HAWAIIAN ELECTRIC COMPANY, INC.
1968 ANNUAL REPORT

1968 HIGHLIGHTS

In 1968 Hawaiian Electric Company:

Added the islands of Maui and Lanai to its service area by acquiring Maui Electric Company as a wholly-owned subsidiary

Recorded consolidated kilowatt-hour sales of 2,852,196,771, 10.5 per cent more than in 1967

Received combined operating revenues of $60,327,689, up $5,799,821, or 10.6 per cent, reflecting increased use of electrical energy owing to population growth and expansion in the state economy

Earned net income of $8,475,982, a gain of $858,404, or 11.3 per cent

Increased earnings per share 23 cents to $1.92, an advance of 13.6 per cent over the previous year's $1.69

Completed construction of our eighth unit at Waiau and brought utility plant in service and under construction to a total worth of $267,598,192, an addition of $17,488,521, or 7 per cent

Reached a new peak of 595,000 kilowatts in power demand on our system, up by 9.6 per cent, or 52,000 kilowatts

Served our highest number of customers yet, 170,826, an increase of 5,538

Recorded an average residential use of 6,763 kilowatt-hours, exceeding the previous year's by 440

ON THE COVER—The spread of lights over Waikiki and Central Honolulu is caught in unusual splendor from the rim of Diamond Head crater.

ANNUAL REPORT FOR THE YEAR 1968 - HAWAIIAN ELECTRIC COMPANY, INC.

CONTENTS

LETTER FROM THE PRESIDENT

Acquisition of Maui Electric Company as a wholly-owned subsidiary was our most significant event of the year. This is our first expansion beyond the Island of Oahu. The merger became effective November 1 and is expected to benefit both companies while enlarging our opportunities for advancement in step with Hawaii's growing economy.

Gains were made in all segments of Hawaii's economy during 1968, pushing Hawaiian Electric consolidated revenue to a record $60,328,000.

Earnings per share on common stock rose to $1.92, an increase of 13.6 per cent over 1967, despite increased taxes of 17 cents per share resulting from the 10-per-cent Federal Income Tax Surcharge.

At the same time, it must be noted that earnings were favored by several factors. The increase in revenue from our new and existing customers was greater than usual. Another factor was the additional interest capitalized as part of the cost of our major construction projects. This amounted to 11 cents per share more than in 1967.

Tourism continued to be Hawaii's biggest economic growth area, increasing 25 per cent over 1967. Additional airlines have been authorized to fly Hawaii-Mainland routes, and carriers now serving Hawaii have been given permission for expanded service. It is difficult to gauge the probable impact these changes will have on our annual number of visitors, but it is certain to be significant.

Manufacturing sales in Hawaii are at record levels. Sugar and pineapple sales showed smaller gains but continue strong and provide a stabilizing base for the economy. Federal Government expenditures remained high.

Hawaiian Electric capital expenditures for the five-year period through 1973 are estimated at $142.7 million for the Island of Oahu. The 1969 programs calls for $27 million to be spent on plant expansion and service improvements. Maui Electric Company's capital budget for the five years totals $9.7 million and is $1.2 million for 1969.

These large projected expenditures are necessary in order to provide dependable electric service to a dynamic, growing community. They also reflect some of the problems of inflation caused by the increased costs of material, labor and money.

The high cost of financing expansion has become significant. For example, fifteen years ago we issued bonds with an interest rate of 3.45 per cent. With the present level of interest rates, bonds would have a coupon rate of well over 7 per cent.

In spite of inflationary trends, Hawaiian Electric has been able to meet rising costs without a change in rates on Oahu since 1955. This can be attributed to our larger, more efficient generating units, higher transmission voltages and more economical operations.

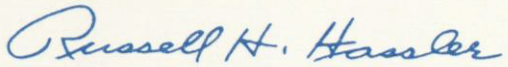
Plans are moving forward for construction of new facilities at Ward Avenue to bring Company executive and operation offices together by mid-1971. About $4 million of the 1969 budget will be for a new warehouse and parking garage and planning of the new office building.

We opened our labor contract early and reached an agreement in December on a two-year extension to July 1, 1971. This will assure labor stability during these changing times.

Philip E. Spalding died in September after 42 years of service on our Board of Directors. He had been its Chairman from 1945. He is greatly missed not only in that capacity but also in the community generally for his contribution to its educational and cultural life.

The future holds many stimulating and exciting challenges for our Company. Such challenges can be met with confidence because we have an organization of capable men and women who take pride in their jobs and in their service to the community.

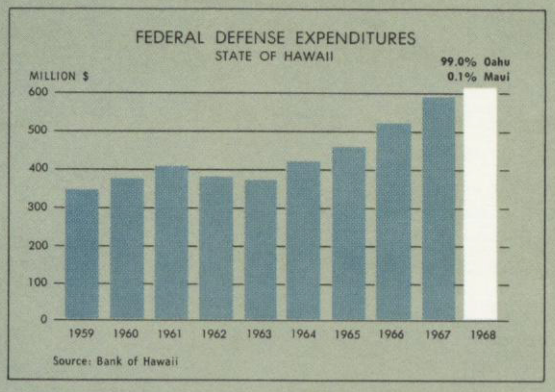
On the following pages, the year's operations are described in some detail and I believe you will find them interesting. Your comments and suggestions are welcomed.

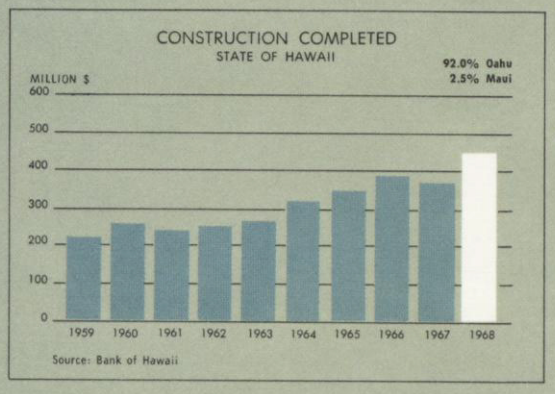


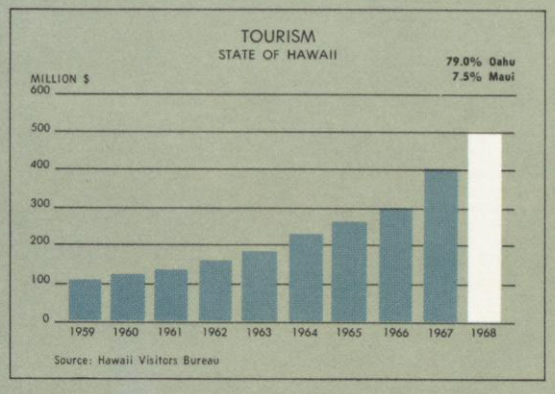
President

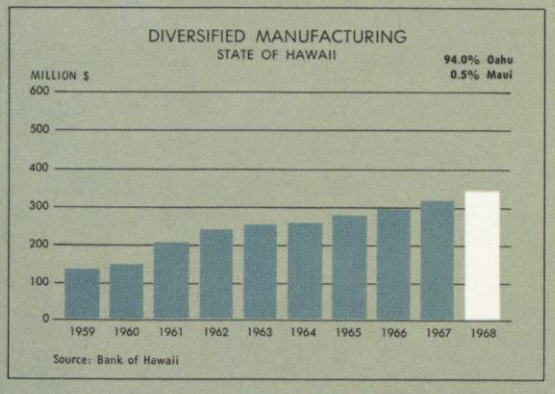
February, 1969

Bathers enjoy midwinter play on the storied beach at Waikiki, a focal attraction for more than 1.2 million visitors to Hawaii in 1968.









ECONOMY OF THE ISLANDS

In our ninth year as a State, Hawaii's economy continued to show outstanding growth. More than 1,200,000 tourists visited us in 1968 and spent an estimated $500,000,000, an increase of 25 per cent over 1967. We feel certain that final decisions in the Pacific Air Route case will soon bring added service to Hawaii from many mainland cities, Mexico and Alaska. By late 1969 jumbo jets, with a maximum seating capacity of 490, will be in service.

Value of construction in place reached a record total of $442,000,000, a rise of 20.4 per cent. About 94 per cent of this falls in Hawaiian Electric Company's two service areas. Honolulu continued to be one of the leading United States cities in dollar volume of construction in place. Projects already announced insure a continued high level of construction.

Diversified manufacturing continues to gain some 10 per cent a year. Total 1968 sales were $344,000,000. An estimated 94 per cent of all manufacturing in the State is in the Honolulu area.

Federal spending locally remained at a high level. Totals were nearly $610,000,000 for defense and $280,000,000 for non-defense, a 6-per-cent increase over 1967. Virtually all of the former and more than 90 per cent of the latter were expended on Oahu.

Income produced by agriculture remains important. The 1968 estimate of $383,000,000 was but slightly below the previous high but was a gain over the previous year. Approximately 37 per cent of the agriculture dollar originates in the Oahu service area and another 19 per cent in the Maui.

FINANCIAL REVIEW

Hawaii's economic advances were reflected in continued Company growth. Combined sales, revenue and earnings for Hawaiian Electric and its subsidiary Maui Electric set new Company records in 1968.

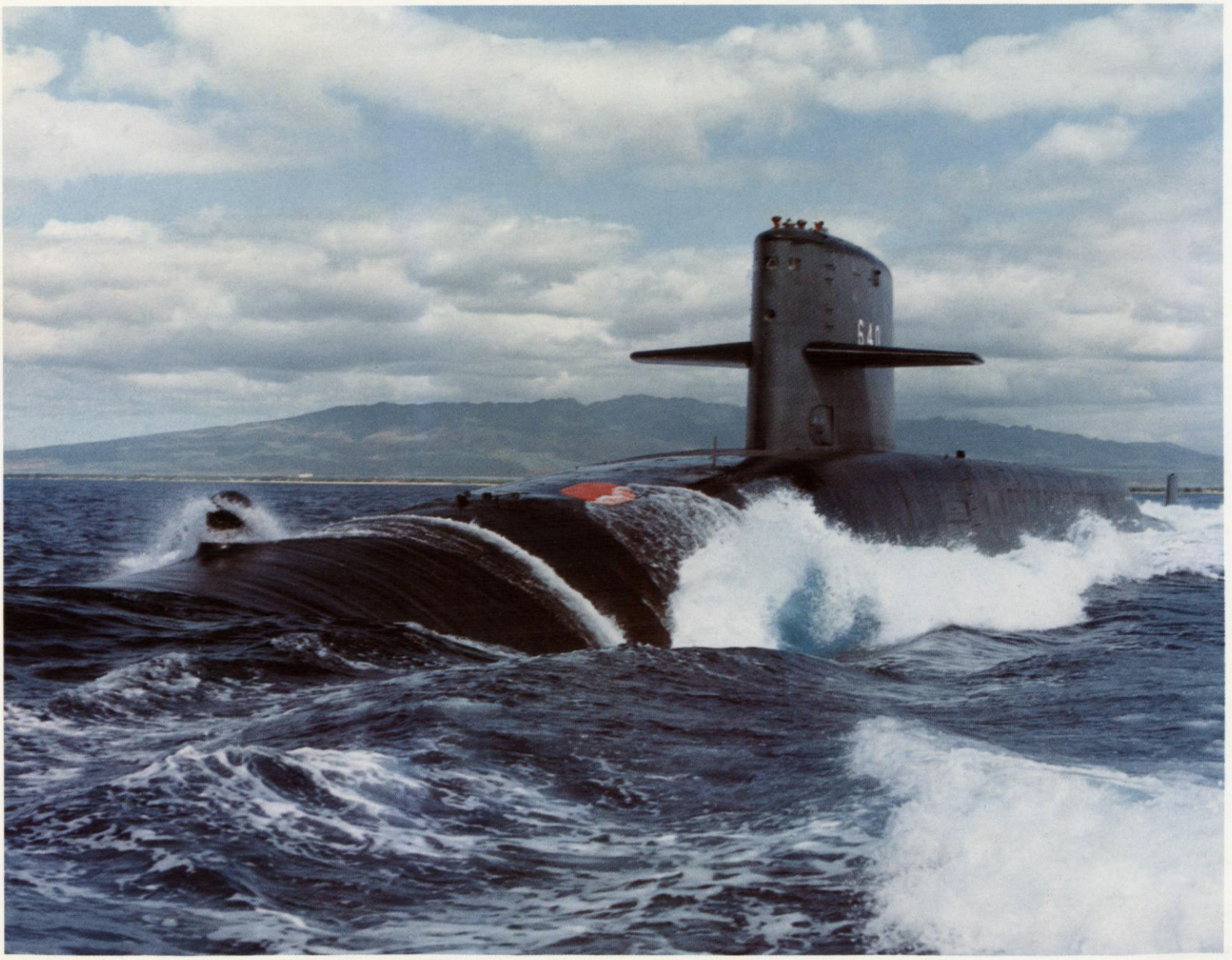
This section covers the financial operations of Hawaiian Electric and Maui Electric on a consolidated basis. The following tabulation gives the relative financial size and contribution to earnings of the two companies.

CONDENSED STATEMENTS OF INCOME
For Year Ended December 31, 1968
(Dollars in Thousands)

	Hawaiian Electric	Maui Electric	Hawaiian Electric Consolidated
REVENUES	$55,617	$4,711	$60,328
EXPENSES			
Operation	21,984	2,238	24,222
Maintenance	2,877	248	3,125
Depreciation	5,375	595	5,970
Taxes	13,231	737	13,968
	$43,467	$3,818	$47,285
OPERATING INCOME	$12,150	$ 893	$13,043
Other Income and Deductions	(203)	(74)	(277)
Interest Charges	3,868	422	4,290
NET INCOME	$ 8,079	$ 397	$ 8,476

Nuclear submarine U.S.S. Ben Franklin surfaces off Barber's Point on Oahu. Military spending exceeded $610 million in 1968, pointing up Hawaii's strategic role in the nation's defense.

Official photograph—U.S. Navy



SALES AND REVENUE

Combined kilowatt-hour sales rose by 10.5 per cent, up from an increase of 7.4 per cent in 1967 and 7.9 per cent in 1966. The greatest percentage gain 13.8 per cent, was in the commercial power schedules. Despite a decline in the number of new homes added to the systems, sales of electricity for residential uses were up 91,359,000 kilowatt hours, or 10.4 per cent.

Revenue amounted to $60,328,000, an increase of 10.6 per cent over the previous year.

In November 1966 Maui Electric applied to the Public Utilities Commission to increase its rates. Pending the fixing of permanent rates, the Commission authorized the Company

TAXES

	1968		1967	
	Amount	Percent of Operating Revenue	Amount	Percent of Operating Revenue
TAXES OTHER THAN INCOME				
Public Service	$ 4,482,242	7.4	$ 4,145,131	7.6
Franchise Royalty	1,409,145	2.4	1,292,773	2.4
F.I.C.A. and Unemployment	369,395	0.6	333,978	0.6
Other	146,647	0.2	138,593	0.2
	6,407,429	10.6	5,910,475	10.8
INCOME TAXES				
State				
Current	624,762	1.0	449,487	0.8
Deferred	203,081	0.4	224,133	0.4
	827,843	1.4	673,620	1.2
Federal				
Current	4,461,917	7.4	3,186,399	5.8
Deferred	1,677,517	2.7	1,673,934	3.1
	6,139,434	10.1	4,860,333	8.9
TOTAL INCOME TAXES	6,967,277	11.5	5,533,953	10.1
TOTAL TAXES CHARGED TO OPERATIONS	$13,374,706	22.1	$11,444,428	20.9

A completed portion of Oahu's developing freeway system. State tax dollars contributed some $20 million to this segment.

to apply an interim surcharge of 9.2 per cent for energy consumed after May 1, 1967 by customers on the Island of Maui, excluding customers in the Hana District. In its final decision, effective March 1, 1968, the Commission approved rates that were designed to provide approximately 15 per cent more revenue than the previous permanent schedules would have provided. The new rates are applicable to all customers on Maui except those in the Hana District.

Our electric sales revenue came from the following sources:

	Hawaiian Electric	Maui Electric	Hawaiian Electric Consolidated
Residential	$22,437,294	$2,028,572	$24,465,866
Commercial	14,868,242	1,329,440	16,197,682
Industrial	17,085,662	1,193,472	18,279,134
Street Lighting	967,791	159,384	1,127,175
Total	$55,358,989	$4,710,868	$60,069,857

EXPENSES

Nearly 78.4 per cent of revenue was needed to meet operating expenses, including taxes, and another 7.1 per cent to cover interest charges. Had it not been for the 10-per-cent Federal Income Tax Surcharge which became effective January 1, 1968, operating expenses would have been 77.4 per cent of revenue and 1968 would have been the fifth consecutive year in which our operating ratio showed improvement. We are proud of these gains in the face of spiraling costs.

Taxes were again our largest expense item, amounting to 22.1 per cent of revenue, or $3.65 per share of common stock. The 10-per-cent Federal Income Tax Surcharge alone was $622,152.

Payroll and benefit costs charged to operations amounted to $11,520,952, an increase of $541,823. We are pleased that these costs, however, were 19 per cent of revenue in 1968 as compared with 23 per cent five years ago.

PAYROLL & BENEFITS

	1968	1967
WAGES FOR PRODUCTIVE WORK	$12,905,212	$12,103,685
BENEFITS		
Vacations	906,155	758,462
Holidays	586,234	501,000
Sickness	318,840	318,043
Leaves and Excused Absences	87,286	61,807
Pension Plan	1,519,390	1,361,198
Cash Pensions	22,526	24,593
Group Life Insurance	125,336	164,470
Medical and Hospital Plans	440,270	373,968
Social Security Insurance	489,932	425,974
Unemployment Insurance	77,822	87,796
Other Employee Benefits	100,983	95,332
	4,674,774	4,172,643
TOTAL	$17,579,986	$16,276,328

EARNINGS AND DIVIDENDS

Net income was $8,476,000 compared with $7,618,000 in 1967, an increase of 11.3 per cent.

Earnings per share of common stock outstanding at the end of the year were $1.92.

Holders of Hawaiian Electric common stock were paid dividends amounting to $1.20 for the year, compared with $1.08 in 1967. Dividends paid to holders of preferred stock totaled $1,079,907. In addition, dividends for November and December on the Series L Preferred stock were accrued for payment in January 1969.

FINANCING

The only long term financing by Hawaiian Electric in 1968 was in connection with its merger with Maui Electric. Hawaiian Electric issued 255,960 shares of Series L Convertible Preferred Stock in exchange for Maui Electric common. The new preferred carries voting

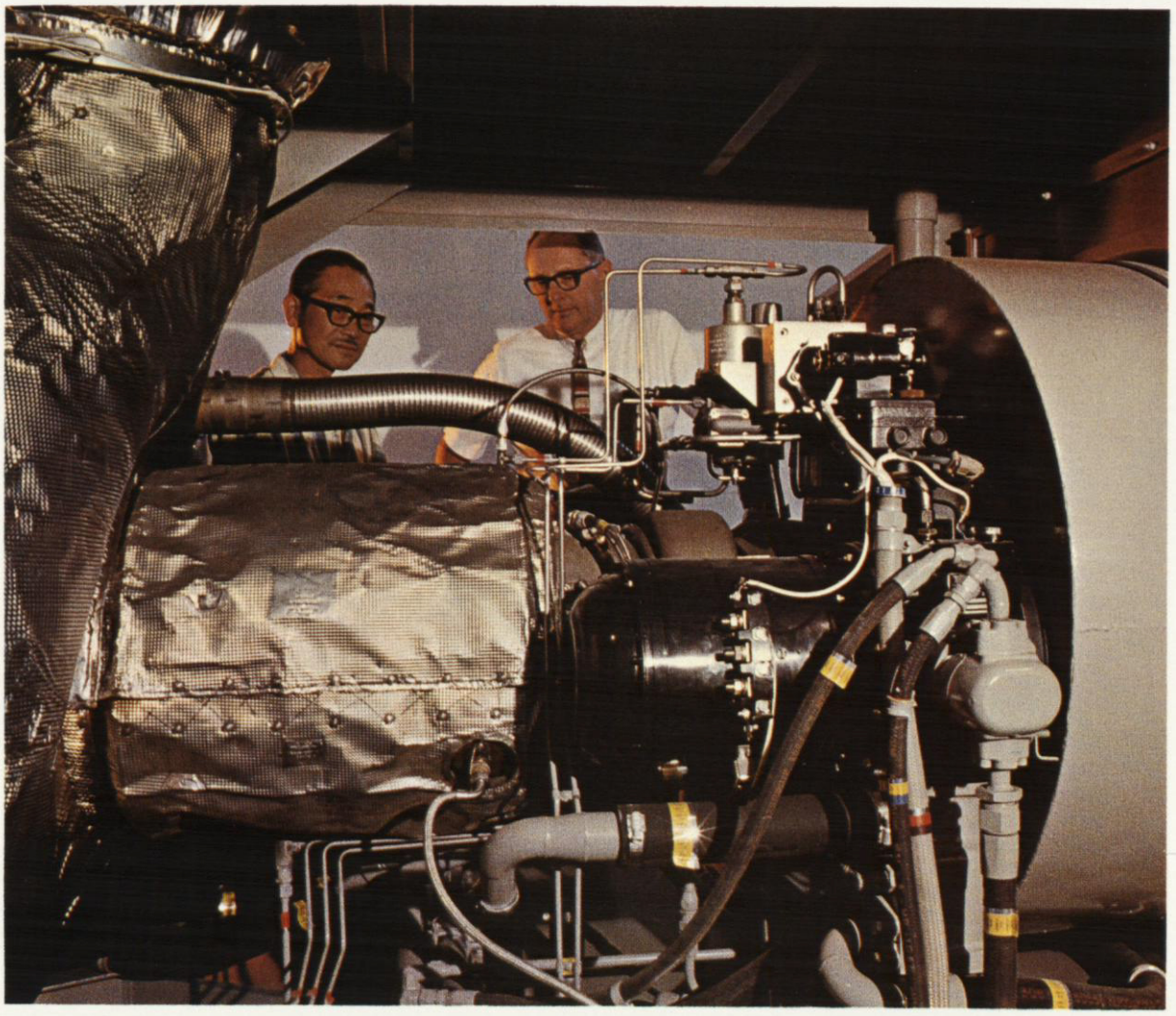
rights and pays a cumulative dividend of $1.44 a year. Before the merger, Maui Electric privately refinanced $1,000,000 of its first mortgage bonds.

At the beginning of the year Hawaiian Electric had temporary investments of $3,800,000. These were funds remaining from the sale in March 1967 of first mortgage bonds and convertible debentures. By June 1968 these investments had been liquidated and we began to borrow funds. In July, for the first time in our history, we sold commercial paper. Interest rates were slightly below those charged by the banks. On December 31, 1968 Hawaiian Electric had commercial paper outstanding in the amount of $3,000,000 and owed banks $300,000.

Permanent financing is planned by the Company for 1969.

Maui Electric has notes payable to banks totaling $1,950,000. Of this amount, $1,700,000 was used for acquisition of Lahaina Light & Power Company in 1967. We have requested approval from the Public Utilities Commission of an interim financing program for Maui Electric, in order to retire current bank loans and refund $500,000 of bonds due July 1, 1969.

Emergency turbine at Waiau Plant adds new measure of protection for generating system. Machine begins operating in minutes and supplies the power to restart a 50,000-kilowatt generating unit from a standstill.



OAHU IN REVIEW

This section covers Hawaiian Electric Operations on the island of Oahu.

A total of $20,000,000 was expended on new facilities in 1968. This figure is equivalent to 10 per cent of the net plant at the end of 1967.

Our continuing program of increasing generating capacity to meet demands of a growing community cost $8,168,200. Of this, completion of the eighth generating unit at Waiau accounted for $5,935,600. Additions to our transmission and distribution systems amounted to $10,832,600, an increase of 18.7 per cent over 1967.

BUDGET FOR EXPANSION

Expansion to meet Oahu's growing power requirements well into the future accounts for a record capital expenditure budget approved by the Directors and filed with the Public Utilities Commission in December. In the five years 1969-1973 the Company plans to invest an estimated $142,700,000 in new plant and equipment. Proposed expenditures in 1969 amount to $27,000,000.

Largest single 1969 item is $6,350,000 for construction work on a new turbine-generator at our Kahe Generating Station. Also allocated under generation improvements is $723,000 for conversion of our Honolulu Station to the use of low-sulfur fuel oil to reduce air pollution.

Construction of a new warehouse and parking garage and preliminary work on a new office building at our Ward Avenue Center are budgeted at $3,937,000 in 1969.

Of $12,782,000 estimated for transmission and distribution facilities, $4,145,000 will be spent on underground facilities, and $3,491,000 for new or enlarged substations.

By way of comparison, at the close of 1955 the Company had a total investment in electric plant of $71,732,000. From 1956 through 1968 we spent approximately $202,000,000 for new plant and equipment. During the 13 years since 1955 the cost of living and wages rose substantially. Hawaiian Electric has been able to meet rising costs in all that period without a change in its rates.

DEPRECIATION

We received approval from the Hawaii Public Utilities Commission to compute depreciation expenses for our Oahu system using the straight line remaining life method on all property acquired in 1967 and later years.

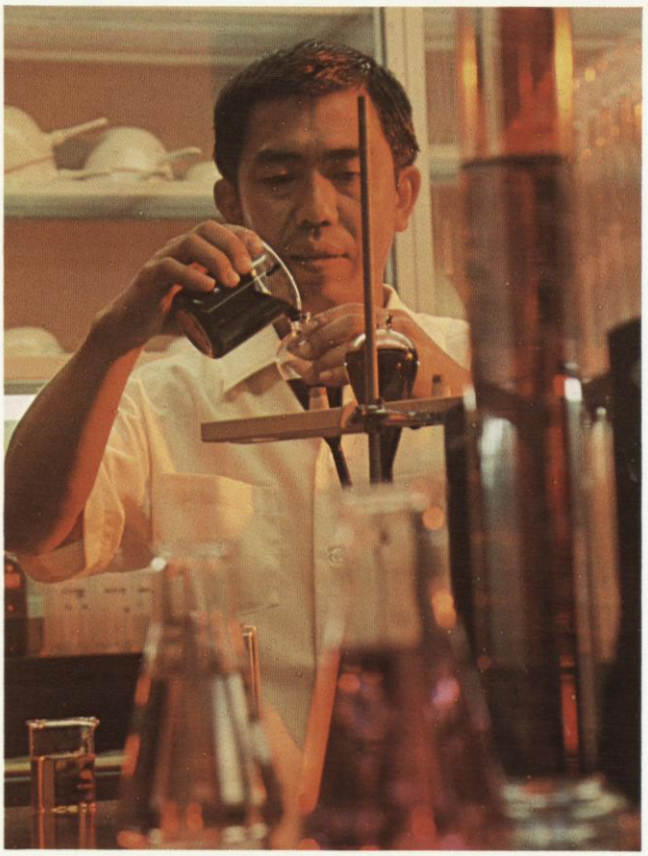
We will continue to compute depreciation expenses on property acquired before 1967 using the 4-per-cent compound interest remaining life method. This change in depreciation practices will ultimately permit the Company to use the straight line method in calculating all depreciation expense. The straight line method is almost universally used in the investor-owned electric utility industry, including all other electric utilities in Hawaii.

This change had no appreciable effect on earnings in 1968.

We estimate that the increase in depreciation expense as a result of this change will amount to 8 cents per share in 1969.

INTEREST CAPITALIZED

Due mainly to the construction of our eighth generating unit at Waiau, additional interest charges capitalized more than doubled in 1968. This had a favorable effect on income of 17 cents per share compared with 6 cents in 1967 and 21 cents in 1966.



Top photo: Fuel oil used in Hawaiian Electric plants must meet rigid quality standards. Chief Chemist Norman H. Okimoto tests a sampling for sulfur content in Company plant lab.

Meter-reading and billing schedules were revamped in line with rapid changes in our service area. Men's uniforms were also redesigned—aloha style.

Helicopter lowers a part in place for one tower of 138-kv transmission lines built high over Koolau forest ridge.

OWNERSHIP

At the close of the year, the Company had 11,947 common stockholders living in 49 states and 6 foreign countries. Of these, 7,735 were residents of Hawaii, including 641 employees. Approximately 60 per cent of the shares are owned by Hawaii residents. There are 366 institutional and corporate fiduciary holdings of common stock representing 35 per cent of the shares outstanding.

FINANCIAL ANALYSTS

In February the Company was host to 23 utility security analysts from New York and Boston for a week's tour of Hawaiian Electric properties and a close-up view of the Hawaii economy. They visited sugar and pineapple plantations and military bases and attended a conference addressed by Honolulu business leaders.

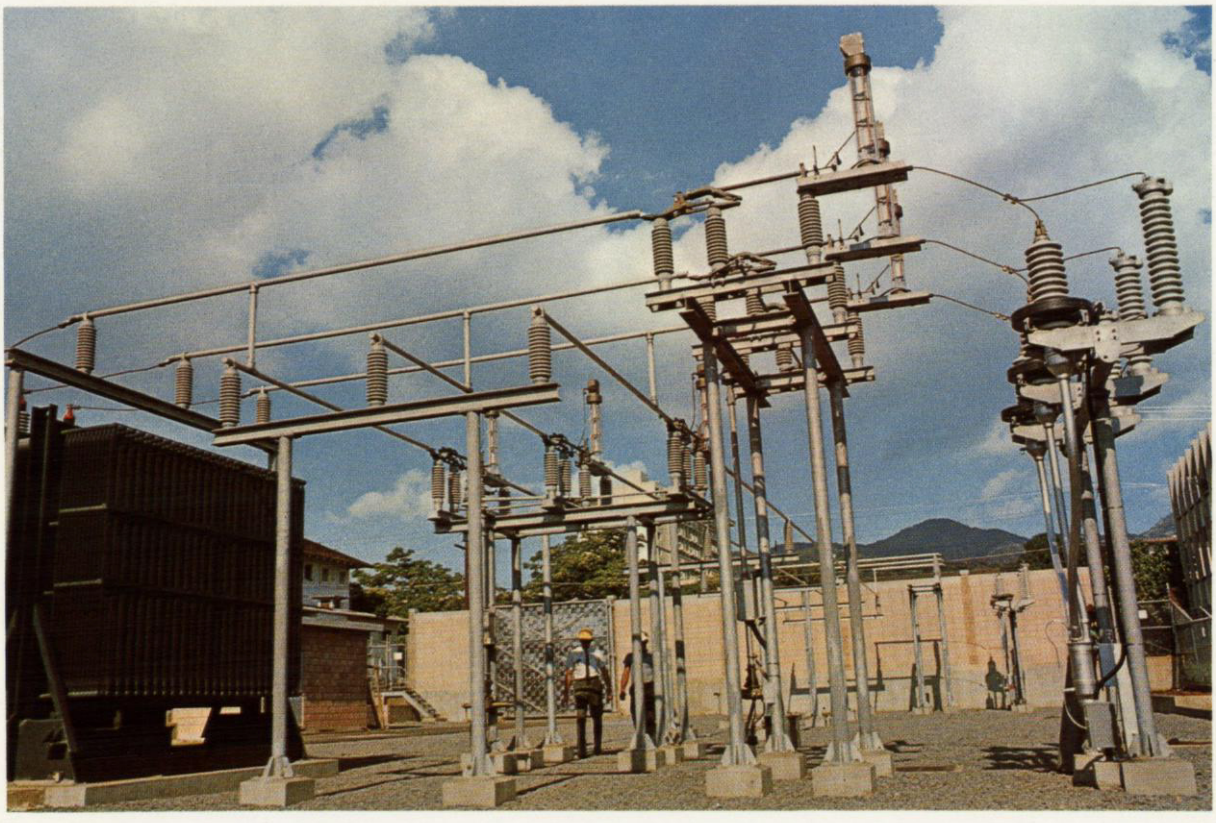
In September President Russell H. Hassler spoke about Hawaii and Hawaiian Electric before the New York Society of Security Analysts in New York. He was accompanied by Treasurer Will B. Johnstone, Jr. and Secretary Peter C. Lewis.

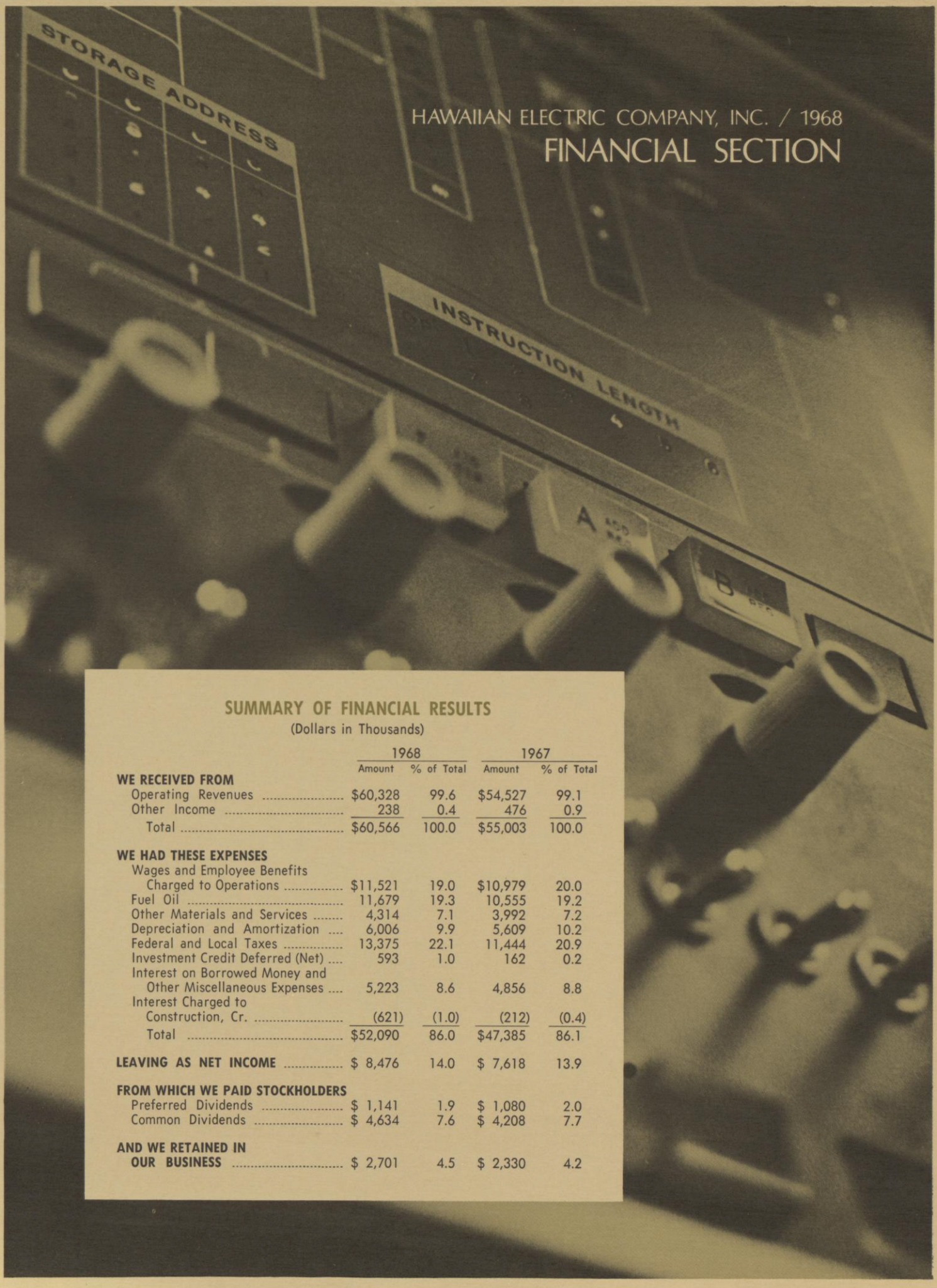
GENERATING UNITS

The major addition to our system in 1968 was Unit 8 at the Waiau Generating Station. The 86,000-kilowatt steam turbine-generator unit went into commercial operation in December. In August four older units at the Honolulu Station, with a combined capability of 30,000 kilowatts, were retired. With Waiau Unit 8 in service, total generating capability on our system was increased to 765,000 kilowatts.

While the new Waiau unit was being built, our Engineering Departments completed design of a third unit at our Kahe Station. This, too, will be an 86,000-kilowatt unit and it is scheduled for completion late in 1970.

Quiet transformers and "low silhouette" design make Piikoi Substation virtually unnoticeable from street in this apartment area.





HAWAIIAN ELECTRIC COMPANY, INC. / 1968

FINANCIAL SECTION

SUMMARY OF FINANCIAL RESULTS

(Dollars in Thousands)

	1968		1967	
	Amount	% of Total	Amount	% of Total
WE RECEIVED FROM				
Operating Revenues	$60,328	99.6	$54,527	99.1
Other Income	238	0.4	476	0.9
Total	$60,566	100.0	$55,003	100.0
WE HAD THESE EXPENSES				
Wages and Employee Benefits Charged to Operations	$11,521	19.0	$10,979	20.0
Fuel Oil	11,679	19.3	10,555	19.2
Other Materials and Services	4,314	7.1	3,992	7.2
Depreciation and Amortization	6,006	9.9	5,609	10.2
Federal and Local Taxes	13,375	22.1	11,444	20.9
Investment Credit Deferred (Net)	593	1.0	162	0.2
Interest on Borrowed Money and Other Miscellaneous Expenses	5,223	8.6	4,856	8.8
Interest Charged to Construction, Cr.	(621)	(1.0)	(212)	(0.4)
Total	$52,090	86.0	$47,385	86.1
LEAVING AS NET INCOME	$ 8,476	14.0	$ 7,618	13.9
FROM WHICH WE PAID STOCKHOLDERS				
Preferred Dividends	$ 1,141	1.9	$ 1,080	2.0
Common Dividends	$ 4,634	7.6	$ 4,208	7.7
AND WE RETAINED IN OUR BUSINESS	$ 2,701	4.5	$ 2,330	4.2

HAWAIIAN ELECTRIC COMPANY, INC.

CONSOLIDATED BALANCE SHEET

December 31, 1968
(with comparative figures for 1967)

CAPITALIZATION AND LIABILITIES

	1968	1967	Increase (Decrease)
CAPITALIZATION:			
Common Equity			
Common Stock of $6⅔ Par Value Per Share. Authorized 4,500,000 Shares; Issued 3,659,798 Shares 1968, 3,659,184 Shares 1967 (Note 3)	$ 24,398,653	$ 24,394,560	$ 4,093
Premium on Common Stock	13,880,857	13,864,994	15,863
Capital Stock Expense	(1,246,926)	(1,112,475)	(134,451)
Retained Earnings	26,445,189	23,700,667	2,744,522
	63,477,773	60,847,746	2,630,027
Cumulative Preferred Stock of $20 Par Value Per Share. Authorized 2,000,000 Shares; Issued 1,370,617 Shares (Note 4)	27,412,340	27,412,340	—
Total Stockholders' Equity	90,890,113	88,260,086	2,630,027
Long-Term Debt (Note 5)	104,600,000	104,630,000	(30,000)
Total Capitalization	195,490,113	192,890,086	2,600,027
CURRENT LIABILITIES:			
Notes Payable	5,250,000	1,950,000	3,300,000
Drafts Payable	2,106,016	2,898,006	(791,990)
Accounts Payable	2,021,367	1,955,768	65,599
Customer Deposits	356,970	319,236	37,734
Federal Taxes on Income (Note 2)	205,638	218,879	(13,241)
Taxes, Other than Federal Taxes on Income	1,795,348	1,559,052	236,296
Interest Accrued	1,290,359	1,227,957	62,402
Payroll Accrued	708,164	569,769	138,395
Dividends Accrued	286,411	224,981	61,430
Other	173,983	153,296	20,687
Total Current Liabilities	14,194,256	11,076,944	3,117,312
DEFERRED CREDITS:			
Deferred Income Taxes (Note 2)	14,057,503	12,176,905	1,880,598
Unamortized Depreciation Adjustment	792,000	1,702,600	(910,600)
Unamortized Investment Credit (Note 6)	2,577,077	1,983,852	593,225
Unamortized Premium on Debt	34,057	40,909	(6,852)
Other	466,290	331,323	134,967
Total Deferred Credits	17,926,927	16,235,589	1,691,338
CONTRIBUTIONS IN AID OF CONSTRUCTION	8,030,986	6,761,010	1,269,976
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7 and 9)			
	$235,642,282	$226,963,629	$ 8,678,653

See accompanying notes to financial statements

HAWAIIAN ELECTRIC COMPANY, INC.

CONSOLIDATED BALANCE SHEET

December 31, 1968
(with comparative figures for 1967)

ASSETS

	1968	1967	Increase (Decrease)
UTILITY PLANT, at Cost:			
In Service:			
Land	$ 6,358,278	$ 6,207,354	$ 150,924
Plant and Equipment	256,500,047	236,102,759	20,397,288
	262,858,325	242,310,113	20,548,212
Property Held for Future Use	12,562	12,562	—
Construction in Progress	4,045,777	7,099,794	(3,054,017)
Plant Acquisition Adjustment	681,528	687,202	(5,674)
	267,598,192	250,109,671	17,488,521
Less Accumulated Depreciation	46,653,782	43,368,145	3,285,637
Net Utility Plant	220,944,410	206,741,526	14,202,884
OTHER PROPERTY AND IMPROVEMENTS,			
at Cost Less Accumulated Depreciation	1,361,393	1,389,319	(27,926)
CURRENT ASSETS:			
Cash	1,721,552	3,132,192	(1,410,640)
Temporary Investments	—	3,771,134	(3,771,134)
Notes Receivable	—	215,562	(215,562)
Accounts Receivable	6,726,331	5,818,541	907,790
Less Allowance for Uncollectible Accounts	66,801	56,932	9,869
Net Accounts Receivable	6,659,530	5,761,609	897,921
Construction and Operating Materials and Supplies, at Average Cost	3,427,690	4,324,476	(896,786)
Other	255,652	233,412	22,240
Total Current Assets	12,064,424	17,438,385	(5,373,961)
DEFERRED CHARGES:			
Unamortized Debt Expense	923,547	957,562	(34,015)
Other	348,508	436,837	(88,329)
Total Deferred Charges	1,272,055	1,394,399	(122,344)
	$235,642,282	$226,963,629	$ 8,678,653

See accompanying notes to financial statements

HAWAIIAN ELECTRIC COMPANY, INC.

STATEMENT OF CONSOLIDATED INCOME

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967	Increase (Decrease)
OPERATING REVENUES (Note 8)	$60,327,689	$54,527,868	$ 5,799,821
OPERATING EXPENSES:			
Production:			
Fuel Oil	11,679,853	10,555,356	1,124,497
Other	3,323,518	3,104,680	218,838
Transmission and Distribution	2,174,349	2,009,467	164,882
Maintenance	3,124,725	3,179,757	(55,032)
Customer Accounts and Sales	2,677,193	2,513,446	163,747
Administrative and General	3,385,152	3,110,844	274,308
Depreciation (Note 2)	5,970,229	5,652,514	317,715
Taxes, Other than Income Taxes	6,407,429	5,910,475	496,954
Investment Credit Deferred (Net)	593,225	161,531	431,694
Federal Income Taxes:			
Currently Payable	4,461,917	3,186,399	1,275,518
Deferred	1,677,517	1,673,934	3,583
State Income Taxes:			
Currently Payable	624,762	449,487	175,275
Deferred	203,081	224,133	(21,052)
Pensions and Pension Plan Costs	1,069,995	979,312	90,683
Amortization of Depreciation Adjustment	(88,000)	(133,700)	45,700
	47,284,945	42,577,635	4,707,310
OPERATING INCOME	13,042,744	11,950,233	1,092,511
OTHER INCOME	33,110	306,459	(273,349)
TOTAL INCOME	13,075,854	12,256,692	819,162
MISCELLANEOUS INCOME DEDUCTIONS	309,602	206,762	102,840
INCOME BEFORE INTEREST CHARGES	12,766,252	12,049,930	716,322
INTEREST CHARGES:			
Interest on Long-Term Debt	4,652,169	4,429,008	223,161
Amortization of Net Bond Premium and Expense	44,971	39,780	5,191
Other Interest Charges	214,431	175,049	39,382
Interest Charged to Construction	(621,301)	(211,485)	(409,816)
	4,290,270	4,432,352	(142,082)
NET INCOME	$ 8,475,982	$ 7,617,578	$ 858,404
Primary Earnings Per Share*	$1.92	$1.69	
Fully Diluted Earnings Per Share**	$1.82	$1.63	

*Primary earnings per share are based on the average number of common shares outstanding in each year and assumes a full years' dividend on the $1.44 convertible preferred stock.

**Fully diluted earnings per share give effect to the dilution which would result from the conversion of the company's convertible debentures and the $1.44 convertible preferred stock into common stock.

See accompanying notes to financial statements

HAWAIIAN ELECTRIC COMPANY, INC.

STATEMENT OF SOURCE AND DISPOSITION OF CONSOLIDATED FUNDS

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS:		
Net Income	$ 8,475,982	$ 7,617,578
Depreciation and Amortization	6,278,914	5,829,693
Deferred Income Taxes	1,880,598	1,898,067
Investment Credit, Net	593,225	161,531
Funds Available from Operations	17,228,719	15,506,869
Contributions in Aid of Construction	1,250,227	761,529
Temporary Investments	3,771,134	—
Commercial Paper	3,000,000	—
Short-Term Bank Loans	300,000	1,630,000
Sale of First Mortgage Bonds	1,000,000	13,000,000
Sale of Convertible Debentures	—	7,000,000
Drafts Payable	—	1,275,550
Other Changes in Net Current Assets	2,212,129	—
Miscellaneous, Net	21,425	—
TOTAL	$28,783,634	$39,173,948
DISPOSITION OF FUNDS:		
Plant Construction Expenditures	21,206,078	17,535,386
Dividends on Preferred Stock	1,141,337	1,079,907
Dividends on Common Stock	4,634,229	4,207,879
Redemption of First Mortgage Bonds	1,010,000	10,000
Drafts Payable	791,990	—
Payment of Short-Term Bank Loans	—	8,500,000
Temporary Investments	—	3,771,134
Lahaina Light and Power Co. Acquisition	—	1,700,000
Other Changes in Net Current Assets	—	2,269,586
Miscellaneous, Net	—	100,056
TOTAL	$28,783,634	$39,173,948

AUDITORS' OPINION

The Board of Directors and Shareholders
Hawaiian Electric Company, Inc.:

We have examined the consolidated balance sheet of Hawaiian Electric Company, Inc. and subsidiary as of December 31, 1968 and the related statements of income, retained earnings, premium on common stock and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Maui Electric Company, Limited, the consolidated subsidiary, which statements were examined by other independent public accountants whose report has been furnished to us.

In our opinion, based upon our examination and the report of other independent public accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and premium on common stock present fairly the financial position of Hawaiian Electric Company, Inc. and subsidiary as of December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, which except for the change (of which we approve) in the method of computing depreciation as described in note 2 to the financial statements, were applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and disposition of consolidated funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

February 5, 1969

method on the remainder of the plant. Reductions in taxes currently payable of $1,880,598 in 1968 and $1,898,067 in 1967 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 $2,068,593 in 1968 and $1,661,423 in 1967.

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 3 — COMMON STOCK

The Company has reserved 460,492 shares of its common stock for conversion of the Series L convertible preferred stock and the 4⅛% convertible debentures.

NOTE 4 — PREFERRED STOCK

Preferred stock at December 31, 1968 consisted of the following series:

Series C, 4¼% — 150,000 shares	$ 3,000,000
Series D, 5% — 50,000 shares	1,000,000
Series E, 5% — 150,000 shares	3,000,000
Series H, 5¼% — 250,000 shares	5,000,000
Series I, 5% — 89,657 shares	1,793,140
Series J, 4¾% — 250,000 shares	5,000,000
Series K, 4.65% — 175,000 shares	3,500,000
Series L, $1.44 — 255,960 shares (issued in 1968 in connection with acquisition of Maui Electric Company, Limited—see note 1)	5,119,200
	$27,412,340

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.

The Series L preferred stock is redeemable at $38.50 a share after December 31, 1973, and each share is convertible into .96 of a share of common stock at any time prior to redemption.

NOTE 5 — LONG-TERM DEBT

The following series of first mortgage bonds and convertible debentures were outstanding as of December 31, 1968 and 1967:

	1968	1967
FIRST MORTGAGE BONDS:		
Hawaiian Electric Company, Inc.:		
Series E, 3⅛%, due 1970	$ 5,000,000	5,000,000
Series F, 3%, due 1977	5,000,000	5,000,000
Series G, 3½%, due 1981	3,000,000	3,000,000
Series H, 3½%, 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	13,000,000
	92,000,000	92,000,000
Maui Electric Company, Limited:		
Series A, 3½%, due 1968	—	1,000,000
Series B, 3¾%, due 1969	500,000	500,000
Series C, 4¼%, due $10,000 annually to 1977, remainder 1978	870,000	880,000
Series D, 4⅞%, due 1988	750,000	750,000
Series E, 5.1%, due $25,000 annually 1971 to 1990, remainder 1991	2,500,000	2,500,000
Series F, 6⅞%, due $10,000 annually 1973 to 1992, remainder 1993	1,000,000	—
	5,620,000	5,630,000
Total first mortgage bonds	97,620,000	97,630,000
CONVERTIBLE DEBENTURES—		
Hawaiian Electric Company, Inc. 4⅛%, due 1982	6,980,000	7,000,000
Total long-term debt	$104,600,000	104,630,000

The first mortgage bonds of Hawaiian Electric Company, Inc. are secured by a trust indenture which by its terms purports to be a lien on substantially all of the real and personal property of the Company now owned or hereafter acquired.

The 4⅛% convertible debentures, which are due in 1982, are convertible into common stock at $32.50 a share and are redeemable at the option of the Company at a premium to March 1, 1969 of 3.83% reducing annually thereafter to no premium in 1981.

NOTE 6 — INVESTMENT CREDIT

The investment credit allowed under the Revenue Act of 1962 reduced the companies' income tax liability by $663,109 in 1968 and $250,602 in 1967. The Company has elected to amortize the entire amount of the investment credit over 28 years. In 1968, in order to conform to the Company's policy, the subsidiary changed its method of accounting for the investment credit, with no significant effect on consolidated net income.

NOTE 7 — PENSION PLAN

The Company and its subsidiary have pension plans covering substantially all of their employees. The total pension cost under these plans including amounts charged to plant was $1,519,396 in 1968 and $1,361,198 in 1967, which includes amortization of prior service costs over a 40-year period by the Company and a 30-year period by the subsidiary. It is the Company's policy to fund pension cost accrued. At January 1, 1968, the actuarially computed value of vested benefits exceeded the pension funds by approximately $6,125,000.

NOTE 8 — REVISED REVENUE RATES OF SUBSIDIARY

The Public Utilities Commission of the State of Hawaii approved a new schedule of revenue rates for Maui Electric Company, Limited effective on March 1, 1968. The revised rates were generally higher than previously existing rates and had the effect of increasing consolidated net income for 1968 by approximately $240,000.

NOTE 9 — COMMITMENTS AND GENERAL

At December 31, 1968, the Company had purchase commitments approximating $15,700,000 in connection with its plant expansion program.

HAWAIIAN ELECTRIC COMPANY, INC.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967	Increase (Decrease)
BALANCE AT BEGINNING OF PERIOD	$23,700,667	$21,355,556	$ 2,345,111
NET INCOME FOR PERIOD	8,475,982	7,617,578	858,404
OTHER ADDITIONS—Transfers from Contributions in Aid of Construction	44,106	15,319	28,787
	32,220,755	28,988,453	3,232,302
DEDUCTIONS:			
Cash Dividends on Capital Stock:			
Preferred Stock:			
Series C at $0.85 Per Share Per Annum	127,500	127,500	—
Series D at $1.00 Per Share Per Annum	50,000	50,000	—
Series E at $1.00 Per Share Per Annum	150,000	150,000	—
Series H at $1.05 Per Share Per Annum	262,500	262,500	—
Series I at $1.00 Per Share Per Annum	89,657	89,657	—
Series J at $0.95 Per Share Per Annum	237,500	237,500	—
Series K at $0.93 Per Share Per Annum	162,750	162,750	—
Series L at $1.44 Per Share Per Annum	61,430	—	61,430
	1,141,337	1,079,907	61,430
Common Stock (Annual Rates Per Share: 1968, $1.20; 1967, $1.08)	4,391,067	3,951,919	439,148
Maui Common Stock Prior to Merger	243,162	255,960	(12,798)
	5,775,566	5,287,786	487,780
BALANCE AT END OF PERIOD	$26,445,189	$23,700,667	$2,744,522

STATEMENT OF CONSOLIDATED PREMIUM ON COMMON STOCK

Year Ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
PREMIUM ON COMMON STOCK:		
Balance at the Beginning of the Period	$13,864,994	$13,864,994
Premium Received on Conversion of Debentures	15,863	—
Balance at the End of the Period	$13,880,857	$13,864,994

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — PRINCIPLES OF CONSOLIDATION AND ACQUISITION

During the year, the Company acquired, in exchange for 255,960 shares of its Series L, $1.44 cumulative convertible preferred stock, all of the outstanding capital stock of Maui Electric Company, Limited. This transaction has been accounted for as a pooling of interests. Accordingly, the statement of consolidated income for 1968 includes the results of operations of Maui Electric Company, Limited for the full year and the prior year financial statements have been restated to include Maui Electric Company, Limited accounts.

NOTE 2 — DEPRECIATION AND FEDERAL INCOME TAXES

Prior to 1968, the Company computed the depreciation recorded in its accounts on a 4% sinking-fund group method utilizing the remaining life principle. In 1968, with the approval of the Public Utilities Commission, the Company has computed depreciation on plant additions first subject to depreciation after January 1, 1968 on the straight-line remaining life method. All assets subject to depreciation prior to January 1, 1968 remain on the sinking-fund method. As a result of a study conducted by the Company, service lives of certain groups of assets were revised. There was no significant change in the depreciation expense for 1968 as a result of these changes. It is estimated that depreciation expense for 1969 will be approximately $315,000 greater than it would have been had not the method of depreciation and service lives been changed.

Maui Electric Company, Limited computes depreciation on the straight-line remaining-life method.

For income tax purposes, the Company and its subsidiary compute depreciation using an accelerated method on qualifying properties and the straight-line

CONSOLIDATED STATISTICAL SUMMARY

	1968	1967	1966	1965	1964	1963
FINANCIAL STATISTICS (Millions of Dollars)						
Utility Plant in Service	$263.55	$243.01	$230.82	$200.97	$190.84	$174.14
Construction in Progress	4.05	7.10	2.49	8.78	1.92	6.23
TOTAL UTILITY PLANT	267.60	250.11	233.31	209.75	192.76	180.37
Accumulated Depreciation	46.65	43.37	39.39	35.40	31.68	28.77
Capitalization (December 31)						
Long Term Debt	104.60	104.63	84.64	82.15	71.16	71.17
Preferred Stock @ $20 Par	27.41	27.41	27.41	27.41	26.56	26.49
Common Stock @ $6⅔ Par	24.40	24.40	24.40	24.31	23.15	23.15
Common Stock Subscribed @ $6⅔ Par	—	—	—	.08	—	—
Premium on Common Stock Issued	13.88	13.86	13.86	13.58	9.18	9.14
Premium on Common Stock Subscribed	—	—	—	.29	—	—
Capital Stock Expense	(1.25)	(1.11)	(1.11)	(1.11)	(.98)	(1.05)
Retained Earnings	26.45	23.70	21.36	18.92	17.26	15.88
TOTAL	195.49	192.89	170.56	165.63	146.33	144.78
Long Term Debt Interest	4.65	4.43	3.56	3.38	2.96	2.69
Preferred Dividends	1.45	1.45	1.45	1.45	1.38	1.50
Common Dividends	4.39	3.95	3.79	3.52	3.26	3.20
OPERATING STATISTICS						
Sales of Electricity	60.07	54.32	50.58	47.36	44.44	41.24
Other Operating Revenues	.26	.21	.19	.16	.16	—
TOTAL OPERATING REVENUES	60.33	54.53	50.77	47.52	44.60	41.24
Operating Expenses:						
Fuel Oil	11.68	10.56	10.07	9.39	9.21	8.43
Operation—Production, Transmission, Distribution	5.50	5.11	4.70	4.66	4.45	4.57
Operation—Customer Accounts, Sales, Administrative and General	7.05	6.52	6.41	6.04	5.60	5.17
Maintenance	3.12	3.18	3.31	3.09	3.12	2.54
Depreciation	5.97	5.61	5.02	4.64	4.09	3.53
Taxes Other than Income Taxes	6.41	5.91	5.49	4.98	4.59	4.26
Federal Income Taxes	4.46	3.19	2.40	2.70	2.33	2.84
Federal Income Taxes Deferred	1.68	1.67	1.44	1.49	1.46	1.16
Investment Credit Deferred, Net	.59	.16	.69	.24	.48	.29
State Income Taxes	.63	.45	.38	.33	.28	.32
State Income Taxes Deferred	.20	.22	.20	.18	.17	.14
Total Operating Expenses	47.29	42.58	40.11	37.74	35.78	33.25
Operating Income	13.04	11.95	10.66	9.78	8.82	7.99
Other Income	.03	.31	.12	.06	.16	.09
Income Deductions and Interest Charges	(4.60)	(4.64)	(3.33)	(3.44)	(2.76)	(2.38)
NET INCOME	$ 8.47	$ 7.62	$ 7.45	$ 6.40	$ 6.22	$ 5.70
COMMON SHARES (Millions)	3.66	3.66	3.66	3.66	3.47	3.47
COMMON STOCK STATISTICS						
Earned Per Share:						
On Average Shares	$ 1.92	$ 1.69	$ 1.65	$ 1.41	$ 1.38	$ 1.19
On Year End Shares	1.92	1.69	1.64	1.36	1.38	1.19
Dividends Paid Per Share	1.20	1.08	1.04	1.00	.94	.92
Equity Per Share	$ 17.34	$ 16.63	$ 15.99	$ 15.32	$ 14.01	$ 13.58
MISCELLANEOUS STATISTICS						
Kilowatt Hour Sales (Billions)	2.85	2.58	2.41	2.30	2.09	1.90
Average Annual Residential Use (KWH)	6,763	6,323	6,123	5,942	5,690	5,471
Revenue Per Residential KWH	2.53¢	2.54¢	2.56¢	2.59¢	2.62¢	2.65¢
Customers, December 31 (Thousands)						
Residential	146	141	134	129	124	119
Total	171	165	157	152	146	141
Generating Capability, December 31 (MW)	816	760	752	652	652	569
Peak Demand (MW)*	595	543	512	467	446	409

*Noncoincident and nonintegrated.

Note: Years 1963 through 1967 are restated to reflect the pooling of interest with Maui Electric Company, Limited.

EMERGENCY TURBINE

Modern safeguards help to protect continuity of operation in our plants. In 1968 we completed installation of a start-up turbine at Waiau. In the event of a power failure, this turbine could restart any one of four units at Waiau. The $400,000 turbine burns diesel oil and starts from storage batteries at the touch of a button. Rated at 800 kilowatts, it produces enough power to restart a 50,000-kilowatt steam unit.

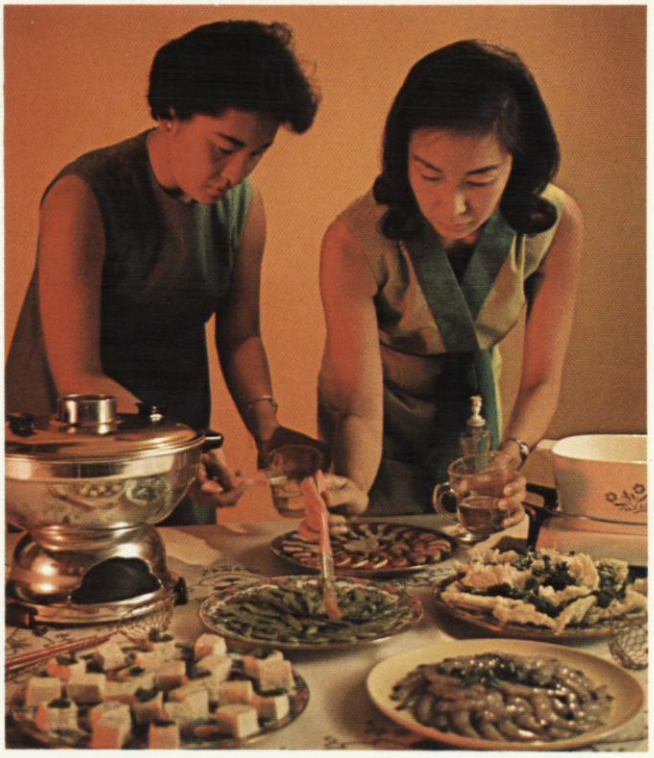
NUCLEAR SITES

The Company selected power plant sites with nuclear power in mind as long ago as 1960. However, nuclear plants at present are being made in sizes four to five times larger than suitable for the Island of Oahu. Hawaiian Electric's largest units have a capability of 86,000 kilowatts. As our system grows and the industry improves its techniques, we look forward to the time when a nuclear plant will offer us an economic advantage.

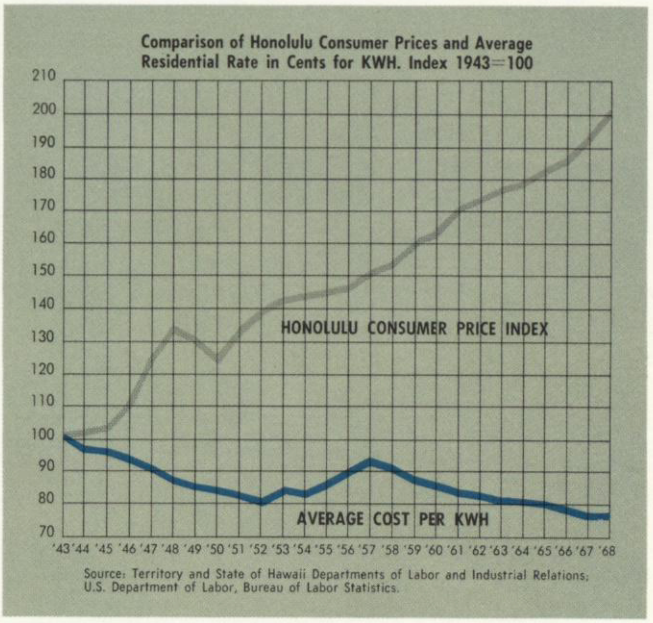
NEW TRANSMISSION LINE

Construction was completed on 20.6 miles of an aluminum conductored 138,000-volt transmission line from the Kahe Station through the mountains above Pearl Harbor to the Halawa Substation.

Technician checks mobile radio equipment in Company's communications center.



Chinese foods are among many demonstrated for public by Company home economists.



TREND STILL DOWN—Residential electricity costs continue to decline in contrast with the cost-of-living index. Rising line on graph shows inflation still growing, while lower line indicates electricity as one of few remaining bargain items in the household budget. Electric rates on Oahu have not changed since 1955.

Linemen work comfortably and effectively at heights up to 70 feet in new Hi-Ranger bucket truck added to Company fleet.

A 5½-mile portion of the line, passing through the remote Koolau forestland between Manana (the ridge behind Pearl City) and Halawa, was strung on towers formed by H-beam aluminum members. A helicopter was used in line stringing and in placement of members for 21 towers. This is an example of this versatile aircraft's usefulness in modern electric utility operations.

The Halawa Substation, the first phase of which was completed in 1967, is a key point for transmission of power to the populous eastern half of Oahu. The new line is the first direct tie from Kahe Power Station to Halawa. It is one of two additional lines planned to carry power from Kahe Units 3 and 4 when they are completed in 1970 and 1972, respectively.

HI-RANGER

With rapid expansion of our system, a modern fleet of special purpose vehicles is required to maintain efficient operations. New equipment purchased in 1968 included a Hi-Ranger bucket truck, with a working height of 70 feet, which gives crewmen new flexibility in working on transmission lines and substation structures. A second Hi-Ranger, costing $45,000, is on order for delivery in 1969. By the end of 1969 there will be a total of 6 large and 10 small (35-foot) bucket trucks in our fleet.

PIIKOI SUBSTATION

In 1968 we completed our Piikoi Substation in the apartment house district of Makiki, where new construction and population are increasing at a rapid rate.

When it becomes necessary because of load growth to locate a new substation in a residential or primarily tourist area, we give special attention to architectural and landscape aspects of our installation.

In addition to showing our usual care with design and landscaping, this new substation is exceptional in some other respects. The transformer is specially constructed and shielded with sound-deadening material and

operates so quietly that persons standing beside it do not realize that it is in operation. Also, new type design and methods formed a "low silhouette."

A tile wall and stainless steel double doors facing the street create an attractive exterior. With the growth of trees and shrubbery, the Piikoi Substation will be a pleasing addition to the neighborhood.

SUBSTATION SITES

In order to meet the new demand for power from downtown Honolulu and its increasing number of tall office buildings, 138,000-volt transmission lines will eventually be extended into the city area. In 1967 and early 1968 we invested about $1,000,000 in acquiring sites for future 138,000-volt switching and transformer substations in town. The installations are planned for completion in 1972 and 1973.

HIGH VOLTAGE TRANSMISSION

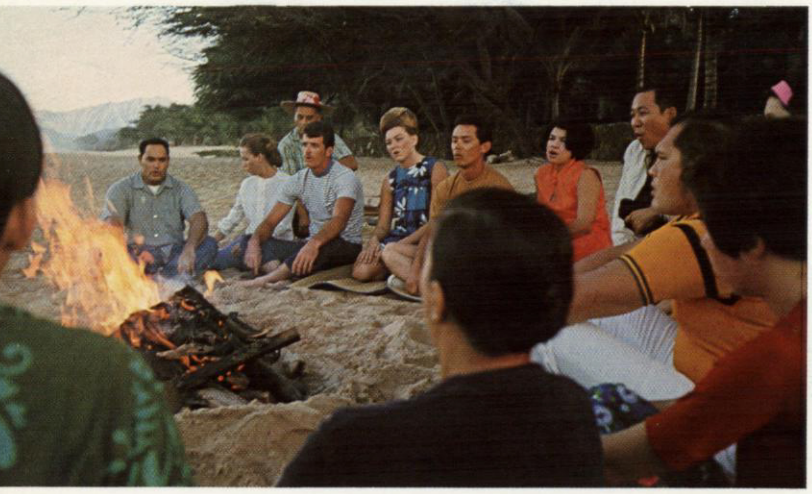
Transmission lines that carry power in large blocks at high voltage to centers of heavy use cannot be economically buried because of engineering considerations. In many cases they are carried over forested mountain ridges beyond view. When it is necessary to string them in exposed areas, they are supported by modern pole and tower structures chosen for their pleasing design.

Along with the electric utility industry nationwide, Hawaiian Electric concerns itself with improvements in transmission structures for esthetic reasons. In August we retained as consultant a national expert in the field, Jordan Lummis, to assist us. He was coordinator of a study on esthetic designs for transmission structures sponsored by the Electric Research Council. These designs, by Henry Dreyfuss & Associates, aroused widespread interest.

UNDERGROUND WIRING

Unlike transmission lines, distribution lines which deliver power at lower voltages usually can be put underground economically.

Street widening and undergrounding greatly improved appearance and traffic flow on a midtown section of King Street, Honolulu. Photos, top to bottom, show project before, during and after removal of lines and poles by Hawaiian Electric.



Employees find beach park built by Company at Kahe a pleasant weekend recreation spot, and public is welcome.

It has been Company policy for many years to encourage underground wiring. The practice received support in 1966 from the Honolulu City Council when it passed an ordinance requiring utility lines to be placed underground in new subdivisions. In 1968 the State Legislature advanced the movement further by passing an act authorizing the counties to share with the utility companies and property owners the cost of placing existing overhead lines underground in improvement districts.

In 1968 underground service was provided for 2,135 residential units on Oahu. This was an average of 74 per cent of all residential services installed during the year. In comparison with the rest of the nation, Honolulu is well advanced in underground wiring.

Considerable alterations to our existing downtown underground system were made to allow for construction of an important civic improvement, the Fort Street Mall. This involved rerouting cables, relocating duct lines and constructing new manholes. Total cost to the Company for underground additions during the year was about $4,000,000.

CONVERSIONS TO UNDERGROUND

As major underground projects in 1968, Hawaiian Electric moved its overhead wiring underground along two important midtown thoroughfares and continued on a similar project in Waikiki.

The midtown conversions were done in connection with the widening of King Street between Punahou and Alder Streets, and of Ward Avenue between Kapiolani Boulevard and the Ala Moana.

In Waikiki the undergrounding of wires along Kalakaua Avenue from Lewers Street to Kuhio Avenue, begun in 1966, neared completion. This conversion will make the main route through the Waikiki Beach area pole free.

WARD AVENUE DEVELOPMENT

After more than 40 years we have outgrown our King Street office building. A space study made for us by Stone & Webster Management Consultants recommended that we construct a new office building at our Ward Avenue property. As a result, plans are in progress which will consolidate all King Street-Ward Avenue functions on the Company's 11.49 acres at Ward Avenue by mid-1971. This will make operations more economical and convenient.

As a first step in the new construction project, we began demolishing one of our existing Ward Avenue warehouses in October in preparation for a new building to include warehouse and parking facilities for the Ward Avenue complex.

The new warehouse, when completed early in 1970, will permit improved handling of materials used in constructing and maintaining our transmission and distribution systems. Also, it will facilitate loading of line trucks at night for early morning departure.
A substantial improvement was put into effect in 1968 through creation of an Inventory Management System. This system for ordering, storing and issuing materials and supplies has resulted in a sizable reduction in inventory.

METER READING REVAMPED

For greater efficiency, we totally redesigned our meter-reading and billing schedules in 1968 to adjust for the tremendous changes that have taken place in our service area. This undertaking involved many people and took about six months to complete. Under the new system, different types of meter-reading routes were grouped together in contiguous geographical areas, eliminating previous overlapping and simplifying the taking of over one million readings per year.

ENGINEERING DEPARTMENTS REORGANIZED

In the light of continued Company expansion, we engaged Emerson Consultants, Inc. to study possible improvements in the organization of our engineering functions. In October, on the basis of their recommendations, engineering was organized into three departments: Engineering Design, Engineering Planning and Controls, and Customer Engineering.

NEW OIL ORDERED

Although our power plants contribute comparatively little to the contaminants in the air over Honolulu, we have taken various steps in recent years to help minimize the problem. In 1968 plans were made for our Honolulu Generating Station to be converted to the use of a new low-sulfur oil, and we contracted with Standard Oil Company of California to start supplying it to us sometime in 1969. When this can be used, air contaminants from our Honolulu Plant stacks will be appreciably reduced.

The asphalt-base oil now being used by the Company has a sulfur content averaging 1.7 per cent. The new paraffin-base oil will have a content of only .5 per cent, or less than one-third the present amount.

The Public Utilities Commission authorized us to spend up to $884,000 for necessary conversion of our facilities to use the new oil. This work includes modifications to fuel oil handling equipment and construction of a new fuel oil pipe line between the Honolulu Plant and our storage and pumping station at Iwilei, about a mile away.

President Hassler "holds class" in all-electric motoring for an interested high school audience.

Imported fuel oil plays a vital part in the job of providing electric power in Hawaii inasmuch as the islands have no fossil fuels and there is no hydro power in our service area. Fuel oil is our largest operating expense and in 1968 it amounted to $10,960,480.

ELECTRIC CAR

Something new appeared on the streets and highways of Oahu in 1968. Hawaiian Electric took delivery of a MARS II modern style electric car for experimental use. It has been demonstrated at schools and for others in the community.

The Hawaiian Electricar, as we named it, is powered by 20 heavy-duty 6-volt lead-cobalt batteries. It can be driven from 70 to 120 miles on one charge, or roughly once around Oahu on the Circle Sightseeing Tour. Recharging can be done overnight by plugging into an ordinary electric dryer outlet. The cost of electricity to operate the car has averaged about 1.2 cents per mile.

In addition to being an eye-catcher and making news, the car has performed well and holds promise as a town car of the future because of its quiet, economical and exhaust-free features. Its use would greatly reduce air pollution and the car would become a new load builder for the Company.

SALES

Electrical energy sales achieved a new high on Oahu as a result of wide acceptance of the all-electric living concept, a strong upward trend in the air-conditioning market, and vigorous industry promotion.

Residential customers used an average of 6,915 kilowatt hours. The average has consistently run higher than the national average.

Much of the success in promoting the use of electricity in business, industry and island living can be attributed to cooperative planning among all elements of the electrical industry. Acceptance of major electric appliances continued to increase, showing a 12-per-cent gain over 1967.

The most dramatic increase came in air-conditioner sales, which showed a gain of 40 per cent over last year. Central air conditioning in the home is gaining favor, and large commercial buildings are being designed initially for central air conditioning.

PROMOTION

Our Sales and Promotional Department again worked with builders and developers, electrical dealers, distributors and contractors to help popularize electrical living. Advertising and promotional programs were carried out with the Pacific Coast Electrical Association (Hawaii), and our Home Service Division continued to make friends for the Company with its various activities.

The Home Service staff furnishes information and help on wiring, lighting, kitchen planning and remodeling. They also call on users of commercial cooking equipment. A total of

All utilities are underground at Mililani Town, which is master-planned as a complete community for an eventual population of 60,000.

16,941 persons attended 321 youth classes and 48 adult cooking classes.

Company home economists participated in community youth programs, including a recipe contest conducted for the Junior Miss program of the Kaimuki Junior Chamber of Commerce. Also, they participated in activities with the Hawaii Heart and Hawaii Diabetic Associations, for which they prepared special diet booklets.

ALL-ELECTRIC LIVING

All-electric living reached a new high mark. Ninety-four per cent of all new homes completed on Oahu were total electric, many meeting the standards for a Bronze or Gold Medallion.

The number of single-family homes completed declined somewhat, from 3,046 in 1967 to 2,887 in 1968, while multi-family dwellings increased from 2,443 to 2,983. Seventeen homes were on exhibit in the Hawaii Home Builders' Association 12th Annual Parade of Homes in November. For the first time, all homes shown were all-electric.

All-Electric Building Awards for commercial structures meeting rigid standards for electrical installation were presented to 12 new building owners, including the participants in the giant Financial Plaza of the Pacific, Hawaii's first commercial building condominium.

ADVERTISING HONORED

For its 1967 advertising, Hawaiian Electric was top winner in competition with utilities of all sizes in the United States and Canada in

Modern condominiums and office structures present a changing skyline in mid-town Honolulu. City set a new building record in 1968.

the 1968 Public Utilities Advertising Association contest. The Company received a special plaque as the utility winning the most awards.

In Esquire Magazine's second annual "Business in the Arts" competition, Hawaiian Electric received honorable mention for a weekly radio Music Hour and the Young Hawaii Musician of the Month feature.

A COMPANY OF 1,359

Pride in achievement and service are shared by the Company and its 1,359 employees. They permeate community life, not only while at work but also through participation in numerous neighborhood and civic activities. Few companies are so closely in touch with their community.

This was the 25th year that Hawaiian Electric employees were represented by the International Brotherhood of Electrical Workers, Local 1260, AFL-CIO. About 75 per cent of our employees are members, including (since 1950) a separate unit for office and clerical workers.

A Joint Review Committee formed in 1964 has done much to promote good company-union relations. Composed of union and management members and chaired by a Federal mediator, this committee has worked effectively to solve problems as they arose.

CONTRACT EXTENSION

Shortly before Christmas the Company and the IBEW agreed to a two-year extension of their contract to June 30, 1971. The contract existing at the time was scheduled to expire June 30, 1969. The new contract provides for a general wage increase over the two-year period of 10½ per cent and an additional wage adjustment of 5½ per cent for trades and crafts and certain other employees. In addition to the wage increase, the Retirement Plan was improved.

The Company and Independent Local 650 of the United Plant Guard Workers of America, representing the 14 members of our security force, also agreed to a two-year contract extension, from August 31, 1969 to the same date in 1971. The Guard Workers will receive the same wage increases as given the trades and crafts members, together with the Retirement Plan improvements.

TRAINING

Separated as we are from mainland labor supply centers, we find continual training and upgrading of skills vital to the maintenance of a capable work force.

Since 1946 we have conducted an apprenticeship program to develop journeymen. During 1968 22 apprentices were graduated in four trades. Development of management talent is equally important. By the end of the year, 95 employees had completed self-improvement courses, and 130 were enrolled in supervisory training programs.

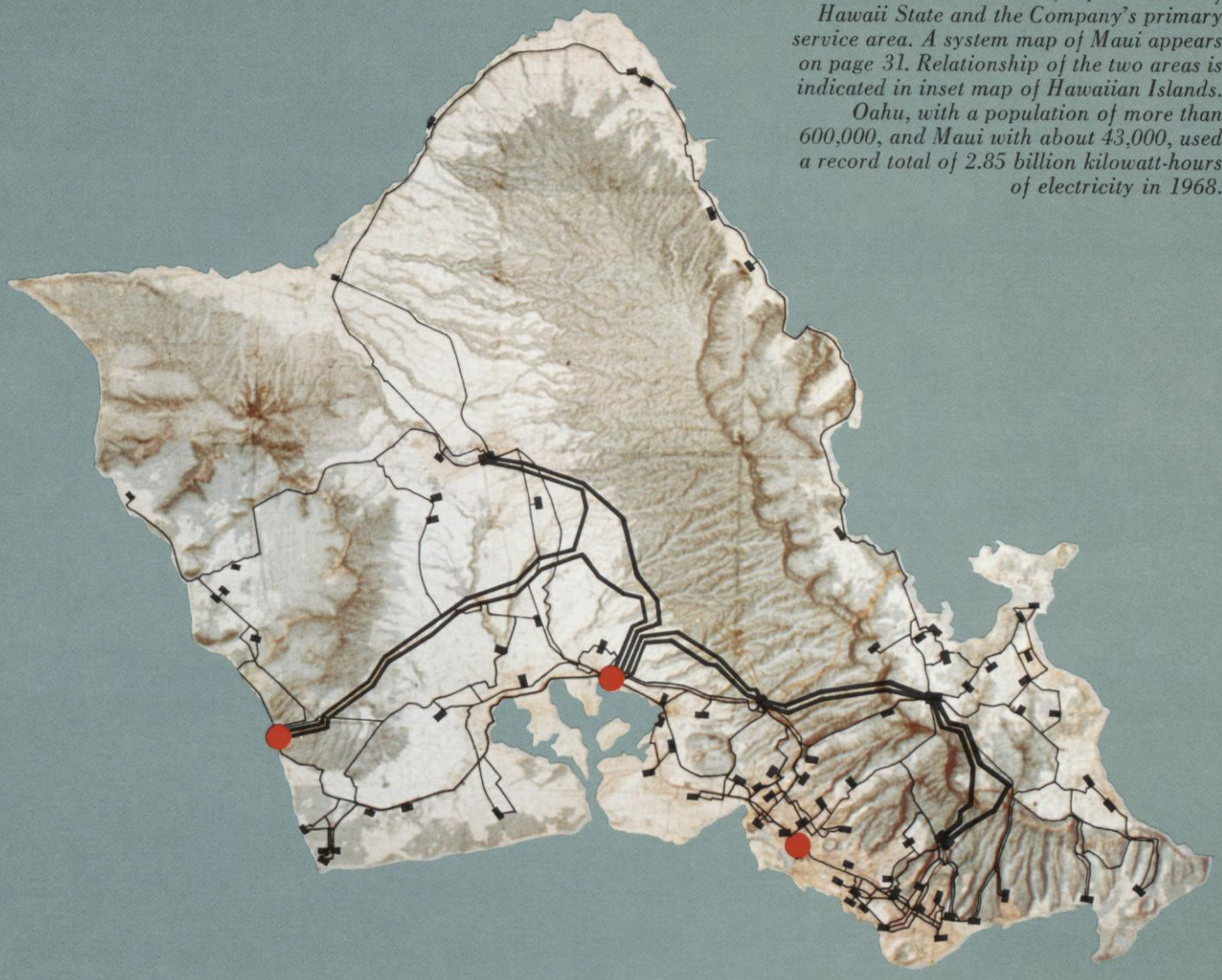
For the past 15 years we have offered summer employment to students, enabling them to earn college tuition money and learn about career opportunities in our industry. Over the years, an average of about 10 per cent have returned to full-time jobs with us.

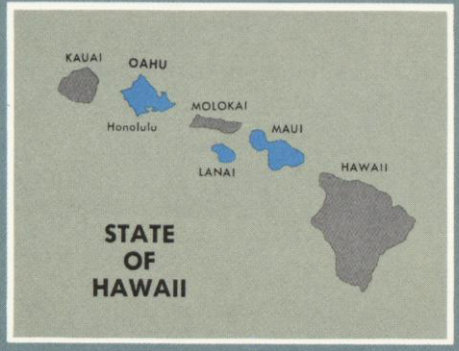
OFFICER CHANGES

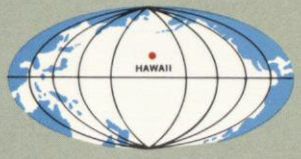
Richard L. Summers, formerly Vice President and Secretary, became Vice President, Industrial Relations and Public Affairs. Peter C. Lewis, formerly a Deputy Attorney General for the State of Hawaii, was named his successor as Secretary.

Carl J. Schiffers, Administrative Vice President, retired in March after 29 years' service. Edward A. Murty, Assistant Treasurer and Budget Director, chose early retirement in April after more than 40 years' service. Both made valuable contributions to the Company's growth and success during periods of marked change.

POWER LINES OF PROGRESS
Map shows transmission line routes and locations of generating stations and substations on Oahu, capital island of Hawaii State and the Company's primary service area. A system map of Maui appears on page 31. Relationship of the two areas is indicated in inset map of Hawaiian Islands. Oahu, with a population of more than 600,000, and Maui with about 43,000, used a record total of 2.85 billion kilowatt-hours of electricity in 1968.







HAWAII'S LOCATION IN THE PACIFIC

ISLAND OF OAHU

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

Scale of Miles
0 1 2 3 4 5

MAUI ELECTRIC COMPANY, LTD.

A merger with Maui Electric Company, Limited became effective on November 1 and takes Hawaiian Electric beyond its original service area for the first time since the Company was founded on the capital Hawaiian Island of Oahu in 1891. Maui Electric continues under its own name as a wholly-owned subsidiary.

This move will be advantageous to both companies as well as to the publics they serve. It will provide Maui Electric better capital resources and financing ability for growth and expansion. The combination will bring about more effective use of management skills, manpower and physical assets, effect other economies and efficiencies, and contribute to increased earnings.

Maui stockholders received one share of a new Hawaiian Electric Series L Preferred stock for each share of Maui Electric common —thus acquiring a more marketable investment in a broader-based company whose common stock is listed on the New York, San Francisco and Honolulu Stock Exchanges.

The Series L Preferred pays a dividend of $1.44 per share, has voting rights, and is convertible into .96 shares of Hawaiian Electric common stock. It is redeemable at $38.50 a share after December 31, 1973. According to an Internal Revenue Service ruling, neither the exchange nor the conversion is subject to taxes.

ABOUT THE COMPANY

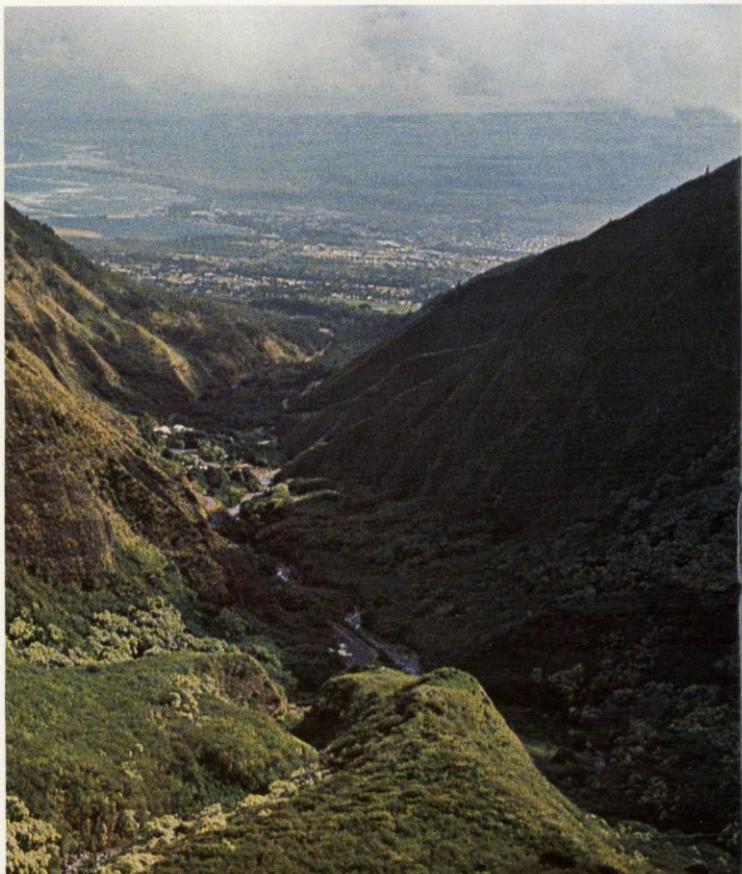
Maui Electric Company, Limited, incorporated in 1921, is the only electric utility on the Island of Maui. It operates a single steam turbine generating plant consisting of four units with a total capability of 37,500 kilowatts. The plant is located at Kahului, and power is transmitted to West Maui at 69,000 volts.

The company is budgeting $9,743,000 for capital improvements to its system in the years 1969 through 1973. A second 69,000-volt transmission line will be installed in 1971 and 1972 to serve the Lahaina area. An additional generating unit will be placed in commercial operation by 1973.

The sugar plantations have generating units for their own power requirements. By burning bagasse (fiber left after grinding the cane)

J. Walter Cameron, President (left), and R. R. Lyons, Executive Vice President

Maui Electric office headquarters in Kahului.



in their boilers, they have an excellent source of low-cost fuel from one of their own by-products.

Maui Electric has a long-standing power exchange and standby agreement with Hawaiian Commercial and Sugar Co., Ltd. and in 1968 entered into a similar one with Pioneer Mill Company. These arrangements benefit the sugar companies, the utility and the community.

The company employs 119 men and women, nearly 72 per cent of whom are represented by the International Brotherhood of Electrical Workers under a contract in force until August 1969.

PLANNING FOR GROWTH

The Island of Maui has an area of 728 square miles and a population of 43,000. A measure of the growth in the island's economy is evident in building construction figures. The dollar amount of building construction in 1968 in Maui County soared to a new all-time high of $22,857,000, an increase of 47 per cent over 1967.

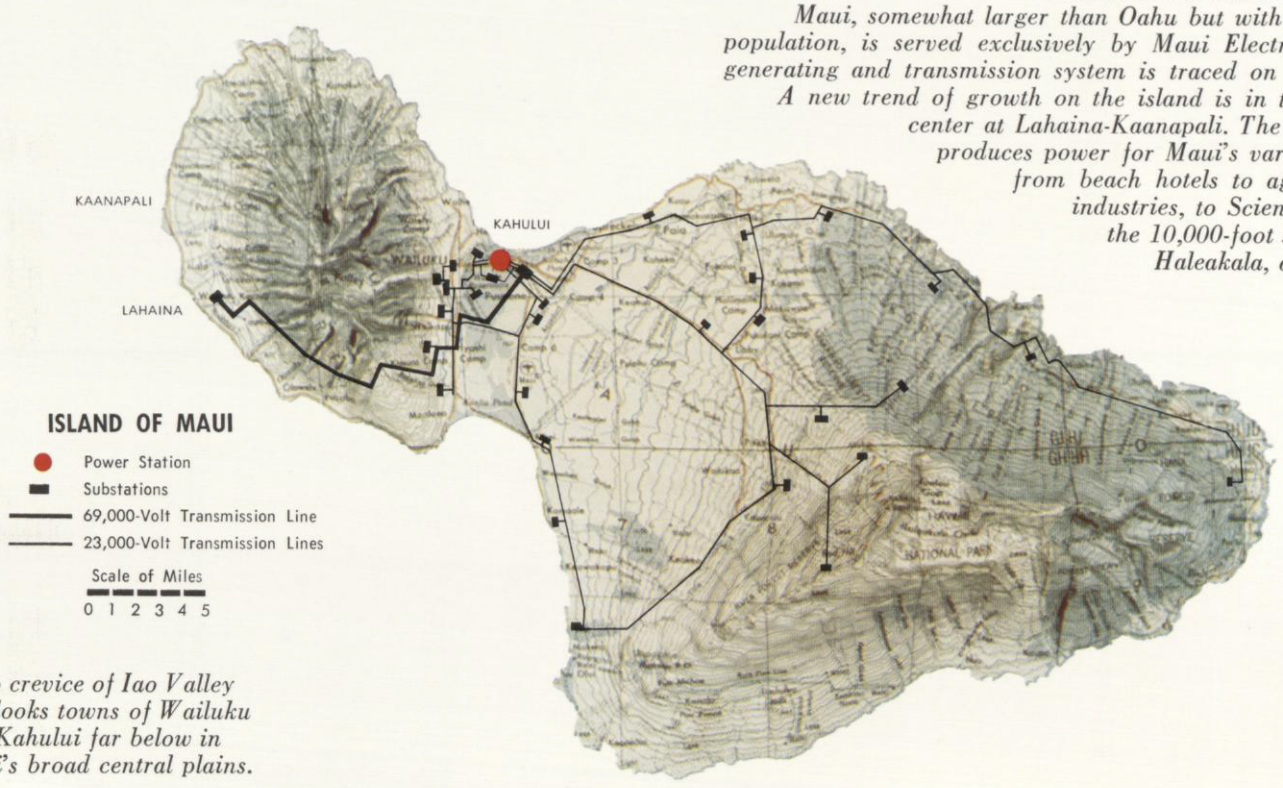
More and more Honolulu residents are finding Maui's beauty and nearness attractive for second homes, investments, and retirement sites.

The most dramatic growth, however, will be seen in the island's tourist industry. The number of visitors on Maui increased 20 per cent in 1968, with 300,000 arrivals compared with 250,000 in 1967. Maui has many miles of beautiful, safe beaches, and numerous organizations are enthusiastically studying the island's beauty spots for additional resort developments. Kahului Airport is adaptable to changes to accommodate the larger passenger planes.

Significantly important and interesting, also, is a Science City that has been developed on the 10,000-foot summit of Mount Haleakala. The installations include a major space tracking facility operated by the University of Michigan, an optical satellite tracking facility operated by the Smithsonian Institution and a solar observatory operated by the University of Hawaii.

SERVICE TO MAUI ISLAND

Maui, somewhat larger than Oahu but with a smaller population, is served exclusively by Maui Electric, whose generating and transmission system is traced on this map. A new trend of growth on the island is in the tourist center at Lahaina-Kaanapali. The company produces power for Maui's varied needs, from beach hotels to agricultural industries, to Science City at the 10,000-foot summit of Haleakala, a dormant volcano.



Deep crevice of Iao Valley overlooks towns of Wailuku and Kahului far below in Maui's broad central plains.

HAWAIIAN ELECTRIC COMPANY, INC.

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G. Murray Winsley / *Purchasing and Stores*

TRANSFER AGENTS

Morgan Guaranty Trust Company of New York / *New York*
Wells Fargo Bank *National Association* / *San Francisco*
Office of the Company / *Honolulu*

REGISTRARS

The Chase Manhattan Bank / *New York*
The Bank of California *National Association* / *San Francisco*
First Hawaiian Bank / *Honolulu*

MAUI ELECTRIC COMPANY, LTD.

DIRECTORS

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WILLIAM H. BALTHIS / *Former Vice President, Bank of Hawaii; Maui Representative, Hawaiian Trust Company*
COLIN C. CAMERON / *Former Executive Vice President and General Manager, Maui Pineapple Company*
J. WALTER CAMERON / *President of the Company; Former President, Alexander & Baldwin; Former President and General Manager, Maui Pineapple Company*
SANFORD J. LANGA / *Attorney*
KARL C. LEEBRICK / *President Emeritus, Mauna Olu College*
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DONALD H. TOKUNAGA / *President and Manager, Maui Realty Company*

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RAYMOND R. LYONS / *Executive Vice President and General Manager*
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