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PRESENTATION

Operator

Good day everyone and welcome to Alexander & Baldwin's third quarter earnings conference call. As a reminder, today's call is being recorded. For introductions and opening remarks, I will now turn the call over to Mr. John Kelly, Vice President of Investor Relations. Please go ahead, sir.

John Kelley - *Alexander & Baldwin - IR*

Good day, everyone. This is John Kelly in Honolulu. Representing the Company today are in Oakland, California, Allen Doane, President and CEO of A&B, and Chris Benjamin, CFO and Vice President of A&B. As is typical in these calls, I'll do this brief introduction; Allen will then give you an overview of the units operating and financial performance and the outlook; Chris will then comment on financial matters; I will return with a quick review of the Hawaii economy, and then we'll open for your questions.

In today's call, our comments will be based on slides displayed on our website. This is the second time we've used a virtual webcast. Please note that you have the option to enlarge the slides on your screen and that may help you see some of the details on the slides. You may also print all the slides using the PDF file listed under "supporting materials." If anyone on the live call has trouble hearing, please dial star zero and the Operator will help you out. Copies of the press release also are at the A&B website, and there will be a replay available on the web for one week, and I'm always willing to take calls later on. Please note that the six hour time difference with Eastern Daylight time reverts to five hours starting on Sunday morning.

So with that, I will move to slide three, which is our disclaimer. Statements in this call that set forth our expectations and predictions are based on facts and situations that are known to us as of today, October 29, 2004. Actual results may differ materially due to risks and uncertainties such as those described on Page 21 on our Form 10-K in our 2003 annual report. I'd also like to remind listeners of our corporate website, www.alexanderbaldwin.com, in its links to economic information about Hawaii and to our subsidiary's websites.

With that, I'd like to ask Allen Doane to comment on the quarter and the outlook. Allen?

Allen Doane - *Alexander & Baldwin - CEO*

Thank you, John. The quarter was a very good one. These stacked bars compare the fully diluted earnings per share for the four quarters of 2003 with those of the first nine months of 2004. This year's third quarter EPS of 58 cents a share was 12% above the 52 cents we reported in the third quarter of 2003. Comparing the first nine months of both years, we've earned $1.91 this year, compared to $1.50 in 2003.

In the third quarter, earnings continued to reflect some of the trends that we observed earlier in the year, and a couple of new factors. Transportation results continue to be quite strong and above the internal targets that we've set for the unit. Real estate results are right where we expected, reflecting very good leasing results and sales, indicative of a strong economy in Hawaii and good results for our sales activity in the first part of the year. Lastly, even though our food products units remain below target, they are making every effort to turn out the highest amount of sugar production possible in a tough situation.

This slide shows the composition of operating profit among the five business in the third quarter, this year versus last year. Moving along through the blocks, Matson provided about 2/3 of the quarter's operating profits; property leasing was approximately 20%; property sales contributed a modest amount to the results, as did our logistic service business and food products.

Focusing now on each part of the business, and the third quarter in particular, I'll begin with ocean transportation. Matson had a very good quarter, bettering last year's third quarter by 31%. These charts show the primary volume metrics of the Hawaii service. On the left side is quarterly total container volume in thousands of units, on the right side is autos. The third quarter had a 5% increase in total container volume. This was driven by better overall economic conditions in Hawaii and in particular, strong construction activity. Autos, on the right side, were up by 8%, that's the first increase this year. I would also note that 2004 shipments are following an extraordinarily strong 2003 in auto shipments.

These charts show two Hawaii service metrics that describe our revenue yield on cargo. The yield per Hawaii-bound container rose about 6%. This increase comes from the overall level of freight rates, the terminal handling charge, the fuel surcharges that have been, regrettably, have to be put into place, and changes in the mix of the commodities that we carry. On mix, for example, refrigerated containers bring in more revenue per unit than do dry containers. The fuel surcharge is intended to be an offset against increased costs, while the other revenue increases are utilized to us in whole or in part, increases other operating business costs.

Here's a new metric for you this quarter: voyage days. We haven't had to use it in the past but it was a good way to illustrate a situation we're facing this quarter and will be facing for the rest of the year. We wanted to show you voyage days because it helps to illustrate the effects that the well publicized cargo handling delays in California has been having on our company. As you see, there is a big increase in the number of voyage days, this year's third quarter compared to the third quarter of last year.

This is primarily a result of our adding first, one vessel, and then actually a second vessel as the quarter ended, to provide service to our customers. These delays, basically, represented 3 to 5 extra days of port time for our vessels and that has increased over the quarter. We will be monitoring costs and cargo very carefully to assess how long we can justify keeping the additional ships in operation.

This chart shows the amount of expense each time that we bunker up and fuel our ships. As you can see, these figures are lower than the ones you hear quoted these days, for like crew; there are a number of reasons. We burn residual fuel which remains after the higher value products, like gasoline, have been removed. Second, our ships carry enough fuel for several voyages, so there's a delay effect that is also evident. We adjust our fuel surcharge to reflect our increase in fuel cost. Our fuel surcharge is most recently being increased to 9.2%, effective October 18th. I would also note that we've experienced some large increases in cost in recent weeks with purchased fuel above $40 per barrel on our last buy.

This chart of operating profit margin is intended to capture information about all categories of cost. As you can see, maintaining a 15% margin this quarter represents unusually good performance for Matson. In fact, it's the best third quarter margin attained in years. The third quarter is normally the best of the year for Matson. We've already noted the volume and yield factors in our improved results.

Among the other factors involved in year-over-year expense this quarter, were $1.6 million nonrecurrence in 2004 of a 2003 excised tax accrual. Also, the nonrecurrence in 2004 of an unscheduled vessel dry docking that occurred last year. The third factor, which was a gain that we achieved this year of about $1.2 million on the sale of our Sea Star investment. So those are three factors that did influence year-over-year results and margins. You'll just note, lastly ,that if you look at the fourth quarter -- and I'll be talking about that in a few moments -- that without some one-time factors, our margins in the fourth quarter of 2003 would have been about 11%.

Ocean transportation operating profit outlook; to help us look ahead for the remainder of the year is the chart of our operating profit in millions by quarter. At this point, the Hawaii economy is looking very strong. Cargo demand is good. There will be some seasonal fall-off and stores slow their preholiday stocking in the quarter. We expect to continue to have some delays in Southern California and that will necessity keeping additional vessels in operation, but we do expect that problem to moderate by year end.

We have had contractual long shore increases that took effect at midyear, so these costs are now embedded in the business. Taking all these factors together, we expect that Matson will continue to have good performance for the balance of the year but in its profit margins, will not be as high as they were this quarter. There's several other key issues at Matson worthy of brief mention. The second new vessel in Matson's fleet entered service in September. The Maunawili follows the Manukai into service by less than a year.

Up to this point, the fuel surcharges have covered our additional fuel coasts and adjustments have been made, but it's a very -- no pun intended -- fluid situation in terms of costs of residual fuel. As we discussed last quarter we're actively assessing a number of options in serving our Guam business, where our present charter expires with APL in February of 2006. For the time being, we'll stay with our previous estimate, that we expect an annual operating profit reduction of $10 to $20 million, or possibly higher, during the transition period following the expiration of our APL agreement.

Also, another company is constructing a car carrier for announced service to Hawaii. The public press has carried reports that the vessel will be completed and enter service in 2005. Matson does take this potential competitive entry very seriously and is working to provide the most competitive service to retain its present auto shipping customers. Lastly, Matson's facilities and its ships are in compliance with all of the new vessel and port security requirements.

Turning quickly to Matson logistics, excellent quarter. Operating profit rose by 57% on a 64% increase in revenue. These charts compare two of the operating metrics for logistics, on the left is quarterly revenue. This is a proxy for overall level of activity. The improvement is a result of both acquisition activity at the year's end in 2003, plus growth internally in 2004. On the right you can see our profit margin, which shows a good level in the quarter, although the 2.2% level was below the 2.8% peak that was reached in the second quarter. Logistics service outlook: continuing good demand, growth in all traffic segments, and we expect there will continue to be year-over-year increases in our profitability.

Food products, quickly. Revenue was up 14%. Operating profit a very nominal amount, but at least in the black. In spite of better production, comparing the two quarters of the year to the full year, this segment continues to be blocked by low sugar prices and production that is below our expectations. The production metric can best be shown on a stacked bar format. Year-to-date, we're below 2003's level by 14,000 tons. However, at the end of the second quarter we were down by 23,000 tons, so that we made up 9,000 tons of that shortfall in the third quarter.

The next chart is a new one. It shows sugar prices. This is the U.S. raw sugar price, Number 14 spot rate. Across the page you will see, dating from January 2003 through October 2004, spot prices. This chart shows the downward trend in market prices in spite of legislative intent that prices should be stable. Each one cent decline in sugar price costs the company, costs this segment about $4 million in revenue, most of which drops to the bottom line.

Food products operating profit outlook: there's no expectation that sugar prices are going to increase materially in the short run. We've seen a good recovery of production in the third quarter. We hope it continues in the fourth quarter, but there's no way of knowing, given the vagaries of weather. Our operating costs are very much under control and we expect that to continue. We expect the business to be marginally profitable.

We have been informed very recently of the likely hood of a transportation allowance support payment that could be given to Hawaii sugar growers. We could receive this payment in the fourth quarter of this year, possibly in the first quarter of next year, but would expect it to be in one of these two quarters. And that would improve the results of this segment quite a bit and would offset, to a fair extent, the reduction in sugar prices that we've seen this last 12 to 18 months.

Operating profit, property leasing. There's been a 3% increase in revenue and an 11% rise in operating profit. Occupancy metrics and property leasing looks pretty stable. It is. Small year-over-year decrease in mainland occupancy. Hawaii occupancies are basically unchanged. Operating profit outlook for our leasing business: good occupancy, stable rates, modest growth. Very small growth, but modest growth, is expected in the future.

Our property sales segment, there was not a substantial amount of activity in the third quarter, but we had talked about this previously. We had pretty much completed our sales plan for the year in the first half of the year and the results of the third quarter were reflective of that. Property sales, operating profit outlook, as noted, most of our sales have already been completed for the year. We expect few sales in the fourth quarter.

I would also note just to bring the profit outlook to a consolidated result that the fourth quarter of 2004 earnings aren't expected to reach the level of 2003's fourth quarter, due principally to the fact that we are not going to have the recurrence of a one-time payment of $16.7 million that Matson received in the fourth quarter of 2003 resulting from the conversion of a pension plan. So excluding this item, Matson's expected to have a respectable quarter given the seasonably lower results typically achieved in the fourth quarter of the year.

As we noted previously, A & B properties had, by the first half of the year, pretty much completed most of its planned activity for 2004 and we don't expect very much results there. So we're going to have few property sales and we do expect, however, having said all this, that the performance for 2004 is going to exceed the internal objectives that we've had for the year. I would just also note one final comment, that we haven't factored in receiving, that transportation allowance payment from the Federal Government that could help us out a bit more in the fourth quarter. So that's kind of an overview of the fourth quarter.

I'd like to conclude just by just bringing you up-to-date on some of our real estate projects. First, our Lanikea project at Waikiki. We'll give you a minute to read this slide. We're making very good progress on the project. The units are all sold, construction's going well. We expect to complete it by mid 2005 and we'll be closing shortly after that. Our Hokua joint venture, again, let me pause for a minute, is also doing very well. Almost all of the 247 units are sold, construction's proceeding on target, expected to be completed just at the end of 2005. And we would think that our closings will begin immediately thereafter. This is going to be either -- we'll begin closings either at the very end of 2005 or the beginning of 2006.

Kukui'ula: this was, to us, where we have contributed our land to a joint venture. We've made, incremental to that land contribution, a decision to be an equity investor. So we've made an additional investment determination, approved by our board, to be a 40% equity participant in this venture in addition to the income that we expect to receive off of the contribution of our land. We did announce the additional equity ownership position in the quarter. Looking ahead, we expect that we're going to be contributing an additional $50 to $75 million to this investment over the next three years. First sales of this project could be in 2006, most possibly -- could possibly be in 2007. We think we're going to receive very good returns on the project.

There's a line at the bottom that says total project costs $725 million. I would note that this excludes, it excludes vertical costs of homes. This is the cost of all of the infrastructure: onsite, offsite, golf course, club house, related amenities, but that we do expect with the equity contributions we will be making, our partner will be making, that this project will turn positive from the cash flow standpoint by 2008. If we go to the next page. This is just a representation of the fact that we will be getting our construction activity, we'll be investing in the project, and expect, in the 2006 or 2007 period, to begin to see initial sales receipt and return of capital and cash flow beginning to turn positive on us. And then, a very long term buildout of anywhere from 8 to 10 years on this project.

It's very exciting. We've talked about it in the past and we think it's going to provide us income for years in the future. So with that, I will turn the call over to John Kelley.

John Kelley - *Alexander & Baldwin - IR*

Actually, I think Chris is going to pick up now on financials.

Chris Benjamin - *Alexander & Baldwin - CFO*

Now, I know what I have to talk about isn't that exciting but I will take a couple minutes and do it anyway. I'm going to cover the balance sheets, cash flow statement, and our capital spending for the year. First on the balance sheets, current assets were up $41 million year-to-date at September 30th, of which $29 million was a buildup in cash. I should point out, however, though that $15 million of that cash build up was used the very next day on October 1st to pay a term loan that was assumed in connection with a 2003 real estate acquisition.

Accounts receivable also are up, year-to-date, as a result of higher revenues and business activity. The increase of $32 million in investments is entirely attributable to real estate activity; the largest portion of that, $23 million, is an increase in our Hokua investment where we have so far put in a total of $33 million. The balance of our investment line is made up of smaller cash investments in various real estate joint ventures and the contribution of land to a joint venture development at Wailea.

The increase of $71 million in net property is the net effect of the addition of the -- about $100 million of vessel assets, primarily the Maunawili, and $16 million of container assets and $14 million for the development parcel we purchased in Honolulu during the quarter. And those are offset by $15 million of depreciation. The capital construction fund has been reduced significantly in the third quarter as a result of two withdrawals, one of $40 million to finance the nondebt portion of the Maunawili purchase, and the other for $100 million to repay the entire -- I'm sorry, repay and retire Matson's commercial paper program.

Before I move on to the liabilities, let me take a moment to recap the ship financing and commercial paper retirement that I just mentioned. I outlined these events in our last quarterly call and they did transpire very much as I had indicated. The first -- I'm sorry, the purchase of the Maunawili was financed with $55 million of Title 11 bonds and a withdrawal of $40 million from the capital construction fund. So that gets you to the middle column there and then on the right-hand side, we have the results of the retirement of the commercial paper program, which included a withdrawal of $100 million from CCF, and then the paydown of the commercial paper.

As a reminder, the withdrawal of the funds from the CCF to pay down the commercial paper ordinarily would have been a taxable event. But by reducing the tax bases in our vessels, we made it a non-taxable withdrawal. The reason we did it after the vessel purchase was that the Maunawili provided some of the tax basis for that transaction. One final note about the CCF: while we have unwound the arbitrage program that had once allowed us to earn nice spreads between the interest on the commercial paper and the CCF returns, we do continue to use the CCF and will use it going-forward. It's a very effective means of financing domestically-built vessel assets and other related assets for Matson, and we can do so with pretax funds. We'll continue to use it and we will fund it really only in anticipation of known or anticipated acquisition requirements. We don't plan to make any contributions this year.

Okay. So with that background, as tedious as it was, that will help me explain the right side of the balance sheet. The major changes are a $56 million increase in current liabilities, and that was due primarily to higher taxes payable and an increase in the current portion of our long-term debt, including the reclassification of the loan that I mentioned earlier that we paid on October 1st. Our long-term debt was reduced by the retirement of the commercial paper program and normal debt repayments partially offset by the increase in the Title 11 debt.

There were no material changes in the next couple of lines and I've already explained the largest piece of the deferred tax reduction. Finally, our shareholders equity is up $56 million year-to-date. As for our debt, our total debt at quarter end was $269 million. That's the 230 long-term portion I mentioned, and $39 million current portion. This is down $76 million year-to-date. Of course, this includes the $100 million reduction in commercial paper which has been supported by the CCF fund.

It's worth acknowledging that 23% debt-to-capital is not our target and we're mindful of the fact that optimal capital structure would include greater leverage. We have several known near-term demands for our capital, including many of the real estate projects that you already know about. And we also need to have capacity for opportunistic acquisitions. We also, as Allen mentioned, are dealing with transition issues in Guam and the expected entrant of new competitor in Matson's Hawaii trade. And so, as a result, we are evaluating our capital needs and we'll provide additional information when we have it.

As for the breakdown of our debt at quarter end, we had $13 million of floating-rate debt at 2.63% interest, and $256 million of fixed-rate debt at 5.95%. On the cash flow statement, I mentioned earlier that we had an increase in cash through September 30th of $29 million and this is how it breaks down: Operating cash flows have been high, $124 million year-to-date, as a result of both strong earnings, increased depreciation, and the sale of real estate held for sale. CapEx is classified differently for GAAP purposes than how we think about it for management purposes, so I'll defer discussion of that until the next slide.

CCF withdrawals and debt repayments have already been discussed, and so I'll move on to the Other line and simply mention it includes our investments in Hokua and the newly acquired land in Honolulu, but these are offset by proceeds from disposals of property resulting in the lower net dollar amount that you see. I should mention that the big, year-over-year variance in that line is due to the fact that 2003 included the Wailea purchase.

I'm going to conclude my remarks with a summary of our capital spending for the year. The right-hand column on this chart is the capital projection that I first showed in our first quarter call, and the left column shows how we're tracking toward those numbers. Transportation spending primarily includes items I mentioned earlier: the new vessel and container equipment. Matson is also undertaking a major systems upgrade, though they are in the early stages of that project, so year-to-date spending has been relatively modest, especially compared to the bigger ticket items.

Property spending year-to-date includes $23 million of Hokua investment and the Honolulu land acquisition for $14 million, also construction at Lanikea, contributions to other joint venture projects, and normal maintenance and improvements on the income portfolio. Finally, property -- I'm sorry. Finally, food product spending primarily includes maintenance and improvement projects at our sugar operation on Maui. At this point, we still believe that this capital projection for the year is reasonable.

And with that, I will turn it over to John Kelley for an update on the Hawaii economy.

John Kelley - *Alexander & Baldwin - IR*

Thanks, Chris. Today I'm going to borrow, with their permission, parts of a presentation that was given about two weeks ago by [Dr. Leroy Laney,] a Hawaii economist and consultant to First Hawaiian bank. I will go rather quickly, but I think the tone and direction will be clear. I use this slide to properly credit Dr. Laney, and although there are some physical similarities between Dr. Laney and myself, the work is all his. This chart shows real personal income growth in Hawaii from the '80s through the present. You can see as you go across the line, especially, the strength Hawaii enjoyed in the '80s and then the flat period of the '90s. Lately, we've returned to good, sustained growth with the forecast for 2004 at a respectable 2.8%.

This slide shows job growth for the same time period, with similar trends. At present, we appear to have a sustained pace of about 2% job growth annually, with the growth broadly based across the economy. I'm going to pause for a second because I think the slides are coming up a little slowly. Another labor market measure is unemployment. With the exception of a very small uptick in 2001, Hawaii's unemployment rate has been falling rather steadily since its high in 1997 at 6.4%. In fact, for the past couple years, Hawaii's unemployment rate has been the lowest in the country; has been lower than the U.S. mainland and has been lowest in the country for the past few months. It came in at just 2.9% in August.

Hawaii uses a state general excise tax, which is a very pervasive tax, but also a good measure of economic activity. The 2003 total was over $1.8 billion collected, and this year it could well go over $2 billion. Again, I'm pausing because I think the slides are moving slower than I can talk about the data. This chart shows new auto registrations which also are a good indicator of the economy. In 2003, Hawaii broke its 1989 record, and that should be easily exceeded this year with an estimate of about 69,000 cars registered.

With all that good news, there's always a cloud. This is economics after all. In this case, it's an expected uptick in inflation. Leaps and lags in economic activity are often associated with higher and lower inflation rates, so with our strong relative growth, Hawaii's inflation rate was up 3.3% in the first half of '04. And because the costs of housing, shelter and fossil fuels are large factors for us here in Hawaii, that number is likely to be higher in the second half of this year.

Let's look rather quickly at two important components of Hawaii's economy: the visitor industry and construction. I'm waiting for a slide. I'm just going to go on, because I don't think we want to daly on this. The slide will illustrate separate data for domestic and international visitor arrivals. And these trends often behave quite differently, but not this year. As you'll see when the slide comes up, domestic visitors have been Hawaii's mainstay for the past few years, being good, steady, positive contributors and they remain so. The big news is the return of the Japanese market, which is the primary driver of the nearly 14% year-to-date increase in the international visitor's segment.

The other big driver of our economy recently, construction completed, continues to rise. In 2003, we broke through the '90s levels and '04 we'll top that with ease. Moreover, private building permits indicate that this rise should continue. This slide shows both residential and permits, combined with low interest rates and pent-up demand, still driving up the residential side. And big military housing projects still are coming -- still coming, are especially interesting because they aren't subject to normal regulatory constraints or interest rates for that matter. The driver for construction continues to be strong housing demand. The chart that will be up in a second shows just one slice of that, single family homes on Oahu. Sales volumes and median prices have continued to rise, but affordability is becoming a concern so we believe the pace of growth is likely to ease off from this point on.

Summing all these trends, here's Dr. Laney's forecast: all of his figures indicate good economic growth; strong, steady, sustainable growth. Even the visitor arrival number 3%, after a 7% rise in '04, simply occurs because '03 had SARS and Iraq invasion in it's first half. So the '04 percentage change was unusually high. So with that, we'll bring our formal remarks to a close and open the phone lines for question-and answers. Michael?

Operator

Thank you. [Operator instructions.] And we'll take our first question from Jamelah Leddy with McAdams Wright Ragen.

QUESTIONS AND ANSWERS

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Thank you. Allen, in your prepared comments, I think that when you were speaking about Matson's profitability you said that you didn't expect Q4 to be as high as a year ago. And I understand there were some one-time items a year ago, but I would assume that the profitability might be higher than the 11% adjusted profitability last year. Would that be correct?

Allen Doane - *Alexander & Baldwin - CEO*

It could be, and maybe not. You've got two short term variabilities here. One is the situation in Los Angeles and how long that will continue to require us to have additional vessels in operation. The other is the fairly precipitous increase in fuel costs. The -- otherwise, the business is operating at a level that is -- that's quite good.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. And with respect to L.A., is there any more color you can give or are you -- you just have to sort of wait and see how things turn out?

Allen Doane - *Alexander & Baldwin - CEO*

Well, there are two things. Actually, there are a lot of things happening, but there are two major events. One is that the seasonal peak for shipping from Asia to the United States is starting to -- has reached its peak and will be declining, so that should take some of the volume pressure off the port.

The other factor in going the other way, if you were to be kind of building a chart, there are additional long shore personnel that are coming into the port now, so they're being hired, trained. And at some point, those two lines will intersect, which will be reduction in activity and acceleration of individuals available to offload the ships. But they haven't yet, and I think that we should see it moderate though,over the rest of the year.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Great. And then with respect to your ability to continue to find attractive investments in the real estate market and Hawaii, if I'm not mistaken, you first began investing on the west coast due to some high real estate markets in Hawaii in the past. And so I guess my question is, is it possible that we'll see increased mainland investments if the Hawaiian real estate market remains hot?

Allen Doane - *Alexander & Baldwin - CEO*

Well, you are going to see, I believe, increased mainland real estate, but it's going to be completely in our pattern. We've done some small investment activity in the development joint venture area in the last couple years in California that's going quite well. It fits our pattern. I don't think you're going to see any monumental shift out of Hawaii. We're going to continue to place most of our investment money where we've got the largest competitive advantage.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. And you continue to -- I mean, obviously, you made the two major investments the past quarter. You continue to believe that you have opportunities to do so?

Allen Doane - *Alexander & Baldwin - CEO*

I'm saying yes, of course. But I think the comment that I made the last time, it sounded a little flip to make it, but we're not in business to place money, we're in it to make money. And we've had a pattern, we've done sort of one deal a quarter when you look back at the last 4 or 5 years. Sometimes there's a drought of several quarters and sometimes you bunch several up in a quarter. I can't tell you when the next opportunity is going to come.

I can tell you that it is much more challenging now than it was two or three years ago to find opportunities that meet our investment parameters because we haven't changed them. We haven't dummed down and brought down our return expectations because the market's gotten tougher. But having said that, we had two really good investment announcements in the third quarter. The one I talked about was the Kukui'ula one, where we literally made a major incremental commitment to be an equity partner in that long-term real estate development.

And the second, which we didn't talk about today, was we did acquire a very attractive development site fully entitled in the core area of Honolulu which we intend to build a high-rise condominium on. So we found one and we invested in another. I hope that that continues, but you know what, if it doesn't, for a while we're just not going to spend money. We'll wait to find things that fit us.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Great. And then, I'll just ask one more question and then go back into the queue. With respect to the potential sugar payment in Q4 or Q1, do you have any estimate of how much that may be?

Allen Doane - *Alexander & Baldwin - CEO*

I'm not prepared to say yet. It's a very recent -- recent information we've received. We may find out in the next few days or a week, but we don't know with enough certainty yet what it's going to be. We do know that our -- based on where we should have been under the sugar program, we're probably $5 or $6 million short in sugar revenue, but I can't comment specifically. It will be more than an incidental amount; exactly how much it is remains to be determined.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Great. I'll go back into queue. Thank you very much.

Operator

We'll take a question from Nicholas Aberle with Carris & Company.

Nicholas Aberle - *Carris & Company - Analyst*

Good morning.

Allen Doane - *Alexander & Baldwin - CEO*

Hi, Nick.

Nicholas Aberle - *Carris & Company - Analyst*

Talking real quick on the [poshup pure car] carrier that may or may not enter the Hawaii service sometime in 2005. Would there be anyway you could paint a best case, worst case scenario, and how that's going to affect the competitive landscape?

Allen Doane - *Alexander & Baldwin - CEO*

Well, from our point of view, we think it is going to enter the service. We can't be certain, but we think it will enter the Hawaii service. And at this stage, we just don't know enough about exactly what the competitive dynamics of that are going to be to even put a band around it. It's not going to be positive.

Nicholas Aberle - *Carris & Company - Analyst*

Okay. And with respect to the west coast port congestion issue, would there be anyway that you could break out the incremental costs of adding the one and two more ships to the rotation? And in addition to that, was the entry of those additional ships to help stay on timing, or were you able to get some added benefit there?

Allen Doane - *Alexander & Baldwin - CEO*

Well, first on the second part of the question. It was really, primarily, to serve our customers, that had we not brought out a one ship and then two, it would have created a lot of difficulty and disruption for our customers and for Hawaii. So that was the primary purpose. It may have been a little additional freight that went on these vessels.

We think that the impact was in the quarter, somewhere between $1 to $2 million. We've estimated it in third quarter, we don't know for sure. We know that our vessels cost us about $37,000 a day when they're operating, and about $25,000 a day when they're in port, idle. So you start doing the arithmetic. Depending upon how long we're in port and how long the delay is, there could be a several million dollar impact in the fourth quarter.

Nicholas Aberle - *Carris & Company - Analyst*

Okay. And lastly, I mean, as you went over in your prepared remarks, you guys have gone through the first nine months and shown outstanding performance. And I know, historically, we discussed the dividend issue and basically it has in the hands of the board of directors. If you guys continue to stay on this type of roll, do you think the probability of adjusting that issue and bumping the dividend becomes greater?

Allen Doane - *Alexander & Baldwin - CEO*

Well, I think that the board does address the dividend issue periodically, and they will again. Right now, Nick, if you look at our, just sort of a guideline payout ratio for us would be, say, 40% of our earnings. And if you go back and go through our last 12 months, we're -- we have a payout ratio that's slightly below that but not materially below that.

I mean, what we've really done is kind of worked ourselves into our desired payout ratio here over the last couple years, and at this stage are in the mid/high 30% payout ratio, which is not all that far from what we said our guideline would be in a long-term sense.

Nicholas Aberle - *Carris & Company - Analyst*

Gotcha. Congrats on the quarter, guys.

Allen Doane - *Alexander & Baldwin - CEO*

Thank you.

Operator

As a reminder, if you would like to ask a question today, please press star one on your touch-tone telephone. We'll hear from Spiro Capital's Tom Spiro.

Tom Spiro - *Spiro Capital - Analyst*

Tom Spiro. Aloha!

Allen Doane - *Alexander & Baldwin - CEO*

Hi, Tom.

Chris Benjamin - *Alexander & Baldwin - CFO*

Hi, Tom.

Allen Doane - *Alexander & Baldwin - CEO*

Ask Chris a question; he's falling asleep here.

Tom Spiro - *Spiro Capital - Analyst*

I've got plenty of questions for Chris. Wake up Chris! [Laughter] Let me start with Kukui'iula, which seems like a significant investment for the Company. You had a slide up there that passed rather swiftly, so let me ask a couple questions. They may not have been covered, they may have been covered in the slide, but you had a comment about the Company's equity interest there. It sounded like you were saying we had a 40% equity interest in some portion it, and then we'd expect a return on our land investment, in addition. I was confused.

Allen Doane - *Alexander & Baldwin - CEO*

No, that's a good question, Tom, a good pickup. What we've got is we've got two [traunches] of return on our investment. One deals with the fact that when we formed the venture with DMB Associates, we contributed lands to the venture. And on that contribution we are going to receive a return. In addition to that, we have also, going-forward, have agreed to be a 40/60 partner on all of the capital that's being placed in the business as we now develop it.

So there are going to be two components of the total return, and I can't be all that specific right now, because figuring out what's equity and what's land, but it will give us, we believe, more than 50% of the total but less than 60.

Tom Spiro - *Spiro Capital - Analyst*

That helps, Allen. Thank you. Also, I think the slide said that there were going to be roughly 1200 units.

Allen Doane - *Alexander & Baldwin - CEO*

Yes.

Tom Spiro - *Spiro Capital - Analyst*

And the sale of those units will generate revenue, of course. Will the project also have revenue from the sale of commercial or other interests or is the revenue basically just the 1200 units times whatever price you get per unit?

Allen Doane - *Alexander & Baldwin - CEO*

Have you been to Kauai lately?

Tom Spiro - *Spiro Capital - Analyst*

Not recently. [Laughter]

Allen Doane - *Alexander & Baldwin - CEO*

In addition, we've got a relatively small -- compared to a thousand acres -- commercial component of this. It's not going to be large, but when you go to resort areas there's often times a satellite commercial development that's related to the residential. We expect to do that. We have not included in any of our estimates the development of that site, so that could be a -- if anything, it's not really that large compared to what is a huge residential project -- but that -- there's some up side additional capital if we want to do it and some up side for that investment as well.

Tom Spiro - *Spiro Capital - Analyst*

I think the slide said the project cost was something like $725 million?

Allen Doane - *Alexander & Baldwin - CEO*

Yeah.

Tom Spiro - *Spiro Capital - Analyst*

Do you have sort of a ballpark estimate, a range of what project revenues might look like?

Allen Doane - *Alexander & Baldwin - CEO*

I wouldn't want to provide that. I know if you look at the unit count and you look at -- have some ideas of what that might involve, we've done our projections based upon selling without houses, or without townhouses, so there's no vertical development. We've done it, in effect ,the prepared land costs with all the infrastructure in. But we expect there to be a large -- and it's going to be a significant one -- between the project costs and what we believe the residual value of the land before vertical improvement will be.

Tom Spiro - *Spiro Capital - Analyst*

Will you, perhaps after Q4 or early next year, be able to give us a fuller discussion of the terms?

Allen Doane - *Alexander & Baldwin - CEO*

Yeah. We've got the entitlement and now we've to go back, and we've got a lot of detailed plans. I mean, we're going to have lots of architects, consultant, construction. We don't even have construction contracts yet for most of the work so you can assume there's going to be a lot of variability and much more definition of this. But from a topside point of view, we wanted to just provide the essential attributes that we used to make our own investment case for the project.

Tom Spiro - *Spiro Capital - Analyst*

Let me switch to a couple other segments and then I'll get back in queue. Over on the food side, I think the slide said the outlook was marginally profitability. I wasn't sure whether you meant that in the fourth quarter it would be marginally profitable or for the full year it would be marginally profitable?

Allen Doane - *Alexander & Baldwin - CEO*

The outlook was for the fourth quarter and that's assuming that there is no transportation allowance payment. If there is a payment, then it will be better than marginal.

Tom Spiro - *Spiro Capital - Analyst*

I understand -- sticking with food -- that there were some recent regulatory developments in Hawaii with respect to the use of ethanol. And I was kind of curious what, if anything, that may mean for the food segment as we go into '05 and '06.

Allen Doane - *Alexander & Baldwin - CEO*

That's a question that is one that's a good to answer now for our investors. It will have a modest improvement and profit uptick in our agricultural activity. It's not a transformational activity. What's really happened is, is legislation's in place which mandates 10% use of ethanol in gasoline products in the state of Hawaii. The basic way you do that is through the use of molasses that's converted into an ethanol product. There are other ways you can produce ethanol, but that's the primary use for Hawaii.

So what we would do is we would expect to enter into a purchase contract to sell our molasses, which is a byproduct of the sugar production process, to an entity that would produce ethanol. We may also decide to invest in that ethanol entity, but I'd say the likelihood is very high that we are going to enter a contract at our HC&S facility on Maui to sell molasses, which will provide a benefit, but not a transformational benefit to our sugar profitability going-forward.

Tom Spiro - *Spiro Capital - Analyst*

That's great. The last question I'll go over to Matson. There's a lot going on now in trying to understand Matson's results as fuel and port congestion and then last year's fourth quarter, there was the unusual gain. But if I look through all of that and just ask you, unit volumes we're strong in Q3 versus Q3 last year. Is it reasonable to expect that unit volumes in Q4 this year would again exceed Q4 last year, and we let these, sort of, non-recurring things pass?

Allen Doane - *Alexander & Baldwin - CEO*

I think it's reasonable to assume, especially given -- I'm going to put the responsibility on John Kelly and his twin brother Leroy Laney -- I think it's reasonable that we should continue to seek growth in volume in the fourth quarter.

Tom Spiro - *Spiro Capital - Analyst*

Thank you. I'll get back in queue.

Operator

Once again, if you do have a question, a final reminder, please press star one. We'll go back to Jamelah Leddy.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Thank you. Sort of in line with the last question that was asked, I'm wondering if you can comment a little bit more in terms of the average rate per container at Matson. I know it depends on a whole bunch of different factors and the product mix, but in a very general sense, could you say that the average rate per container has increased?

Allen Doane - *Alexander & Baldwin - CEO*

Yes, Jamelah, it's increased about 6% year-over-year. It's partially a result of rate increases, partially a result of something we treat separately, which is the fuel surcharge, and partially a result of mix. But the aggregate increase, on a unit basis for west-bound containers, is -- I should say for total west-bound containers, is 6%.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. And if you exclude fuel, because that's basically a pass through, are there any factors that you can see that would influence this one way or another going-forward? Obviously, competition, but assuming that that's --

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Allen Doane - *Alexander & Baldwin - CEO*

Yeah. I've been in a lot of businesses and in some transportation businesses, and trying to forecast pricing behavior in a competitive market is something you do with great caution. It's a competitive, it's a matter of competition, but it's also a matter of when cost inflation makes it necessary. When you strip out the fuel surcharge, the rate increase looks a lot more reasonable, maybe in the range of 4%.

And when you look at the overall inflation that we have in our business and the fact that we've also put new assets into service where we have to return income on those new assets, it's a reasonable level. But to predict what it's going to be going-forward is difficult. Competitive circumstances could change very rapidly.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Well, that's helpful. And then, you have commented both last quarter as well as currently, that essentially all the property sales that were expected for 2004 and took place in the first half of the year -- it was obviously during the last quarter -- but do you have a feel for how property sales will evolve in 2005? If it will be front loaded again or if our best estimate is to just spread them out evenly throughout the year. Do you have any feel for that or factors that would influence that?

Allen Doane - *Alexander & Baldwin - CEO*

Yeah. We'll be in a position -- we're still meeting and reviewing our operating plans for 2005 so I can't talk with much precision about where we're going to be from a distribution standpoint in real estate. I believe that we're going to -- we're going to have some sales in the first quarter, fairly good volume in the first quarter.

If you go back and look at our activity, we believe that we're going to have a hump somewhere in the second or third quarter when we go through our Lanikea condo sales. And then, we also may have at the very, very end of next year, the Hokua sales beginning. So I don't know if it's a bar bell or if it's a bar bell with something in the middle, but we don't have the ability, and we don't try, actually, to regularize by quarter, our sales activity. We try to make it naturally flow with when the opportunities avail themselves.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Well that's helpful. Thank you very much and congratulations on a good quarter.

Operator

We have a follow-up from Tom Spiro.

Tom Spiro - *Spiro Capital - Analyst*

Yeah. I didn't want to let Chris off the hook here.

Allen Doane - *Alexander & Baldwin - CEO*

He's ready. Thanks, Tom.

Tom Spiro - *Spiro Capital - Analyst*

All right, Chris. Hang on to your hat. The CapEx numbers that you gave us earlier showed a budget of, I think 155 for transportation this year.

Chris Benjamin - *Alexander & Baldwin - CFO*

Right.

Tom Spiro - *Spiro Capital - Analyst*

Does that -- that includes the ship of about a what? 100 million or so?

Chris Benjamin - *Alexander & Baldwin - CFO*

That's right.

Tom Spiro - *Spiro Capital - Analyst*

And that 100 million for the ship was, as I recall, paid with a combination of the CCF and borrowings?

Chris Benjamin - *Alexander & Baldwin - CFO*

Right. So far, about $40 million of the CCF, we still have a few final payments that will bring that to another $5million or so, and then the $55 million, Title 11.

Tom Spiro - *Spiro Capital - Analyst*

If I back the ship out, this year's 249 drops to something like 150?

Chris Benjamin - *Alexander & Baldwin - CFO*

Right.

Tom Spiro - *Spiro Capital - Analyst*

And last year, I think the number you had was about 189 or 190, and that included another 100 for another ship. So without the ships, that would have been about 90, if I understand this correctly. I guess where I'm going is -- I know you guys alluded to this in your comments -- it seems like you guys are awash with liquidity. You've got tremendous borrowing power and sort of, to point to capital expenditures as a reason for continued caution, I find just a little perplexing. It seems like your CapEx -- unless something extraordinary were to happen -- is sort of well in hand with your depreciation in earnings power.

So I hope you will think through the appropriate debt-to-equity levels for the Company, and with interest rates as low as they are, perhaps you can find some greater use for borrowed money, or which might include the further return of capital for the shareholders. I know an earlier caller had raised the question of the dividend and, I guess, Allen, you had focused on the 40% payout ratio. Maybe the answer is the payout ratio shouldn't be 40%.

Chris Benjamin - *Alexander & Baldwin - CFO*

Well, I think Tom -- if I can comment on that -- that's the second quarter in a row you've used the word "awash."

Tom Spiro - *Spiro Capital - Analyst*

Yeah. Bad pun.

Chris Benjamin - *Alexander & Baldwin - CFO*

I think, though, that first of all, we do have -- capital expenditures are part of it, and it's not just this year's capital expenditures, but it's both known and unanticipated or currently unplanned capital expenditures over the next couple of years, and that's certainly a big part of it. And the interest in having the capacity to take on opportunistic opportunities. But the other factor here really is just the outlook, in terms of both earnings and cash flow. And as we've discussed we also have situations that give us -- that we're still evaluating, in terms of both the competitive situation in Hawaii and the replacement of the Guam service.

So I think that when you take all of those together, the known capital expenditure requirements, those that we're still developing, including potentially in figuring out exactly how our new Guam service is going to be structured, and then finally, the earnings in cash flow --- I'll use the word uncertainty, or we're gaining more certainty -- but that's still the other variable in there. So all of those, together, I think cause us to not jump to increasing the dividend payout ratio.

Because you really have to look at this on a more long-term basis, and historically, we feel that a 40% payout ratio is consistent with the nature of our business, the growth prospects in our business, the capital intensity of our business, and we don't want to make a short-term change because we've got some excess cash on the balance sheet that is going to long-term hinder our ability to pursue the opportunities we need to pursue.

Tom Spiro - *Spiro Capital - Analyst*

Well, I understand. And I don't mean to lecture but it seems to me part of the challenges for managements of all companies is to react to changes in capital markets and changes in the tax rules. And at least on those two counts, there's some very favorable things going on. And I know you're aware of them, I just hope you'll take those into consideration as you think these issues through. Thanks very much and good luck.

Allen Doane - *Alexander & Baldwin - CEO*

Thank you, Tom.

Operator

We have a question from Rob Maten with Schneider Capital.

Rob Maten - *Schneider Capital - Analyst*

Hi, guys.

Chris Benjamin - *Alexander & Baldwin - CFO*

Hi, Rob.

Allen Doane - *Alexander & Baldwin - CEO*

Good afternoon. Hey, Rob.

Rob Maten - *Schneider Capital - Analyst*

Good afternoon. I just had a couple more on Kukui'ula. I'm still not sure if I pronounced that right, but hopefully that's close. The one is just in terms of the transaction in the quarter to increase your equity position. I'm wondering how that works. Is this something that you just negotiated with DMB to take an additional stake, or do you have an option to -- did you have an option, or do you have further options -- to increase your stake if you want to?

Allen Doane - *Alexander & Baldwin - CEO*

Yeah. When we formed the venture, we negotiated that option. So this was done almost two years ago. And it was an opportunity we had and now we've exercised it, there are no more options available. So when we formed the venture, we believed that there was such good promise that we wanted to participate as more than a landowner.

Rob Maten - *Schneider Capital - Analyst*

Okay.

Allen Doane - *Alexander & Baldwin - CEO*

And they agreed to do that, somewhat reluctantly, but they agreed. By the way, I to say they were great partners, they were very accomplished people, and we're pleased with the work that they've done and them being our partner.

Rob Maten - *Schneider Capital - Analyst*

Okay. And my second question is a little broader and probably affects Wailea as well. I'm just wondering if -- you had the statistics in John's discussion about construction permits rising pretty significantly. I'm wondering, though, if you could talk more specifically about the high-end residential development that you're doing in those two locations and what the supply is of that type of real estate in Hawaii, across all the islands, going-forward, over the next several years?

Allen Doane - *Alexander & Baldwin - CEO*

I think we can maybe -- offline -- give you some more information that will give you comparables for both Kauai and for Maui. We haven't talked about Maui today, but that project at Wailea is also proceeding very well; it's very different than the Kukui'ula project. But from the broadest standpoint, the ability to -- what we found is, is that there are a lot of what we're calling baby boomers, you know, that 77 million group of people, but there are a lot of people who are continuing to make decisions, and we believe are only going to make decisions in the future, to have second, third or fourth homes in Hawaii.

And there are a number of underlying factors, but that's a principal driver, of just a lot of people who have the wherewithal and they find Hawaii an attractive place. Comparing that against the supply of attractive resorts, second, third home locations on Hawaii, we think that over a long period of time that that's just a really good investment premise and place to be. But we can provide you, separately, with information on some comparables for both Maui and for Kauai. John Kelly, if you could send that to rob.

Rob Maten - *Schneider Capital - Analyst*

Okay. Great. Thanks a lot.

Operator

And there are no further questions at this time. Mr. Kelly, I'll turn the call back to you.

John Kelley - *Alexander & Baldwin - IR*

Well, I'd like to thank everyone for participation, including my colleagues in Oakland, California. Thank you, gentlemen, and good day to everyone.

Allen Doane - *Alexander & Baldwin - CEO*

Thank you.

Chris Benjamin - *Alexander & Baldwin - CFO*

Thank you.

Operator

Thank you again, for everyone for joining us today. That does conclude today's presentation. Have a wonderful afternoon.
