over the years, simplified and more reliable methods are now decreasing the cost of these installations.

The Company has been successful in encouraging subdividers and developers to install more and more of the distribution system underground. As a result Hawaiian Electric Company has 20 per cent of its distribution system underground in contrast with a national average of 11 per cent.

Hawaiian Electric follows a long-standing policy of landscaping its buildings and installations to harmonize with their Hawaiian surroundings. Landscaping of the Kahe Generating Station was publicly commended by the Outdoor Circle.

Company program is helping to bring both full and partial underground wiring within reach of more homeowners. More than 42 per cent of new residential subdivisions were improved in appearance and value by underground service in 1965.





U. S. Marine Corps

Troops engage in jungle-type exercises during training near Kaneohe. Critical areas in Asia emphasized Hawaii's strategic defense role in 1965. Military expenditures here were some \$460 million for year.

PAYROLL & BENEFITS

	1965	1964
Wages for Productive Work	\$10,667,736	\$ 9,738,840
Vacations	611,935	577,220
Holidays	425,546	404,136
Sickness	256,761	268,713
Leaves and Excused Absences ...	68,643	64,389
Pension Plan	1,038,690	888,181
Cash Pensions	30,870	36,333
Group Life Insurance	90,122	65,647
Medical and Hospital Plans	306,763	254,148
Social Security Insurance	245,533	241,105
Unemployment Insurance	101,320	129,057
Other Employee Benefits	61,562	59,226
Total Payroll and Benefits	\$13,905,481	\$12,726,995

EMPLOYEES

New concepts, new procedures and new skills needed to sustain the rapid growth of the Company are being adopted by our employees through on-the-job training and formal after-hours training and study programs.

At the end of 1965 the Company had 1,401 employees.

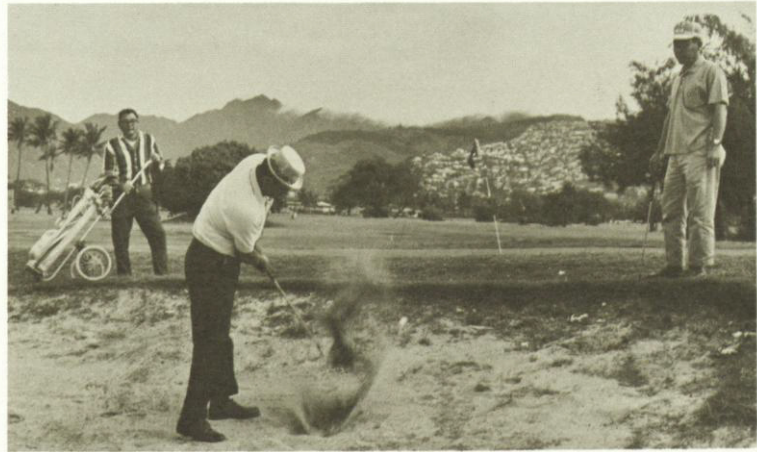
Emergency crews braved flood waters to maintain power during rains that deluged islands in May. Working foreman Carl Lyman offers helping hand to apprentice cable-splicer Val Marciel, Jr. in swollen Waihee Stream.



Honolulu Advertiser



Noted Chinese cooking authority and author, Mary Li Sia, has tea with Director Helen Sheard, right, and Theodora Chong, of Home Service Department, at Narcissus Festival Cooking School presented before capacity audiences of 1,200 by Chinese Chamber of Commerce and Hawaiian Electric.



Employee Golf Club has membership of 60 from various departments. Allan Sasaki, left, and Dick Mizuko watch John DeMello show his style in a sand trap.

J. L. Oberholzer, left at blackboard, leads first-year apprentices in general electrical mathematics class. Seventeen were graduated in 1965 after three-year on-job training courses.



During the year we had 57 apprentices in 11 trades, and 17 apprentices were graduated in five trades. In addition, there were 52 employees who completed self-improvement courses and 25 supervisors who participated in supervisory training programs.

The feeling of confidence and respect that has characterized the long relationship with the International Brotherhood of Electrical

Workers, Local 1260, AFL-CIO, which represents 76.3 per cent of our employees, has been further demonstrated by the understanding reached on mutual problems through the work of a Joint Review Committee. This committee, consisting of three Union and three Company members, meets regularly and is chaired by a representative of the Federal Mediation and Conciliation Service.



Hawaii Institute of Geophysics

Research and development in space, ocean depths and below earth's surface is assuming major importance in Hawaii. Plane towing a sensitizing device is used by Hawaii Institute of Geophysics, University of Hawaii, to carry out magnetic surveys over the Hawaiian Ridge and adjacent ocean.

Magnetometer in plane records data about earth's crust to depths of 20 miles.

The Company is operating under the terms of a three-year agreement with the International Brotherhood of Electrical Workers, Local 1260, which was negotiated in 1964 and covers the period March 1, 1964 through February 28, 1967.

Employees in our security force are represented by Independent Local 650 of the United Plant Guard Workers of America. This three-year contract covers the period May 1, 1964 through April 30, 1967.

CUSTOMERS

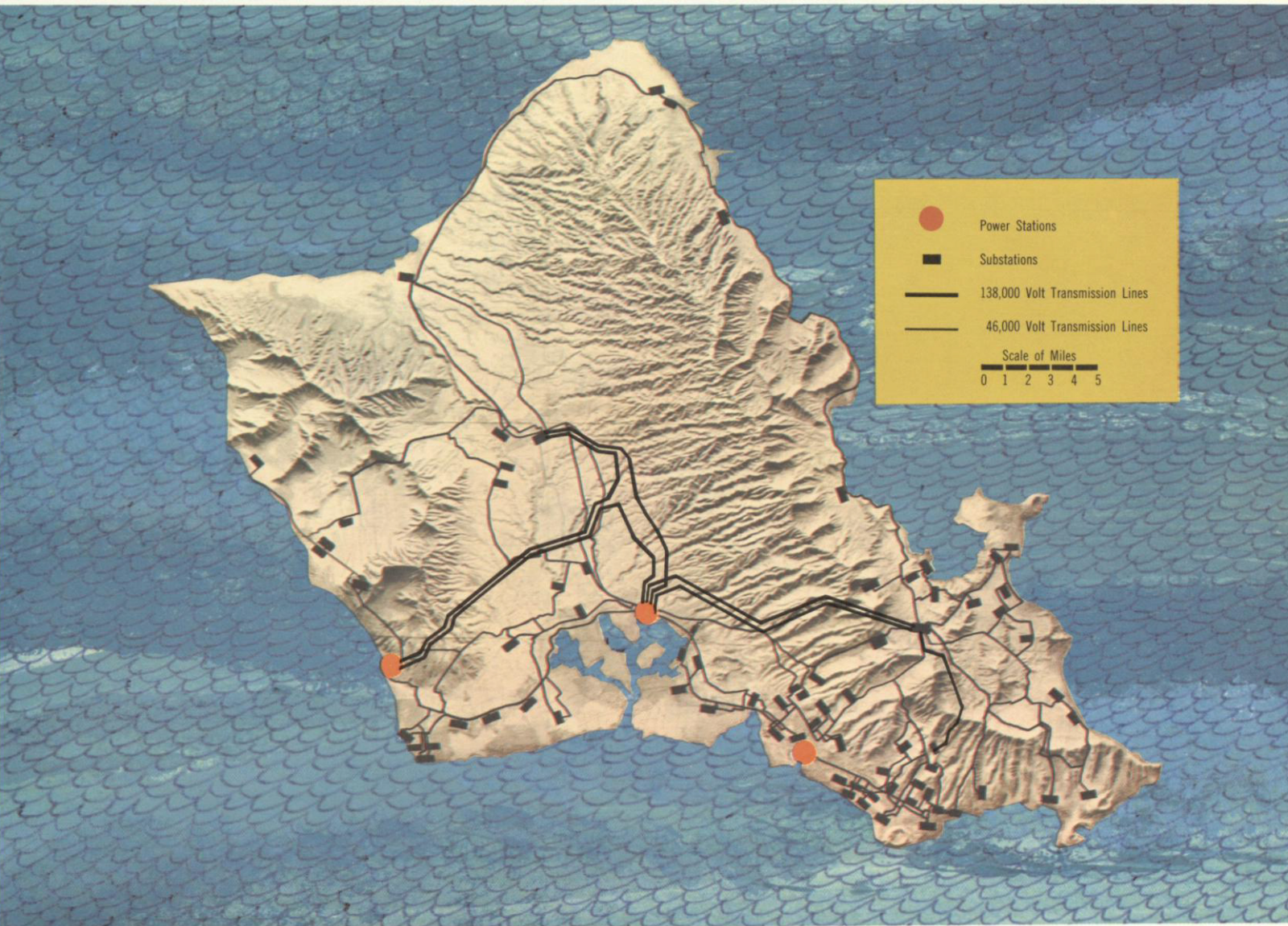
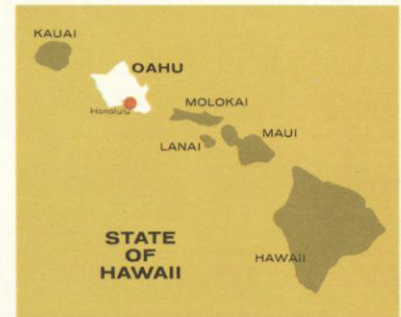
The Company added 5,552 customers to its system during 1965, bringing the total to 140,904. The effect on our kilowatt hour sales is increased by the high average annual residential use of electricity in our area. These customers averaged 6,058 kwh, almost 23 per cent above the national average.

Total new homes and apartment units constructed was 8,450, including 662 military units and 614 other government units. There were 4,519 individual homes built, an increase of 16 per cent over 1964. In addition, there were 2,655 apartment units constructed. More than 87 per cent of the new homes were all-electric, and 1,905 of the apartments were all-electric.

SERVING AN ISLAND OF 620,000

Island of Oahu, the Company's service area, with a population of approximately 620,000, is hub of the state's financial, business and industrial activities. With an area

of 604 square miles, it is third in size among the Hawaiian Islands, as shown in smaller map. Honolulu, the State Capital, Pearl Harbor and Waikiki, are on Oahu.





Low-silhouette line truck designed by Engineering Department was put into successful operation. Body is only 6 feet high. Tools and materials are easy to store and reach. Working foreman George Garcia, at controls, and James Smith, helper, demonstrate use of center-mount boom, clearly visible to operator over low roof.

BUILDING THE LOAD

During 1965 the Company continued its program of encouraging the use of electric service. This is done through customary marketing programs, which include a strong advertising program, good distributor-dealer relationships, and continued assistance to home owners by the Home Service Division.

The Company again received honors for its high quality advertising in both local and national competition, capturing nine awards in 1965. Our complete advertising program was judged best in the industry for utilities our size in the Public Utilities Advertising Association competition. Major awards were also received in local contests of the Hawaii Newspaper Agency, Honolulu Advertising Club, and Honolulu Artists and Art Directors Club.

AREA DEVELOPMENT

During 1965 the Governor of our State encouraged and sponsored a number of conferences relating to the potential of research and development in the Islands.

Sufficient interest was shown to indicate that this could become another industry for the State. During the year the University of Hawaii received additional grants for research and the Federal Government started an underwater sound project off the coast of Kauai. The Mohole project was also designated for Hawaii in 1965 and has already gotten underway. Our Area Development office has been actively interested in these projects.

NEW DIRECTORS

Two new members, prominent in our community, were added to the Board of Directors at the annual stockholders' meeting in April, 1965, bringing the total to 15. They are Harold C Eichelberger and Ralph T. Yamaguchi.

Mr. Eichelberger is president of American Factors, Limited, and a director or office holder in various other corporations and community institutions and organizations. Mr. Yamaguchi, an attorney in private practice since 1941, is a former president of the Bar Association of Hawaii and has held numerous offices in legal and other community groups.

High-wire act engages linemen on ridge overlooking Windward Oahu. They are drawing up supplies for additions by "bundling" method to 138-kv transmission system from Waiiau Generating Station to Koolau Substation. Working foreman John Kealiinohomoku, left, directs apprentice linemen Clyde Williams and Gerald Nutt.



BOARD OF DIRECTORS

PHILIP E. SPALDING
Chairman of the Board

RALPH B. JOHNSON
President

T. A. COOKE
Trustee of Estates

HAROLD C EICHELBERGER
President
American Factors, Limited

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

RUSSELL H. HASSLER
Financial Vice President

LESLIE A. HICKS
Past President

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

FRED P. LOWREY
President
Lewers & Cooke
Merchandise Corporation

J. SCOTT B. PRATT, III
President
Hawaiian Trust Company, Limited

H. M. RICHARDS
Assistant Secretary
Castle & Cooke, Inc.

GILBERT W. ROOT
President
Cooke Trust Company, Limited

H. V. von HOLT
Estate Management

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

RALPH T. YAMAGUCHI
Attorney-at-Law
Yamaguchi & Tanaka

OFFICERS

PHILIP E. SPALDING
Chairman of the
Board of Directors

RALPH B. JOHNSON
President and Director

RUSSELL H. HASSLER
Financial Vice President
and Director

LEWIS W. LENGNICK
Senior Vice President in
Charge of Engineering
and Operations

HERBERT HEINRICH
Vice President and Manager
Commercial Department

CARL J. SCHIFFERS
Administrative Vice President

RICHARD L. SUMMERS
Vice President and Secretary

CARL H. WILLIAMS
Vice President and
Manager of Engineering

JESSE R. ZEIGLER
Vice President and
Manager of Operations

EUGENE A. HELBUSH
Controller
Assistant Secretary and
Assistant Treasurer

WILL B. JOHNSTONE, JR.
Treasurer

EDWARD A. MURTY
Budget Director
Assistant Secretary and
Assistant Treasurer

DEPARTMENT MANAGERS

WILLIAM A. FROOME
System Operation

CURTIN A. LESER
Personnel

FRANK R. HICKS
Generation

FRANCIS H. WILLIAMS
Promotional

C. DUDLEY PRATT, JR.
Distribution

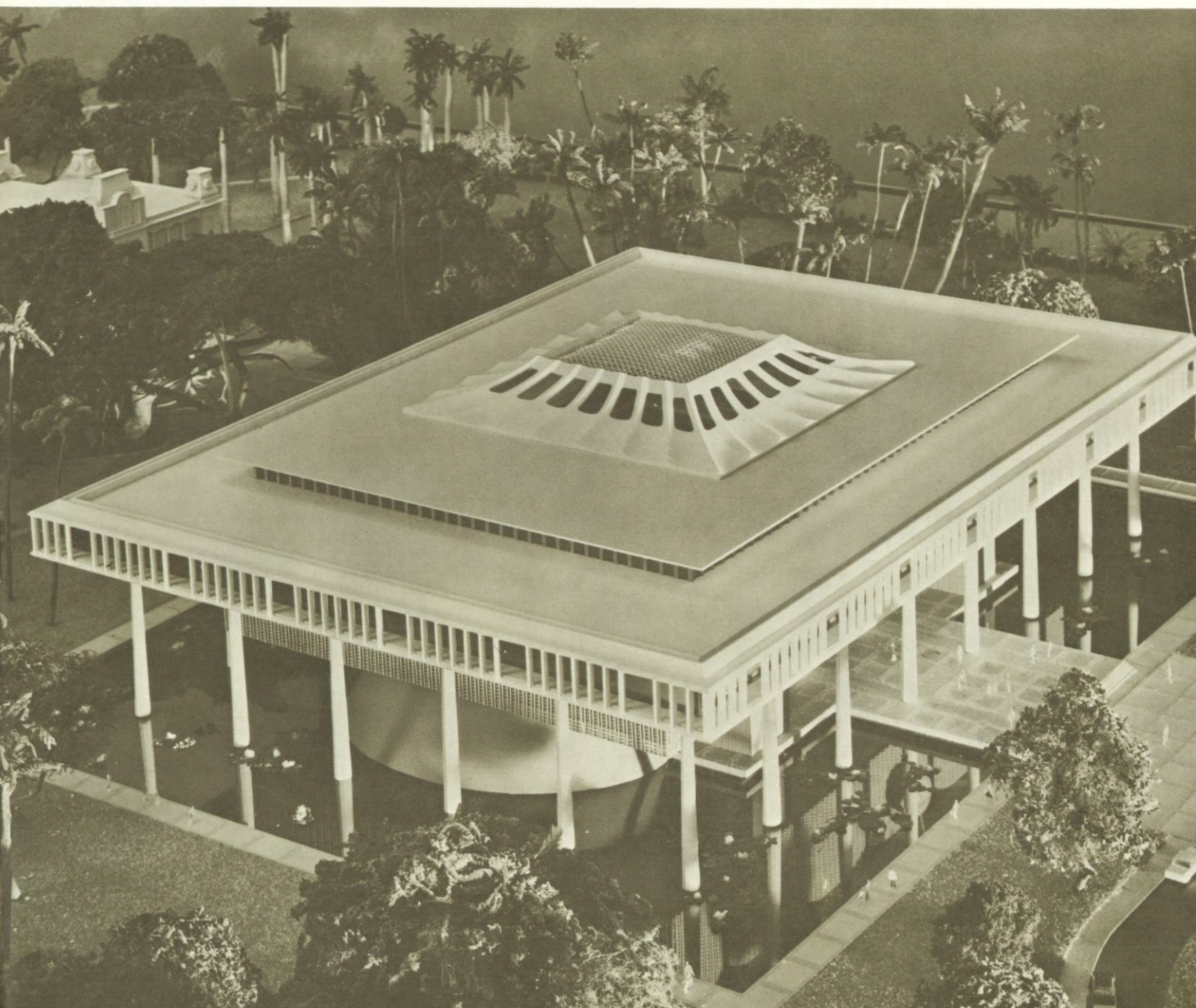
G. MURRAY WINSLEY
Purchasing and Stores

TRANSFER AGENTS—Morgan Guaranty Trust Company of New York, New York • Wells Fargo Bank, San Francisco • Office of the Company: (David Freitas, E. L. Bourke, A. C. Sloggett, Jean Potter, Transfer Agents) 990 Richards Street, Honolulu 96813

REGISTRARS—The Chase Manhattan Bank, New York • The Bank of California National Association, San Francisco • Cooke Trust Company, Limited, Honolulu

THE NEW — During Hawaiian Electric's history Hawaii changed from a monarchy to a United States Territory to a State of the Union. Late in 1965, after the Company had entered its 75th year, ground was broken for a new State Capitol designed according to this model, and to be completed in 1968. Iolani Palace, the present Capitol, was originally the residence of King Kalakaua, built for him nine years before Hawaiian Electric was incorporated. In the Company's history of three-quarters of a century, Oahu has grown into a Pacific center of approximately 620,000 population and Hawaiian Electric has built a \$188 million utility system to serve it with light and power. Another \$7 million has been spent on plant facilities now under construction, a dynamic 75th-anniversary restatement of Hawaiian Electric's motto: Building Today for Tomorrow's Needs.

Lemmon, Freeth, Haines and Jones — John Carl Warnecke and Associates



HAWAIIAN ELECTRIC COMPANY, INC.
P. O. BOX 2750
HONOLULU, HAWAII 96803

