

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

**HAWAIIAN
ELECTRIC
COMPANY,
INC.**
Annual Report
1967





Highlights 1967

	Increase Over 1966
SALES	8.6%
Sales of kilowatt-hours were 2,480,322,617, a new Company record	
OPERATING REVENUES	7.7%
Increased to \$50,937,461, a gain of \$3,630,406	
NET INCOME	3.6%
Totalled \$7,295,570, increase of \$256,262	
EARNINGS PER SHARE	4.3%
Rose to \$1.70 on common stock outstanding at year end, from \$1.63 in 1966	
UTILITY PLANT	6.6%
Utility plant in service and construction has total worth of \$230,996,506, an increase of \$14,250,156	
PEAK DEMAND	5.9%
Maximum kilowatt demand reached 517,000 kw, up 29,000 kw	
CUSTOMERS	5,089
Number served now totals 151,554	
RESIDENTIAL USE KWH	276
Average annual residential use amounted to 6,510 kwh	

CONTENTS

Highlights	1
Letter from the President	2
Financial Review	6
Physical Operations	10
Financial Section	11
Statistical Summary	18
Customers, Sales	20
Employees	20
Service Area Map	25
Directors	26
Community Betterment	26
Directors, Officers, Managers	28

On the cover: High fashion model poses high above Waikiki to dramatize two elements of Hawaii's economy: hotel construction and garment manufacturing
(Fashion by Nali'i at Hilton Tower)

At left: Company's newest and largest transmission substation in upper Halawa Valley went into operation in September

Letter from the President



1967 was a good year for the Company.

Revenues for the first time exceeded \$50,000,000 and earnings on common stock increased seven cents to \$1.70 per share.

We negotiated a 28-month contract with the unions and completed the sale of \$13,000,000 of bonds and \$7,000,000 of convertible debentures to finance our capital expansion program.

Visitors passed the million mark in 1967. Growth of this segment of our economy is dynamic, and the number of visitors is projected to be two million by 1975. Hawaii's semi-tropical climate and natural beauty, combined with the spirit of aloha which prevails, hold special attraction for visitors and new residents alike. Other segments of our economy are strong and will con-

tinue to grow. Construction and military spending are expected to remain high. Diversified manufacturing will increase to meet greater needs of the military and a larger population. Income from sugar and pineapple will remain stable.

Growth in our service area will be reflected in our kilowatt-hour sales and operating revenues, and it will require a substantial expansion of Company facilities to supply the needed power. In the next five years we estimate utility plant expenditures of \$123,000,000. The outlook is for continued growth of earnings in 1968.

Equal in importance to our Company's physical growth is the skill with which our employees perform their jobs. The spirit of service which prevails in employee contacts has made public attitude toward this Company something of

which to be proud. We have a good organization of capable and dedicated men and women. You will not find this on our balance sheet, but one of the Company's greatest assets is its employees. Their contribution to our success cannot be overestimated.

We look to the future with a great deal of optimism, and we are building, training and staffing to meet the challenges of the future.

Details of our 1967 operations appear on the following pages. I hope you will find them interesting and informative.


President

March, 1968

Mecca for million

Waikiki hotels and apartments multiply to meet new influx of visitors, which passed million mark for first time in 1967





Gains in Economy Company progress was consistent with substantial gains in the Hawaiian economy.

Federal expenditures increased an estimated 16 per cent over 1966 to about \$600,000,000. It was a banner year for tourism, which recorded a total of a million visitors in one year for the first time. About 125,000 service men on leave from Viet Nam, their wives and families helped to establish that figure. The million visitors spent an estimated \$360,000,000, or 19 per cent more than in the previous year.

Continued expansion in diversified manufacturing resulted in a 7-per-cent production increase to \$315,600,000. The construction industry finished the year about 2 per cent behind its 1966 record, with \$365,000,000 estimated construction in place. Meeting the shortages of housing and hotel space, together with the highway expansion and commercial building underway, promises to keep construction at a high level.

Sugar, pineapple and diversified agriculture added \$369,000,000 to the economy. This is a near record contribution for agriculture although performance in this field does not have the spectacular growth found in other branches of the economy.

Sales and Revenue The Company experienced a record year in electrical energy sales, operating revenues and earnings.

Total sales reached 2.48 billion kilowatt-hours, an increase of 8.6 per cent. Sales increases were realized in

all classes of service. Most significant gains were in primary power sold to military installations, hotels and other large consumers.

Operating revenues were \$50,937,461, an increase of 7.7 per cent. This compares favorably with our revenue growth rates of 7 per cent in 1966 and 6.5 per cent in 1965. Revenue from the sale of electricity to residential customers increased 7.5 per cent and accounts for 41 per cent of total revenue from electric sales.

Expenses Operating expenses were 77.8 per cent of revenue as compared with 78.6 per cent in 1966, showing an improvement in our operating ratio as a result of improved efficiencies. Wage rates and employee benefits increased, but total labor expenses remained at 19.4 per cent of revenue.

Net interest expenses were 8.1 per cent of revenue as compared with 6.3 per cent in 1966. One reason for this was the additional interest on bonds and debentures sold in March to finance the construction of new fa-

ilities. Another was the \$471,431 decrease in the interest charges capitalized as part of the cost of our major construction projects. This decrease amounted to 13 cents per share on common stock. A considerable part of the additional interest expense was offset by interest received from short-term investments made with the proceeds from the sale of our bonds and debentures.

Taxes charged to operations amounted to 21.5 per cent of revenue, or \$10,954,091. This represents \$2.99 per share of common stock outstanding. The table on page 8 shows the detail of taxes charged to operations.

Net Earnings Net income increased \$256,262 to \$7,295,570. Earnings per share of common stock outstanding were \$1.70, an increase of 7 cents per share over 1966.

Dividends Dividends paid to holders of preferred stock totaled \$1,079,907. Dividends paid on common stock were \$1.08 per share compared with \$1.04 in 1966. We estimate that

SUMMARY OF FINANCIAL RESULTS

(Dollars in Thousands)

	1967		1966	
	Amount	% of Total	Amount	% of Total
WE RECEIVED FROM				
Operating Revenues	\$50,937	99.4	\$47,307	99.7
Other Income	307	0.6	125	0.3
Total	\$51,244	100.0	\$47,432	100.0
WE HAD THESE EXPENSES				
Wages and Employee Benefits Charged to Operations ...	\$ 9,929	19.4	\$ 9,189	19.4
Fuel Oil	9,974	19.5	9,371	19.7
Other Materials and Services .	3,512	6.7	3,934	8.3
Depreciation	5,087	9.9	4,503	9.5
Federal and Local Taxes	10,954	21.5	9,521	20.1
Investment Credit Deferred (Net)	162	0.3	687	1.4
Interest on Borrowed Money and Other Miscellaneous Expenses ...	4,542	8.9	3,871	8.2
Interest Charged to Construction, Cr.	(212)	(0.4)	(683)	(1.4)
Total	\$43,948	85.8	\$40,393	85.2
LEAVING AS NET INCOME	\$ 7,296	14.2	\$ 7,039	14.8
FROM WHICH WE PAID STOCKHOLDERS				
Preferred Dividends	\$ 1,080	2.1	\$ 1,080	2.3
Common Dividends	\$ 3,952	7.7	\$ 3,793	8.0
AND WE RETAINED IN OUR BUSINESS	\$ 2,264	4.4	\$ 2,166	4.5

According to the Hawaiian view, underground wiring is specially desirable in residential areas. Full or partial underground facilities were installed at 14 large subdivisions in 1967



26.45 per cent of the dividends on common stock is not subject to Federal income tax.

The Board of Directors increased the 1968 first quarter dividend on common stock to 30 cents per share.

Ownership At the close of the year there were 12,198 owners of common stock living in 49 states and 7 foreign countries. Of these, 8,479 are residents of Hawaii, including 869 employees. Approximately 65 per cent of the shares are owned by Hawaii residents.

Financing In March the Company sold \$13,000,000 of Series O 5.75 per cent First Mortgage Bonds and \$7,000,000 of 4.125 per cent Convertible Debentures. Both issues were sold through a negotiated public offering by a syndicate of 29 underwriters headed by Dillon, Read & Co. Inc. and Dean Witter & Co.


The convertible debenture issue, the first security of this type issued by the Company, is convertible into common stock at \$32.50 per share. No capital surplus or debt discount has been recorded in respect to the convertible debentures.

Proceeds from the sale of the securities were used to repay \$10,000,000 of short-term bank loans and to provide funds for the 1967-1968 capital expenditure program.

TAXES	1967		1966	
	Amount	Percent of Operating Revenue	Amount	Percent of Operating Revenue
TAXES OTHER THAN INCOME				
Public Service	\$ 3,893,952	7.6	\$3,645,698	7.7
Franchise Royalty ..	1,255,528	2.5	1,168,931	2.5
F.I.C.A. and Unemployment ..	304,187	0.6	278,065	0.6
Other	122,161	0.2	113,246	0.2
	<u>\$ 5,575,828</u>	<u>10.9</u>	<u>\$5,205,940</u>	<u>11.0</u>
INCOME TAXES				
State				
Current	445,211	0.9	377,797	0.8
Deferred	206,923	0.4	180,930	0.4
	<u>\$ 652,134</u>	<u>1.3</u>	<u>\$ 558,727</u>	<u>1.2</u>
Federal				
Current	3,181,249	6.3	2,433,236	5.1
Deferred	1,544,880	3.0	1,323,502	2.8
	<u>\$ 4,726,129</u>	<u>9.3</u>	<u>\$3,756,738</u>	<u>7.9</u>
TOTAL INCOME TAXES	<u>\$ 5,378,263</u>	<u>10.6</u>	<u>\$4,315,465</u>	<u>9.1</u>
TOTAL TAXES CHARGED TO OPERATIONS	<u>\$10,954,091</u>	<u>21.5</u>	<u>\$9,521,405</u>	<u>20.1</u>

Under new Customer Service plan, callers dial direct, get immediate attention and quick action from a special staff





All-electric advantages, including central air-conditioning, contribute to pleasant life at The Kahala Beach condominium apartments. Total electric concept continues to win adherents on Oahu.

We do not plan any permanent financing in 1968. The 1968 capital expenditure program will be financed from liquidated temporary investments, retained earnings, and negotiated short-term loans.

Capital Expenditures Capital expenditures in 1967 amounted to \$16,665,105. We invested \$5,535,433 on our generating facilities, \$4,799,352 of which went toward the construction of Waiiau Unit No. 8. Additions to our transmission and distribution systems amounted to \$9,571,152. We invested an additional \$908,211 for land upon which we plan to construct a major transmission substation to serve downtown Honolulu.

Building for Future Building additional plant is a continuous process at Hawaiian Electric. The peak load in 1967 rose to 517,000 kilowatts, which is a 6-per-cent increase over the 1966 peak. Planning, engineer-

ing, and construction are carried out to assure an adequate reserve capability.

In the spring a construction contract was let and building was started on the eighth unit at our Waiiau Station on Pearl Harbor. Some of the older low-pressure units at the Honolulu Power Plant, rated at 10,000 kilowatts each, will be retired during 1968.

Waiiau No. 8 will be 86,000 kilowatts, the same capability as No. 7 which went into operation in December, 1966. When Waiiau No. 8 is placed in commercial operation late in 1968 and the Honolulu units are retired, the Company's generating capability will be 765,000 kilowatts.

Early in 1967 design work began on Units Nos. 3 and 4 at the Kahe Generating Station on the Waianae Coast. Orders were placed for most of the major items of equipment for these two 86,000-kilowatt units to be completed in 1970 and 1972.

We have two power plant sites that we believe will qualify for use of nuclear power.

Nuclear generating stations in sizes of about 500,000 kilowatts or more are competitive with conventional plants burning fossil fuels, but

smaller nuclear reactors for our size system have not yet proved to be economically feasible.

A Major Substation One major capital outlay in 1967 was for completion of the first phase of a 138,000-volt transmission substation in the upper reaches of Halawa Valley. With future additions, the Halawa Substation will become the largest on our system and provide additional power for the city of Honolulu.

Halawa is one of three major substations connected to our newest computer, the IBM 1800. This computer performs a number of functions, but its primary function is supervisory control of the substations. A complete scan of substation status is made automatically every 15 minutes. If an alarm condition occurs, information is automatically printed on a logging typewriter within a few seconds. This will greatly improve power restoration capabilities.

Construction was started on 20.6 miles of aluminum 138,000-volt line from our Kahe Station through the mountains behind Pearl Harbor to the Halawa Substation. This will be the



New 50-ton tractor-trailer is used for hauling heavy equipment, such as mobile substation it is shown carrying



Financial Section

BALANCE SHEET

December 31, 1967
(with comparative figures for 1966)

*Capitalization
And Liabilities*

	1967	1966	Increase (Decrease)
CAPITALIZATION:			
Common Equity:			
Common Stock of \$6 ² / ₃ Par Value Per Share:			
Authorized, 4,500,000 Shares (Note 2)			
Issued, 3,659,184 Shares	\$ 24,394,560	\$ 24,394,560	\$ —
Premium on Common Stock	15,582,464	15,582,464	—
Capital Stock Expense	(1,058,725)	(1,058,225)	(500)
Retained Earnings	21,889,209	19,610,146	2,279,063
	<u>\$ 60,807,508</u>	<u>\$ 58,528,945</u>	<u>\$ 2,278,563</u>
Cumulative Preferred Stock of \$20 Par Value Per Share:			
Authorized, 2,000,000 Shares			
Issued, 1,114,657 Shares (Note 3)	22,293,140	22,293,140	—
Total Proprietary Capital	<u>\$ 83,100,648</u>	<u>\$ 80,822,085</u>	<u>\$ 2,278,563</u>
Long Term Debt (Note 4)	99,000,000	79,000,000	20,000,000
Total Capitalization	<u>\$182,100,648</u>	<u>\$159,822,085</u>	<u>\$22,278,563</u>
CURRENT LIABILITIES:			
Notes Payable	—	8,500,000	(8,500,000)
Drafts Payable	2,898,006	1,622,456	1,275,550
Accounts Payable	1,615,213	1,974,232	(359,019)
Customer Deposits	296,672	260,950	35,722
Taxes Accrued	1,729,613	2,162,425	(432,812)
Interest Accrued	1,146,099	828,801	317,298
Payroll Accrued	469,287	427,077	42,210
Preferred Dividends Accrued	224,981	224,981	—
Other	143,296	139,633	3,663
	<u>\$ 8,523,167</u>	<u>\$ 16,140,555</u>	<u>(\$ 7,617,388)</u>
DEFERRED CREDITS:			
Deferred Income Taxes (Note 1)	11,498,681	9,746,878	1,751,803
Unamortized Depreciation Adjustment	880,000	968,000	(88,000)
Unamortized Investment Credit (Note 5)	1,983,852	1,822,321	161,531
Unamortized Premium on Debt	40,909	47,761	(6,852)
Other	297,846	280,717	17,129
	<u>\$ 14,701,288</u>	<u>\$ 12,865,677</u>	<u>\$ 1,835,611</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>6,397,740</u>	<u>5,752,837</u>	<u>644,903</u>
	<u>\$211,722,843</u>	<u>\$194,581,154</u>	<u>\$17,141,689</u>

See accompanying notes to financial statements.

BALANCE SHEET

December 31, 1967
(with comparative figures for 1966)

Assets

	1967	1966	Increase (Decrease)
UTILITY PLANT, at Cost:			
In Service:			
Land	\$ 6,074,374	\$ 5,734,318	\$ 340,056
Plant and Equipment	217,839,504	208,575,013	9,264,491
	<u>\$223,913,878</u>	<u>\$214,309,331</u>	<u>\$ 9,604,547</u>
Property Held for Future Use	12,562	—	12,562
Construction in Progress	7,070,066	2,437,019	4,633,047
	<u>\$230,996,506</u>	<u>\$216,746,350</u>	<u>\$14,250,156</u>
Less Accumulated Depreciation (Note 1)	(38,212,542)	(34,108,902)	(4,103,640)
	<u>\$192,783,964</u>	<u>\$182,637,448</u>	<u>\$10,146,516</u>
OTHER PROPERTY AND IMPROVEMENTS, at Cost			
Less Accumulated Depreciation	\$ 1,389,319	\$ 462,071	\$ 927,248
CURRENT ASSETS:			
Cash	3,069,818	2,060,093	1,009,725
Temporary Investments	3,771,134	—	3,771,134
Notes Receivable	215,562	422,114	(206,552)
Accounts Receivable	5,273,532	4,856,199	417,333
Provision for Uncollectible Accounts	(49,732)	(47,336)	(2,396)
Construction and Operating Materials and Supplies, at Average Cost	3,795,808	3,109,081	686,727
Prepayments	219,821	263,353	(43,532)
	<u>\$ 16,295,943</u>	<u>\$ 10,663,504</u>	<u>\$ 5,632,439</u>
DEFERRED CHARGES:			
Unamortized Debt Expense	919,946	699,784	220,162
Clearing Accounts	172,699	(3,615)	176,314
Other	160,972	121,962	39,010
	<u>\$ 1,253,617</u>	<u>\$ 818,131</u>	<u>\$ 435,486</u>
	<u><u>\$211,722,843</u></u>	<u><u>\$194,581,154</u></u>	<u><u>\$17,141,689</u></u>

See accompanying notes to financial statements.

Statement Of Income

Year Ended December 31, 1967
(with comparative figures for 1966)

	1967	1966	Increase (Decrease)
OPERATING REVENUES:			
Sales of Electricity	\$50,730,410	\$47,117,560	\$3,612,850
Other Operating Revenues	207,051	189,495	17,556
Total Operating Revenues	\$50,937,461	\$47,307,055	\$3,630,406
OPERATING EXPENSES:			
Fuel Oil	9,974,425	9,371,310	603,115
Operation — Production, Transmission, Distribution	4,453,806	4,079,324	374,482
Operation — Customer Accounts, Sales, Administrative and General	6,003,239	5,918,346	84,893
Maintenance	2,983,921	3,125,431	(141,510)
Depreciation	5,086,984	4,502,462	584,522
Taxes, Other than Income Taxes	5,575,828	5,205,940	369,888
Income Taxes	3,626,460	2,811,033	815,427
Income Taxes Deferred (Note 1)	1,751,803	1,504,432	247,371
Investment Credit Deferred, Net (Note 5)	161,531	687,117	(525,586)
Total Operating Expenses	\$39,617,997	\$37,205,395	\$2,412,602
OPERATING INCOME	\$11,319,464	\$10,101,660	\$1,217,804
OTHER INCOME:			
Interest	300,157	32,464	267,693
Gain on Sale and Exchange of Assets, Net	(427)	91,973	(92,400)
Miscellaneous	7,283	814	6,469
Total Other Income	\$ 307,013	\$ 125,251	\$ 181,762
TOTAL INCOME	\$11,626,477	\$10,226,911	\$1,399,566
MISCELLANEOUS INCOME DEDUCTIONS	201,471	193,628	7,843
INCOME BEFORE INTEREST CHARGES	\$11,425,006	\$10,033,283	\$1,391,723
INTEREST CHARGES:			
Interest on Long-Term Debt	4,173,264	3,332,750	840,514
Amortization of Debt Expense and Premium	37,447	29,392	8,055
Other Interest Expense	130,210	314,749	(184,539)
Interest Charged to Construction, Cr.	(211,485)	(682,916)	471,431
Total Interest Charges	\$ 4,129,436	\$ 2,993,975	\$1,135,461
NET INCOME	\$ 7,295,570	\$ 7,039,308	\$ 256,262
Earnings Per Average Common Share Outstanding	\$1.70	\$1.63	—
Pro Forma Earnings Per Share of Common Stock Reflecting Conversion*	\$1.65	\$ —	—

* The Pro forma per share earnings are based on the assumption that the 4½% convertible debentures outstanding at December 31, 1967 were converted into common shares immediately after they were issued on March 1, 1967, reflecting the 215,384 shares issuable on conversion and eliminating the related interest less applicable income taxes.

See accompanying notes to financial statements.

Statement Of Source And Disposition Of Funds

Year Ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
SOURCE OF FUNDS:		
Net Income	\$ 7,295,570	\$ 7,039,308
Depreciation and Amortization	5,307,103	4,668,126
Deferred Income Taxes	1,751,803	1,504,432
Investment Credit, Net	161,531	687,117
Funds Available from Operations	\$14,516,007	\$13,898,983
Contributions in Aid of Construction	660,222	939,710
Sale of First Mortgage Bonds, Series O	13,000,000	—
Sale of Convertible Debentures	7,000,000	—
Short-Term Bank Loans	—	8,500,000
Drafts Payable	1,275,550	1,622,456
Temporary Investments	—	2,003,245
Other Changes in Net Current Assets	—	156,118
Miscellaneous, Net	—	371,298
TOTAL	\$36,451,779	\$27,491,810
DISPOSITION OF FUNDS:		
Plant Construction Expenditures	\$16,665,105	\$22,618,901
Dividends on Preferred Stock	1,079,907	1,079,907
Dividends on Common Stock	3,951,919	3,793,002
Payment of Short-Term Bank Loans	8,500,000	—
Temporary Investments	3,771,134	—
Other Changes in Net Current Assets	2,254,243	—
Miscellaneous, Net	229,471	—
TOTAL	\$36,451,779	\$27,491,810

Auditors' Opinion

The Stockholders
Hawaiian Electric Company, Inc.:

We have examined the balance sheet of Hawaiian Electric Company, Inc. as of December 31, 1967 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 finan-

cial position of Hawaiian Electric Company, Inc. at December 31, 1967 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.

January 26, 1968

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 \$1,751,803 in 1967 and \$1,504,432 in 1966 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 \$1,661,423 in 1967 and \$1,944,770 in 1966.

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 provided, taxes then payable on such excess represent allowable expenses in determination of future rates.

NOTE 2 — COMMON STOCK

The Company has reserved 215,384 shares of its common stock for conversion of the 4 $\frac{1}{8}$ % convertible debentures which were issued on March 1, 1967.

NOTE 3 — PREFERRED STOCK

The following series of preferred stock were outstanding at December 31, 1967 and 1966:

	1967	1966
Series C, 4 $\frac{1}{4}$ % — 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 $\frac{1}{4}$ % — 250,000 shares ...	5,000,000	5,000,000
Series I, 5% — 89,657 shares ...	1,793,140	1,793,140
Series J, 4 $\frac{3}{4}$ % — 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>

The following series of preferred stock are redeemable on any dividend payment date at the option of the Company at par (in each instance \$20) together with accrued and unpaid dividends plus the following premiums:

Series C, D, E, H and J	\$1.00
Series K — To April 15, 1969	1.50
After April 15, 1969	1.00

The Series I preferred stock is redeemable on 30 days' notice at the option of the Company at par (\$20) together with accrued and unpaid dividends.

NOTE 4 — LONG TERM DEBT

The following series of first mortgage bonds and convertible debentures were outstanding at December 31, 1967 and 1966.

	1967	1966
FIRST MORTGAGE BONDS		
Series E, 3 $\frac{1}{8}$ % due 1970...\$	5,000,000	\$ 5,000,000
Series F, 3% due 1977...	5,000,000	5,000,000
Series G, 3 $\frac{1}{2}$ % due 1981...	3,000,000	3,000,000
Series H, 3 $\frac{1}{2}$ % 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	11,000,000
Series O, 5.75% due 1997...	13,000,000	—
	<u>92,000,000</u>	<u>79,000,000</u>
CONVERTIBLE DEBENTURES		
4 $\frac{1}{8}$ % due 1982	7,000,000	—
	<u>\$99,000,000</u>	<u>\$79,000,000</u>

The first mortgage 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 now owned or hereafter acquired. The convertible debentures are not secured.

The 4 $\frac{1}{8}$ % convertible debentures which are due in 1982, are convertible into common stock at \$32.50 per share.

The Accounting Principles Board of the American Institute of Certified Public Accountants has under consideration a proposed opinion which would require that the inferred value attributable to the conversion feature of convertible debt issues be accounted for by a credit to paid-in capital with a corresponding charge to debt discount. As the Company disagrees in principle with the proposed opinion, no capital surplus or debt discount has been recorded in respect to the 4 $\frac{1}{8}$ % convertible debentures issued in 1967. The effect of the proposed opinion would be a reduction in earnings of \$49,700 for the year 1967 resulting from the amortization of the debt discount.

NOTE 5 — INVESTMENT CREDIT

The investment credit allowed under the Revenue Act of 1962 reduced the Company's income tax liability by \$230,275 in 1967 and \$728,634 in 1966. The Company has elected to amortize the entire amount of the investment credit over 28 years.

NOTE 6 — PENSION PLAN

The Company has a contributory pension plan covering all of its employees. The total pension cost under this plan was \$1,261,966 in 1967 and \$1,107,782 in 1966, which, in 1967, includes amortization of prior service costs over a forty-year period. It is the Company's policy to fund pension cost accrued. At January 1, 1967, the actuarially computed value of vested benefits exceeded the pension fund by \$5,291,182.

NOTE 7 — COMMITMENTS AND GENERAL

At December 31, 1967, the Company had purchase commitments approximating \$15,000,000 in connection with its plant expansion program.

Statement Of Retained Earnings

Year Ended December 31, 1967
(with comparative figures for 1966)

	1967	1966	Increase (Decrease)
NET INCOME	\$ 7,295,570	\$ 7,039,308	\$ 256,262
Deduct — Cash Dividends on Preferred Stock	1,079,907	1,079,907	—
Balance Before Common Dividends	<u>\$ 6,215,663</u>	<u>\$ 5,959,401</u>	\$ 256,262
Deduct — Cash Dividends on Common Stock	3,951,919	3,793,002	158,917
Addition to Retained Earnings After Dividends	\$ 2,263,744	\$ 2,166,399	\$ 97,345
Add — Transfers from Contributions in Aid of Construction .	15,319	110,739	(95,420)
	<u>\$ 2,279,063</u>	<u>\$ 2,277,138</u>	\$ 1,925
BALANCE, JANUARY 1	19,610,146	17,333,008	2,277,138
BALANCE, DECEMBER 31	<u>\$21,889,209</u>	<u>\$19,610,146</u>	<u>\$2,279,063</u>

Statement Of Premium On Common Stock

Year Ended December 31, 1967
(with comparative figures for 1966)

	1967	1966
PREMIUM ON COMMON STOCK:		
Balance, December 31	<u>\$15,582,464</u>	<u>\$15,582,464</u>

See accompanying notes to financial statements.

Statistical Summary

FINANCIAL STATISTICS (Millions of Dollars)

	1967	1966	1965	1964	1963	1962	1957
Utility Plant in Service	\$223.93	\$214.31	\$188.51	\$178.99	\$163.09	\$138.75	\$ 83.77
Construction in Progress	7.07	2.44	7.23	1.79	6.21	15.14	1.33
TOTAL UTILITY PLANT	\$231.00	\$216.75	\$195.74	\$180.78	\$169.30	\$153.89	\$ 85.10
Accumulated Depreciation	\$ 38.21	\$ 34.11	\$ 30.50	\$ 27.13	\$ 24.62	\$ 22.16	\$ 13.50
Capitalization (December 31)							
Long Term Debt	\$ 99.00	\$ 79.00	\$ 79.00	\$ 68.00	\$ 68.00	\$ 57.00	\$ 35.00
Preferred Stock @ \$20 Par	22.29	22.29	22.29	22.29	22.29	24.93	11.91
Common Stock @ \$6 ² / ₃ Par	24.40	24.40	24.31	23.15	23.15	23.15	16.94
Common Stock Subscribed @ \$6 ² / ₃ Par	—	—	.08	—	—	—	—
Premium on Common Stock Issued	15.58	15.58	15.29	11.24	11.24	11.24	1.08
Premium on Common Stock Subscribed	—	—	.29	—	—	—	—
Capital Stock Expense	(1.06)	(1.06)	(1.05)	(.98)	(1.06)	(1.20)	(.69)
Retained Earnings	21.89	19.61	17.34	15.80	14.53	13.86	8.66
TOTAL	\$182.10	\$159.82	\$157.55	\$139.50	\$138.15	\$128.98	\$ 72.90
Long Term Debt Interest	\$ 4.17	\$ 3.33	\$ 3.25	\$ 2.83	\$ 2.57	\$ 2.30	\$ 1.18
Preferred Dividends	1.08	1.08	1.08	1.08	1.20	1.16	.59
Common Dividends	3.95	3.79	3.52	3.26	3.20	2.98	2.12
OPERATING STATISTICS							
Sales of Electricity	\$ 50.73	\$ 47.12	\$ 44.05	\$ 41.34	\$ 38.41	\$ 36.35	\$ 23.79
Other Operating Revenues .....	.21	.19	.16	.16	—	.07	.08
TOTAL OPERATING REVENUES ..	\$ 50.94	\$ 47.31	\$ 44.21	\$ 41.50	\$ 38.41	\$ 36.42	\$ 23.87
Operating Expenses:							
Fuel Oil	\$ 9.97	\$ 9.37	\$ 8.73	\$ 8.60	\$ 7.94	\$ 7.76	\$ 6.11
Operation — Production, Transmission, Distribution	4.45	4.08	4.09	3.93	4.07	3.56	2.30
Operation — Customer Accounts, Sales, Administrative and General ..	6.00	5.92	5.61	5.20	4.80	4.40	3.29
Maintenance	2.98	3.13	2.93	2.95	2.38	2.37	1.89
Depreciation	5.09	4.50	4.19	3.67	3.15	2.87	1.49
Taxes Other than Income Taxes	5.58	5.21	4.73	4.36	4.05	3.45	2.00
Federal Income Taxes	3.18	2.43	2.51	2.12	2.63	3.08	2.08
Federal Income Taxes Deferred	1.54	1.32	1.42	1.41	1.11	1.09	.22
Investment Credit Deferred, Net .....	.16	.69	.24	.48	.29	.12	—
State Income Taxes .....	.46	.38	.30	.26	.29	.33	.33
State Income Taxes Deferred .....	.21	.18	.17	.16	.13	.13	—
Total Operating Expenses	\$ 39.62	\$ 37.21	\$ 34.92	\$ 33.14	\$ 30.84	\$ 29.16	\$ 19.71
Operating Income	11.32	10.10	9.29	8.36	7.57	7.26	4.16
Other Income .....	.31	.13	.07	.16	.09	.52	.07
Income Deductions and Interest Charges	(4.33)	(3.19)	(3.30)	(2.61)	(2.26)	(1.82)	(1.00)
NET INCOME	\$ 7.30	\$ 7.04	\$ 6.06	\$ 5.91	\$ 5.40	\$ 5.96	\$ 3.23
COMMON SHARES (Millions)*	3.66	3.66	3.65	3.47	3.47	3.47	2.54
COMMON STOCK STATISTICS							
Earned Per Share:							
On Average Shares	\$ 1.70	\$ 1.63	\$ 1.42	\$ 1.39	\$ 1.21	\$ 1.48†	\$ 1.04
On Year End Shares	1.70	1.63	1.37	1.39	1.21	1.38†	1.04
Dividends Paid Per Share	1.08	1.04	1.00	.94	.92	.92	.83
Equity Per Share	\$ 16.62	\$ 16.00	\$ 15.43	\$ 14.17	\$ 13.78	\$ 13.55	\$ 10.23
MISCELLANEOUS STATISTICS							
Kilowatt Hour Sales (Billions)	2.48	2.28	2.11	1.97	1.80	1.69	.97
Average Annual Residential Use (KWH) ..	6,510	6,234	6,058	5,803	5,588	5,349	4,224
Revenue Per Residential KWH	2.49¢	2.52¢	2.55¢	2.57¢	2.61¢	2.65¢	2.93¢
Customers, December 31 (Thousands)							
Residential	130	125	120	115	111	107	87
Total	152	146	141	135	130	126	103
Generating Capability, December 31 (Thousand KW)	709	709	623	623	540	457	340
Peak Demand (Thousand KW)	517	488	445	426	389	372	227

* 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.

third circuit feeding into Halawa. In the other direction, we extended four 46,000-volt circuits from Halawa into the city of Honolulu. In the future, one of these circuits will be converted to 138,000 volts. New buildings downtown, including the Financial Plaza of the Pacific and the State Capitol, will greatly increase the city's demand for electrical power.

For future transmission lines within the city, the Company will use tall, trim steel poles. The first of these were erected in Kalihi Valley in 1967.

Underground Additions The Company has had a program of placing facilities underground since 1924 and adds to it every year. In 1967 the cost of additions was \$2,317,155; almost all was distribution wiring. Many street poles were eliminated when the Interstate Route H-1 freeway was constructed, adding to the functional beauty of the highway. Plans were also made for putting distribution lines underground along a midtown section of King Street, which is to be widened; on Ward Avenue between Kapiolani Boulevard and Ala Moana, and on Kalakaua Avenue in Waikiki. All these jobs are scheduled for 1968.

Underground installations continued on the increase in new Oahu subdivisions. Full or partial underground facilities were installed at 14 large subdivisions with a total of 1,159 homesites. Today, 43 years after the start of its underground program, half of Hawaiian Electric's investment in distribution lines is in underground facilities.

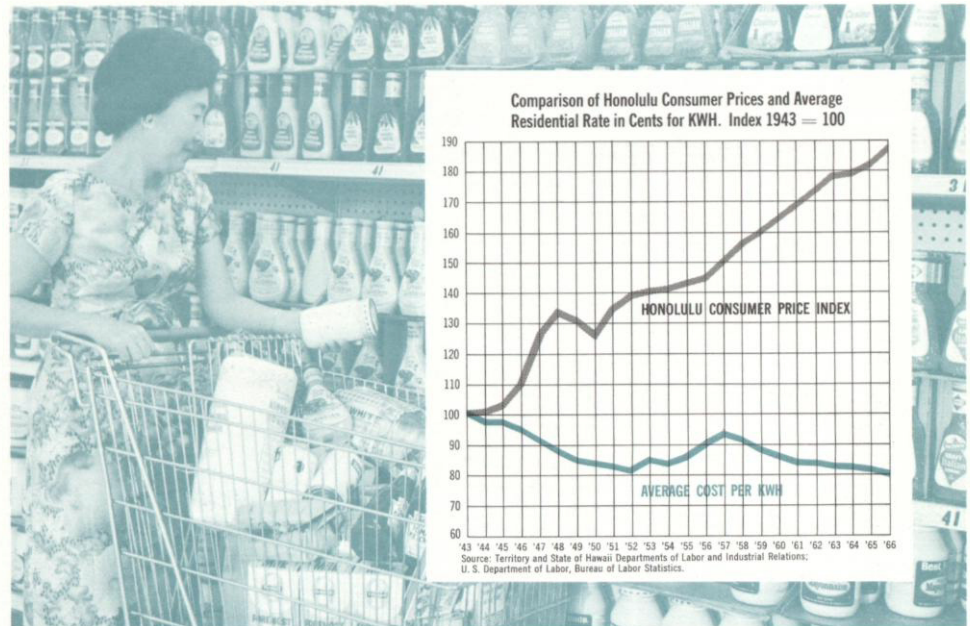
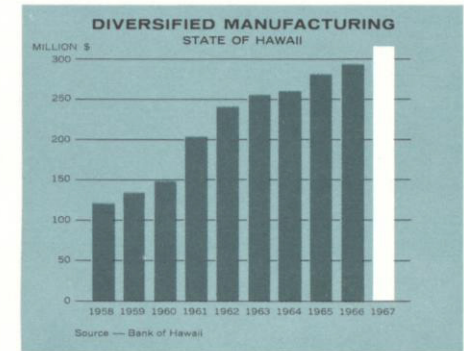
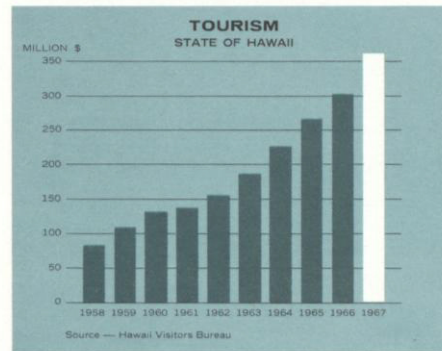
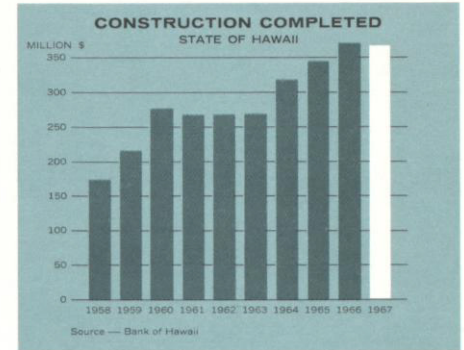
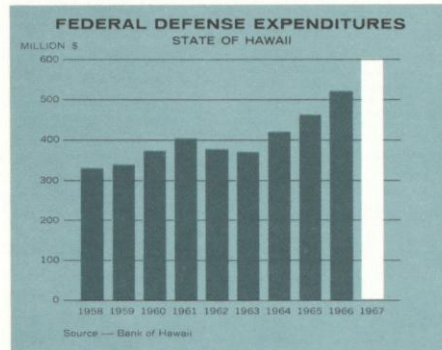
New Equipment, Facilities The Eastern power blackout of 1965 was a lesson the electric utility industry has learned well. Aided by modern mechanical devices, Hawaiian Electric generating station personnel follow rigid rules to safeguard the continuity of operations in the generating plants when trouble threatens.

In 1967 we ordered a gas turbine to provide the electric power needed

to restart a generating unit in case of a complete system outage. It will be installed at our Waiiau Station in 1968. The turbine will go into action at the touch of a button and provide sufficient power to start a 50,000-kilowatt unit. It will burn vaporized diesel oil

and start from storage batteries. Total cost of the installation will be \$400,000.

One of the notable improvements in our methods was containerized shipping of oil for transformers, saving time and money. Containers of



STILL A BARGAIN. While most other living costs have risen, the average cost per kilowatt-hour of electricity to residential users has gone down. The rates set for Hawaiian Electric by the State Public Utilities Commission in 1955 have not changed. Inflation has affected everything going into the manufacture and delivery of electric power, but modern operating efficiencies and increased use of energy are mainly responsible for keeping electricity one of the biggest bargains on the market for Oahu residents.

5,000 gallons capacity, equal to 90 barrels, are unloaded from ships and taken to our yard where the oil is pumped into storage tanks.

A new service yard and warehouse were completed on a portion of our 219 acres at Heeia-Kea, where a fourth power plant site will be developed in the future. This now provides a storage, construction, and service base for the Kaneohe and north shore area. In keeping with a long-standing Company beautification policy, extensive planting and landscaping were done at the baseyard and a lava rock wall was built along the front.

Customers, Sales During 1967 we had a 3.5-per-cent increase in number of customers and an 8.6-per-cent increase in kilowatt-hour sales. This excellent sales record is the result of a well-balanced, coordinated effort to promote the use of electricity in island living, business and industry. The program is well supported by the Company's policies for providing good service and building good will in the community.

At year's end, the number of customers served had grown to 151,554. Residential customers used an average of 6,510 kilowatt hours. This is greater than the national average.

The Sales and Promotional Department works with builders and developers, electrical dealers and distributors and other members of the electrical industry to help popularize the advantages of electricity. These efforts are supported by advertising, promotional campaigns carried out with the Pacific Coast Electrical Association (Hawaii), and the varied activities of Hawaiian Electric's Home Service Division.

Regular calls are made on users of commercial appliances and industrial equipment for the purpose of providing technical assistance. Information and help are available to the general public on wiring, lighting, kitchen planning and remodeling.

Youth Programs Youth programs conducted by our home economists have approximately doubled in the past eight years. Classes given for youth from elementary school age through college totaled 473 and attendance was 15,423.

Major appliance sales by dealers rose substantially. More than 76,000 were sold for new and existing homes. Oahu residents demonstrated an increasing appreciation of air-conditioning and electric clothes dryers. Sales of air-conditioners increased 47 per

(Right) Resurgence of downtown Honolulu centers around Financial Plaza of Pacific, which will contribute to added power demand from city

cent and dryers, 21 per cent. A new market potential appeared with the introduction of central air-conditioning for residences.

New Construction The effect of tight mortgage money was felt in Hawaii as elsewhere in the nation. Home building was down from 3,374 homes in 1966 to 3,046 in 1967. Also, the number of apartment units completed decreased from 3,118 to 2,443. A record 93 per cent of all new homes were total electric, many meeting the specifications for a bronze or gold medallion.

The All-Electric Building Award program for commercial structures was successfully continued. Plaques were presented to 15 new building owners for adhering to the highest standards of electrical installation.

Employees Active Citizens Hawaiian Electric people make wide contacts with others, both on and off their jobs. They sit on boards of directors, coach Little League teams, run for political office, make music, act in plays, and are all around participating citizens.

Central dispatchers feed information into IBM 1800 system. Hawaiian Electric is one of first in industry to use computer for remote control of 138-kv substations





At the end of 1967 Company employees numbered 1,393 men and women, with an average age of 40 and average length of service of 13.9 years.

Nearly 77 per cent of our employees are represented by the International Brotherhood of Electrical Workers, Local 1260, AFL-CIO. Members of our security force are represented by Independent Local 650 of the United Plant Guard Workers of America. In the 24 years since the IBEW organized Hawaiian Electric employees, there has been a good working relationship between it and the Company.

A new contract was negotiated with the IBEW in 1967 covering a 28-month period beginning March 1, 1967 and ending June 30, 1969. A similar contract was drawn with the guard workers' union, beginning May 1, 1967 and terminating August 31, 1969. Over the term of the contracts,

wages are being increased by 12 per cent. This is about 4.6 per cent per year. Compared with the industry as a whole, Hawaiian Electric pay rates are within the mid-50-per-cent range or higher.

A large part of the success in company-union relations during the past three and one-half years can be credited to the work of a Joint Review Committee. This committee, composed of union and management members and chaired by a Federal mediator, meets regularly in an atmosphere of free discussion to work out problems.

The employees' retirement plan and group life insurance program are on a contributory basis and insured with The Prudential Insurance Company of America. Contributions to the retirement fund are made to Prudential and to an equity fund administered by Hawaiian Trust Company, Limited. Employee contributions to the retirement plan are being reduced, and by March 1, 1970 employee contributions will cease.

All other benefits are paid entirely by the Company, including a hospital

and medical plan for employees and their families. In 1967 the Company contributed \$3,878,336 to the complete benefit program, equal to an additional 34.6 per cent of average pay for the time worked.

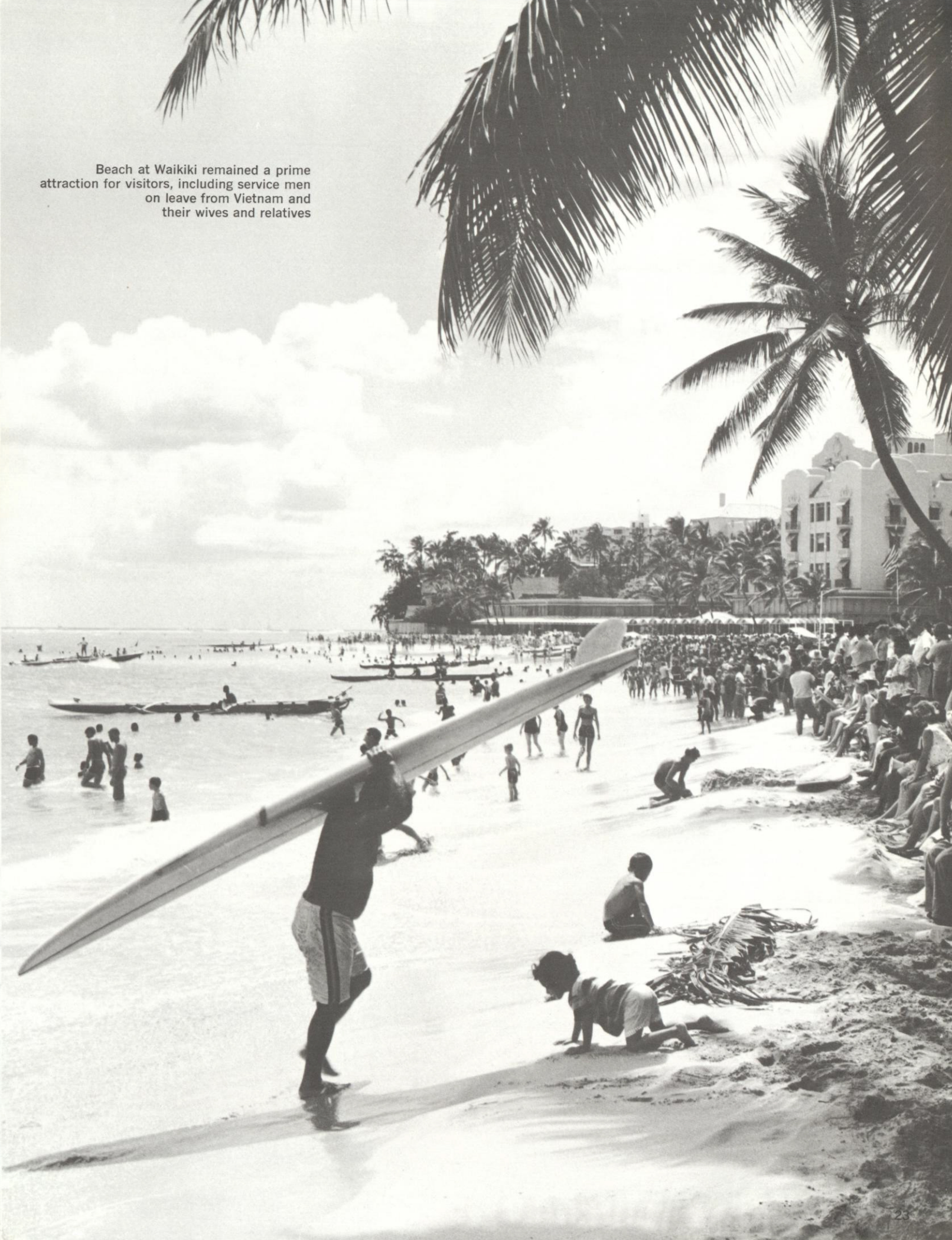
Training Because of our isolation from any large mobile labor force, we rely heavily on Company training for the skills needed in our operations. We also place strong emphasis on management and supervisory development programs.

Our apprenticeship program to develop journeymen was launched in 1946. At the end of 1967 we had 59 men in training in seven different trades. Most of our supervisors have participated in various management development programs. Thirty of our officers and upper-middle-management men have attended the Harvard Advanced Management Program held in Hawaii.

Efficient cable-puller is one of modern methods Company uses to extend underground wiring system



Beach at Waikiki remained a prime attraction for visitors, including service men on leave from Vietnam and their wives and relatives



We are now developing a more comprehensive and coordinated internal program to help our men prepare for greater responsibilities and

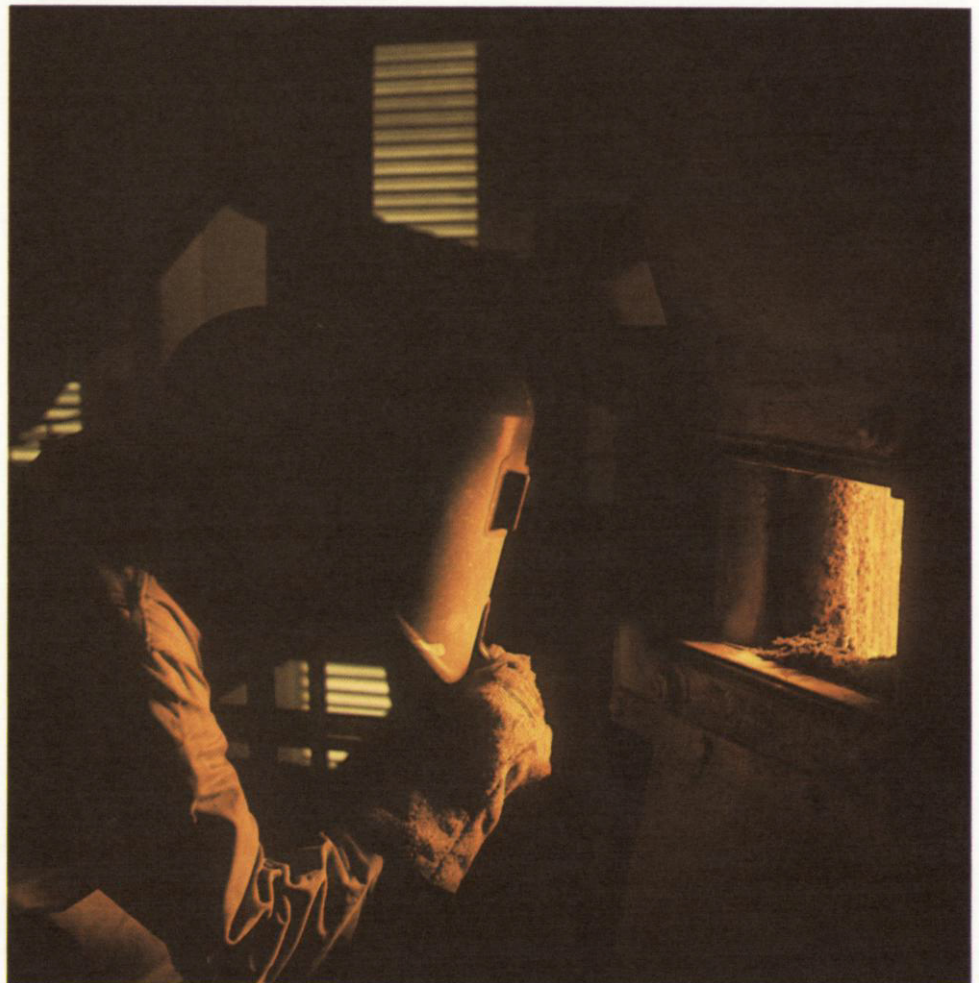
to develop a depth of management sufficient for continued Company advancement.

Our employees have been showing an increasing interest in self-improvement courses. The Company reimburses them for half the tuition cost in approved subjects and 81 employees were reimbursed for courses completed in 1967.

Under a Summer Student Program begun in 1954, we have provided a total of 562 jobs for collegians on school vacation, enabling them to earn tuition money and acquire experience in the utility industry. Over the years, we have rehired as permanent employees about 10 per cent of the young men and women who came to us initially as summer students.

PAYROLL & BENEFITS

	1967	1966
WAGES FOR PRODUCTIVE WORK	\$11,196,574	\$10,820,697
BENEFITS		
Vacations	710,643	647,445
Holidays	464,793	489,672
Sickness	299,197	290,153
Leaves and Excused Absences	61,807	55,323
Pension Plan	1,261,966	1,107,782
Cash Pensions	24,593	24,913
Group Life Insurance	157,572	123,392
Medical and Hospital Plans	341,867	330,659
Social Security Insurance	395,652	375,675
Unemployment Insurance	82,952	79,231
Other Employee Benefits	77,294	75,696
	<u>3,878,336</u>	<u>3,599,941</u>
TOTAL	<u>\$15,074,910</u>	<u>\$14,420,638</u>



Engineer's safety helmet reflects intense heat in power plant boiler, where electrical generating process starts. Company obtained high 604 kwh of power per barrel of oil used in 1967



STATE OF HAWAII

- Power Stations
- Substations
- 138,000 Volt Transmission Lines
- 46,000 Volt Transmission Lines

Scale of Miles
0 1 2 3 4 5

**HAWAII'S LOCATION
IN THE PACIFIC**

Power lines for Island growth

Hawaiian Electric power lines extend length and breadth of Oahu, Company's service area, capital island and population center of Hawaii State. Oahu's 658,000 residents used about 2½ billion kilowatt-hours during the year, almost 200 million more than in 1966.

Directors Early in 1967 Mr. Theodore A. Cooke requested that his name not be submitted for re-election at the annual stockholders meeting. The Board of Directors reluctantly complied. He had served continuously as a Director since 1944. In a special resolution at the April meeting, the Board expressed appreciation for his long and valuable service and wished him many years of continuing health and happiness.

To fill the vacancies created by Mr. Cooke's action and the passing of both Mr. Leslie A. Hicks and Mr. Ralph B. Johnson late in 1966, three new nominees were elected at the 1967 annual meeting: Mr. K. J. Luke, President and Chairman of the Board, Hawaii National Bank; Mr. Thurston Twigg-Smith, President and Publisher, The Honolulu Advertiser, and Mr. Richard L. Summers, Vice President and Secretary of the Company.

Community Betterment One of the Company's major aims is to help make our service area a better place in which to live and work. Community betterment work is carried out through a wide range of activities.

Our Area Development Office plays an important role in promoting sound economic development. Through this office the Company is represented in various government and civic agencies devoted to directing growth in an orderly and harmonious fashion. The Company also has been the prime mover in obtaining several studies relating to development of new activities suitable for Hawaii.

Our part in preserving the area's natural beauty has long been a matter of pride to us. We have made great effort to reduce the cost of under-

ground systems and improve the appearance of overhead lines. Progress in this area is covered in some detail earlier in this report.

We strive to keep our buildings and facilities modern and attractive. Our generating plants and our substations have attracted favorable notice both for their architectural design and professional landscaping.

Cleanliness of the air is one of Hawaii's greatest charms, and the Company is continuously seeking new ways to reduce the amount of pollutants emitted from its power plants. We are looking for an adequate and reliable supply of low-sulfur fuel oil and studying other means of control.

The University of Hawaii plays an important role in community betterment, and the Company lends its support in a number of ways. One of these has been by the establishment of research grants, a program started in 1966. Through these, the Company itself also stands to gain valuable knowledge from the research carried on in engineering, the social sciences and business administration.

With eyes toward future careers, Explorer Scouts from Company-sponsored Post view all phases of utility operation, from cable splicing to power plant engineering





Hawaiian Electric is a composite personality formed by men and women in a variety of work, from many walks of life, many community activities

BOARD OF DIRECTORS

PHILIP E. SPALDING / Chairman of the Board
RUSSELL H. HASSLER / President
HAROLD C. EICHELBERGER / Chairman of the Board, Amfac, Inc.
G. W. FISHER / Past President, Bishop Trust Company, Limited
LEWIS W. LENGNICK / Senior Vice President, Engineering and Operations
DUDLEY C. LEWIS / Attorney-at-Law, Lewis, Saunders & Sharpless
FRED P. LOWREY / President, L&C, Limited
K. J. LUKE / President and Chairman of the Board, Hawaii National Bank
J. SCOTT B. PRATT, III / President, Hawaiian Trust Company, Limited
H. M. RICHARDS / Assistant Secretary, Castle & Cooke, Inc.
GILBERT W. ROOT / Executive Vice President, Trust, First National Bank of Hawaii
RICHARD L. SUMMERS / Vice President and Secretary
THURSTON TWIGG-SMITH / President and Publisher, The Honolulu Advertiser
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
RUSSELL H. HASSLER / President and Director
LEWIS W. LENGNICK / Senior Vice President, Engineering and Operations, and Director
CARL J. SCHIFFERS / Administrative Vice President
HERBERT HEINRICH / Vice President, Commercial
RICHARD L. SUMMERS / Vice President and Secretary, and Director
CARL H. WILLIAMS / Vice President, Planning
JESSE R. ZEIGLER / Vice President, Operations
EUGENE A. HELBUSH / Controller and Assistant Treasurer
WILL B. JOHNSTONE, JR. / Treasurer
RICHARD E. BELL / Assistant Secretary and Operations Research Analyst
EDWARD A. MURTY / Assistant Treasurer and Budget Director
ARTHUR C. SLOGGETT / Assistant Secretary and Administrator of Land and Rights of Way

DEPARTMENT MANAGERS

WILLIAM J. FROOME / System Operation
H. MYRON GATES / Electronic Data Processing
FRANK R. HICKS / Generation
CURTIN A. LESER / Personnel
FRANCIS R. MONTGOMERY / Power Plant Engineering
C. DUDLEY PRATT, JR. / Distribution
JAMES A. ROTH / Meter, Relay and Communications
JOHN A. ROLFING, JR. / System Engineering
JOHN T. STAYTON, JR. / Contractual Labor Relations
KENNETH F. STRETCH / Customer Service
FRANCIS H. WILLIAMS / Sales and Promotional
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 / Honolulu

REGISTRARS

THE CHASE MANHATTAN BANK / New York
THE BANK OF CALIFORNIA National Association / San Francisco
FIRST NATIONAL BANK OF HAWAII / Honolulu

Lights of Waiiau Station shine against night sky over Pearl Harbor. New unit under construction will add 86,000 kilowatts to generating capability on completion late in 1968



HAWAIIAN ELECTRIC COMPANY, INC.

P. O. BOX 2750

HONOLULU, HAWAII 96803

