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CORPORATE PARTICIPANTS

Chris Benjamin *Alexander & Baldwin - SVP, CFO, Treasurer*

Kevin Halloran *Alexander & Baldwin - Director, Corp. Fin., IR*

Allen Doane *Alexander & Baldwin - Chairman, CEO*

Jim Andrasick *Alexander & Baldwin - President, CEO, Matson*

Stan Kuriyama *Alexander & Baldwin - President, CEO, Land Group*

CONFERENCE CALL PARTICIPANTS

Jonathan Chappell *JP Morgan - Analyst*

Chris Haley *Wachovia - Analyst*

Alex Barron *JMP Securities - Analyst*

Jay Habermann *Goldman Sachs - Analyst*

John Hollander *Intrinsic - Anallyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2006 Alexander & Baldwin earnings conference call. [OPERATOR INSTRUCTIONS] I would now like to turn the presentation over to your host for today's call, Mr. Christopher Benjamin, Senior Vice President, Chief Financial Officer, and Treasurer.

Chris Benjamin - *Alexander & Baldwin - SVP, CFO, Treasurer*

Thank you, Operator and good day, everybody. This is Chris Benjamin. I'm joined today by A&B's Chairman and CEO, Allen Doane; Matson Navigation Company President, and CEO, Jim Andrasick; and A&B Land Group CEO, Stan Kuriyama I'd also like to take this opportunity to introduce Kevin Halloran. Kevin recently joined us as Director of Corporate Finance and Investor Relations and he's with us here today in Oakland, California.

After this introduction, I'll give a brief summary of our financial results for the quarter. Kevin will then provide some comments on the Hawaii economy, Allen will run through the quarterly performance of our five key business segments, and finally I will conclude the formal portion of the call with comments on financial matters. We will then open to your questions for which both Jim and Stan will be standing by as well as Allen and I.

Today's slides can be accessed via a link on our website at www.alexanderbaldwin.com. If you're viewing them on your screen I understand that they tend to load very slowly so if you would like to download a PDF version, that is available on our home page. There will be a replay available on our website for the next week.

Turning to our disclaimer; Statements in this call that set forth expectations or predictions are based on facts and situations that are known to us as of today, October 27, 2006. Actual results may differ materially, due to risks and uncertainties, such as those described on pages 16 through 21 of the Form 10-K in our 2005 annual report and our other subsequent filings with the SEC. Statements in this call are not guarantees of future performance.

So with that I'd like to turn briefly to our consolidated performance for the third quarter.

We had a strong quarter which keeps us on pace to exceed our original expectations for 2006. These stacked bars show our fully diluted earnings per share for the four quarters of 2005, the first two quarters of 2006, and the just reported $0.65 per share for the third quarter of 2006. We believe that both the third quarter and year-to-date results are very good in light of the transition we have gone through in Ocean Transportation. Year-to-date we have achieved earnings per share of $2.18 in 2006 versus year-to-date earnings per share of $2.33 for the first three quarters of 2005.

This next slide shows the composition of total operating profit in the third quarter '06 versus '05. As you can see, our Ocean Transportation and transportation logistics businesses on a combined basis nearly matched last year's third quarter operating profit. Leasing and food products bettered last year but as expected, property sales operating profit for the third quarter was well below last year due to timing of property sales in 2006 and an exceptionally high level of earnings in third quarter of 2005. So with that brief overview, I'd like to turn it to Kevin now to discuss the Hawaii economy.

Kevin Halloran - *Alexander & Baldwin - Director, Corp. Fin., IR*

Thank you, Chris. Good day. Prior to making a few comments on the local economy in Hawaii, I'd like to take this opportunity to say that I look forward to working with all of you.

Hawaii's economic expansion continues but at a markedly slower pace. This is reflected in the evolving forecast for key economic indicators which Hawaii's forecasters have revised downward during the past three months. Specifically, visitor industry arrivals and personal income numbers have both been revised downward in the third quarter. While estimates for growth or contraction in full year visitor arrivals vary, they generally reflect no material change from 2005. Inflation is playing a role in diminishing projected real personal income growth.

Construction job count and new auto registrations are additional indicators that are important to Matson's shipping volumes. Construction jobs are projected to be up 7% for 2006 but down very slightly for 2007 suggesting that construction activity may be plateauing at a very high level. Auto registrations are down year-to-date, but predictions of future direction are mixed. With that context in mind, we'll take a closer look at how the economy may affect real estate markets.

Looking specifically at the Hawaii real estate market, the commercial sector remains extremely strong. Vacancy rates are at historic lows and rental rates are improving. We expect a favorable environment and strong values for commercial properties to persist. As a reminder, we generate roughly one half of our real estate income each year from our leased properties. On the residential front, we have seen a slowdown in the market. Sales volumes are down year-over-year and we're seeing increases in inventories and days on market, though supply metrics seem to be below national levels.

Median sales prices are mixed with most markets remaining at or near historically high levels. It should be noted that the relatively small number of transactions in certain market segments, especially for the Kauai and Maui markets can lead to increased volatility in median prices. Looking forward, we see several factors that the could soften the landing for Hawaii's residential market. The local economy is expected to remain fundamentally sound and new housing supply remains constrained by entitlement and infrastructure issues.

In addition, though outside investors do impact the resort residential sector, Hawaii's residential market as a whole does not appear to be driven by irrational outside investment, in contrast to prior real estate cycles. That said, we do acknowledge that we are entering increasingly uncertain times. With that, I'd like to turn the call over to Allen Doane for comments on third quarter segment performance.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Thank you, Kevin. As you can see, Ocean Transportation's profitability of $34.2 million came relatively close to the prior year. Importantly, the gap in earnings between last year and this year is significantly narrowing. The year-over-year operating profit gap in the third quarter was just $2.6 million compared to $14.3 million in the second quarter. This improvement is due to volume growth in the new China service and –a number of other factors. We did see a drop in container volumes in Hawaii and Guam, along with a more significant drop in auto volumes in Hawaii.

This next slide shows the operating margins by quarter for 2005 and 2006. As we noted before, last year's first through third quarter margins were historically high and we did not expect to repeat them. This quarter's nearly 14% margin is quite favorable and above our historical normalized range of 10 to 12%. It should be remembered that due to the seasonality and the trades that Matson serves, the second and third quarters are normally our best performing.

Hawaii container volume, westbound and eastbound combined, was 2% below the third quarter of last year. Total Hawaii auto volume was down 15% due to reduced incentives to rental car agencies that have resulted in lower rental car turnover and therefore shipments,as well as competitive pressures. Third quarter 2006 container yields in the westbound Hawaii service were 11% higher than the prior year's quarter. Besides a fuel surcharge which accounted for the majority of the increase, the general rate increase and an increase in the terminal handling charge together contributed just over 3% for the increase. Matson recently announced two decreases in the fuel surcharge,taking it down from 21.25% to 18.75%, so we anticipate that yields in the fourth quarter will be trending down slightly. The right hand chart shows improved auto yields compared with last year's third quarter and with this year's second quarter.

Fuel costs remain a significant factor, with an increase of approximately $11 per barrel over the same period a year ago. Matson's fuel surcharge effectively offset higher fuel costs during the quarter.

With the addition of the Maunalei to the Matson fleet in July, we've completed our fleet modernization program. The program, representing an investment of roughly $500 million, was implemented over a four year period. The addition of these new, fuel efficient ships has resulted in a lowering of our average fleet age to 14 years. The new ships are all integrated into the fleet and are performing superbly.

Our China service continues to make progress. Our volume is above plan. Although we did experience softness in volume early in the third quarter by the end of the quarter, our ships were running nearly full on the eastbound leg from China to Long Beach. The first three voyages in October have essentially been full. It should be noted that October represents the seasonal high point in the China trade. We are continuing to demonstrate our service advantages. Our departures and our arrivals are overwhelmingly on time and nearly all of our cargo has met our targeted delivery times relating to availability. Rates achieved so far have been disappointing. The rate environment in general is lower than we anticipated and we are still in the progress of proving ourselves in this trade. We do remain confident in our ability to improve our rates over the longer term based on our service advantages. Putting all the elements together, including higher fuel and intermodal rail costs, performance, while profitable, did not reach planned levels in the quarter.

As this advertisement conveys, we are marketing the benefit to shippers of using the Matson China-Long Beach Express, emphasizing the very strong track record we have established over a short period of time.

In Hawaii, we are seeing softness in volumes. A high inflation rate in the first half of the year, which is above 5%, lowered real personal income growth and impacted discretionary spending among Hawaii residents. A significant component of the inflation experienced was attributable to higher fuel costs and we are hopeful that the recent declines in fuel costs will stimulate increased spending. As alluded to previously, changes in incentives for rental car companies have led to lower volume of auto shipments. In addition, auto registrations are projected to be down nearly 5% in the third quarter this year versus the prior year which suggests a lower level of new car sales to consumers.

You may be aware of the potential impacts of a changing fleet deployment of our main competitor in the Hawaii trade. Based on our understanding the changes will result in an increase in Horizon Lines westbound capacity to the islands in the range of 20% and a direct call eastbound from Hawaii to the Pacific Northwest will be made. The increase in capacity is attributable to larger ships replacing smaller ships, not an increase in the frequency of sailings. While this is a concern, it should be noted that Matson's key service attributes such as schedule frequency and cargo availability to Hawaii, which are the primary factors in the westbound trade, will remain superior. It's also worth noting that there is no indication of increase in auto capacity to Hawaii but Matson will implement further auto enhancements with the expansion in 2007 of it's railroad capability to reduce the costs of carrying cars.

In summarizing the Ocean Transportation segment, there will be sustained progress in the China trade and Hawaii and Guam shipping volumes are forecast to be relatively flat. Matson has also initiated a number of operating measures to counter the identified market challenges. Due to the inherent seasonality in the business, the fourth quarter has traditionally been characterized by lower margins and we will not be able to maintain the margins achieved in the third quarter of 2006.

Moving now to logistics. This segment has had an extraordinary quarter. Operating profit increased by 46% on higher yields across all lines. Logistics operating metrics remain positive with revenue increasing 4% over the third quarter of 2005 for the reasons cited. It should be noted that declining volumes and increasing yields are being seen industry wide. Volume growth, yield improvement and economies of scale combined to generate operating margins of 4.5% up from 3.4% during the second quarter but down slightly from the 4.6% achieved in the second quarter of 2006. The margins achieved by Matson Integrated Logistics this year are high relative to industry norms.

We continue to be very pleased with the performance and growth of this business, especially the growth of our higher margin highway line of business. Our logistics management team is actively seeking new sources of growth. Based on the trends being seen industry wide, we would anticipate yield increases as opposed to volume increases driving year-over-year revenue growth in the fourth quarter, though margins may moderate somewhat.

Turning now to our real estate leasing segment, operating profit again posted double digit growth up 10% to $12.5 million in the third quarter of 2006. Results benefited from increased occupancy rates and lease rents as well as the additions of several properties to our portfolio.

Occupancies are at a very high 97% on the mainland and 98% in Hawaii, while it is difficult to improve over these levels we do see continued strength for the portfolio and we're quite happy with the performance and management of our income properties.

Looking forward to our leased income segment, we expect continued strong results driven by high occupancies and the underlying strength of the Hawaii and the mainland commercial markets we serve.

As expected, due to the timing of property sales, which by their very nature are variable, property sales results were lower in the quarter. It is important to remember that in last year's third quarter we sold an entire condominium tower, 100 units, and received $5.2 million in an insurance gain that was recorded in this segment.

Property sales activity will pick up in the fourth quarter primarily as a result of the Kai Malu at Wailea sale activity. As you can see from this slide our development pipeline is good with projects in various stages of development targeting different market segments on Maui, Kauai, Oahu, and the Big Island. I'll briefly summarize some of these projects.

The Kukui'ula joint venture has secured all four key permits this year allowing for closings of the first 123 units. Closing commenced in the late part of September with five lots closed. We have letters of intent on approximately 85 additional lots. Sales are progressing more slowly than we thought they would, but this isn't all that surprising given the trends in the housing market. Although sales activity for the last quarter of 2006 will not meet original expectations, the prospects for the development remain favorable. Kukui'ula is a premier development project featuring spectacular scenery and locations on Kauai's south shore, world class amenities, extremely limited competition, and a top notch partner in DMB Associates. We feel that these fundamentals will serve Kukui'ula well in the years ahead. Regarding development, we have received bids on the first $53 million of the joint venture’s construction work, all within budget, and most of this work has now commenced. However due to the length of time it takes to process permits through the county, the amount of construction that will take place in 2006 will not be substantial, although construction levels will accelerate in 2007.

At our at Kai Malu joint venture at Wailea, construction of the first phase is nearing completion. All 150 units of this project have been sold under binding contracts averaging $1.3 million. We closed our first unit this week and with current construction schedules, anticipate closing 1/3 of the total units over the course of the fourth quarter of this year and the first quarter of 2007.

In addition to Kai Malu, A&B is actively developing three other parcels totaling 30 acres of land. Excluding those projects, A&B has roughly 145 acres of fully entitled land remaining at Wailea, the majority of which is in various stages of planning.

At Keola La'i, a 352-unit condominium development located in Honolulu, vertical construction is proceeding on schedule. 217 of the 289 market units have been sold under binding contracts and 63 affordable units will be released for sale in the first quarter of 2007. We are selling units there at a rate of roughly one a week and expect that all units will be sold by the time construction of the project is completed in early 2008.

We continue to advance on sales and construction at our Port Allen residential projects. The 58 single family homes and 75 ocean front condominium units are targeted for the primary housing market and have met with favorable demand. Sales at Kai Milo, our 137 unit resort residential project being developed in a joint venture with Brookfield Homes on the Big Island have been relatively slow. We have pre sold 12 units under binding contracts and expect to start construction of these units by year-end. At Wai'awa a joint venture development with Gentry on Oahu, we have finalized the joint venture agreement and commenced funding our equity investment. We also closed our construction loan. Construction of project infrastructure is expected to begin in 2007 with first parcel sales to home builders expected to close as early as 2008.

We expect full year combined profitability for this and our leasing segment to meet or exceed our stated growth target of 13 to 15%. We anticipate an active fourth quarter. Despite the current softening of the residential market, we remain confident that the quality and diversity of our portfolio will continue to produce strong results for the Company over the long run.

In the third quarter, we lowered our sugar production estimate for 2006 which took this segment to just above breakeven level. Assuming that the Company is able to achieve targeted production levels in the fourth quarter, we anticipate breakeven performance in the quarter with added costs for dam repairs weighing down results. During the quarter, and through the next year, the food products segment will incur costs to repair dams located principally on Kauai. As a reminder Hawaii experienced historic rainfall this past spring. Repair costs are projected to be in the range of 3 to $4 million in 2006 and 2007 combined for the Kauai reservoirs with about half of the cost expensed in 2006. The Company is currently evaluating the Maui reservoirs for any necessary follow-up action although these reservoirs appear to be less affected by the rains than the Kauai reservoirs.

Despite the fact that the year is turning out to have been more challenging in the economic environment than we originally anticipated it would be, A&B remains on track to complete 2006 with quite good performance. I'll now turn it back to Chris Benjamin, our CFO who will cover financial matters for the Company.

Chris Benjamin - *Alexander & Baldwin - SVP, CFO, Treasurer*

Thank you, Allen. I'll begin with the mention of two announcements made today. One was made by Standard & Poor's, which published it's annual update of the A&B and Matson corporate credit ratings. Both ratings were reaffirmed as A- stable with references made in the report to strong market position and cash flows of Matson, and the high quality Hawaii real estate holdings of A&B Properties. The second announcement related to a new authorization approved the Alexander & Baldwin Board of Directors for the repurchase of up to 2 million shares of company stock between now and December 31, 2008. This is a routine authorization in anticipation of the approaching expiration of our previous authorization. The Company has repurchased approximately 1.65 million shares on that previous 2 million share authorization over the past few months and has about 350,000 shares remaining.. As Allen mentioned in the release that was issued this morning, the timing of any possible repurchase has not been determined but we do continually evaluate repurchases as an investment option.

Turning to our balance sheet, the most notable event driving changes in assets for the quarter was the purchase of the Maunalei. This is the driver of both the increase in PPE year-to-date and the reduction of the capital construction fund balance. We will keep relatively low balances in the CCF going forward but will continue to fund it as appropriate for qualified expenditures such as the construction of garages on our vessels.

As for our liabilities, the primary events year-to-date have again been the vessel acquisition and our share repurchase which together helped drive a $107 million increase in our debt. A $28 million increase in deferred income tax liability resulted primarily from the use of the CCF to purchase the vessel. Shareholders equity was reduced in the second quarter by the $71 million share repurchase, but strong year-to-date earnings have more than offset that reduction for the year-to-date.

On the cash flow statement, the primary changes to our cash flows in 2006 versus 2005 have been in lower operating cash flows, net withdrawals from the CCF, and the use of cash for the share repurchases. The reduction in operating cash flow was a result of significant levels of tax deferrals in 2005 as well as the 2005 sale of the Lanikea condominium that Allen referenced earlier, among other factors.

And finally with respect to capital expenditures, you can see that we're on track for total capital spending this year of $421 million, compared with an original estimate which we had described as aspirational, of $475 million. And finally with that I'd like to turn it back to Allen.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

We're going to open it up now to questions. We do have Jim Andrasick here representing Matson and Stan Kuriyama representing our land group, both A&B properties and our agricultural activity, so I would intend to direct most of the operating unit questions to these two executives and Chris and I will handle the corporate questions. So with that, questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Your first question will come from the line of Jonathan Chappell of JP Morgan.

Jonathan Chappell - *JP Morgan - Analyst*

Good morning, guys.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Good morning.

Jonathan Chappell - *JP Morgan - Analyst*

First question for Jim and Allen as well. Just curious about China. You mentioned the pricing is disappointing. Realistically, how much pricing power can you have in that trans Pacific lane given the bigger carriers that you're competing against. Is this just a function of trying to ramp up, get the volumes, get the customer familiarity and then just kind of let the market pricing dictate what you can ultimately charge?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

John, this is Jim. Certainly, that's a very perceptive question and statement. We are a small niche player in this trans Pacific trade lane. In fact, we think we have about maybe 3 or perhaps 4% of the market between Shanghai, Ningbo, and the West Coast, so clearly, we have no major influence that we can exert pricing in those trade lanes; however you're quite right. Our main challenge for the first nine months of this new service was to establish ourselves and our reputation and I really think we've done a superb job in that. Our on time reliability has been about 97% and I think you have access to a number of different industry studies that track this and among the 25 plus carriers, we're right near the top of that list in terms of service.

In addition to that, our freight availability on the West Coast has exceeded even our expectations and we've maintained a high 94, 95% in that category, so there's not a lot of play here; however, I would say that as we go into the next phase of this new venture for Matson, our focus will be on yield management and constantly shifting our mix more to U.S. freight. We're minimizing, to the extent we can, the intermodal portion of this business which as you know is very expensive these days with rail increases, and I think there's a fair amount of progress to be made in that area that can help margins in this particular trade lane. I hope I've responded your question.

Jonathan Chappell - *JP Morgan - Analyst*

Yes. If I remember correctly, the contract renewals typically take place in May in that trade lane. I know it's still seven months away, but given your just in the ramp up part right now and what you're hearing feedback from customers, do you expect there to be a significant amount of increased contract business when the 2007 renewals take place?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Again, being a niche player with no control over the market, I know about as much as you do about the subject, but the TSA which is certainly one voice on the part of the carriers in the trade has made it almost a mandate that fuel cost recovery and the increased expense of intermodal going inland has really got to change in the next contract cycle and I certainly would applaud that. It's a noble target. It's really far too soon to tell what's going to happen to rates with so much uncertainty in the U.S. domestic economy. Of course, the demand side of all of that equation seems to be perking right along, particularly in Shanghai and Ningbo, port volumes out of those two ports have greatly exceeded our own expectations and certainly that of the industry which reinforces our decision to operate out of those two areas. So I feel pretty good about that, but really no prognostication from me about where rates are going to land for the next contract cycle.

Jonathan Chappell - *JP Morgan - Analyst*

Okay, and one last one on the core Hawaii business. You've given a tone that you're somewhat concerned about the economy and that you're taking these initiatives, operating measures to respond to the changes in the market conditions. Can you detail a little bit what these changes entail and can they really have an impact on the margins if the volumes do slow into 2007?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Certainly. Well, we are a high fixed cost business as I think everyone appreciates, but we haven't sat still during a volume plateau here. I would say we have 40 odd programs, none of which is a silver bullet, all under way to get increased productivity or cost productions or improved yields out of the business that we do see in both Hawaii and Guam. And I would say that our Sand Island terminal, through which all of our ships pass now, is certainly a major target for improvement and we have a number of programs underway there to increase productivity.

We've also recently renegotiated our interisland shipping rates with an outside vendor. We've taken tremendous steps forward, I believe, in our safety programs, especially in Hawaii which have had the effect of reducing our Worker's Compensation costs. We've taken a hard look at our D&A spending including advertising. We have restricted the use of our reserve vessels in call outs and have made compromises, where appropriate, with a keen eye toward cost performance, and we've also undertaken to recover more of the energy related costs beyond justbunker fuels and diesel that have really driven up our intermodal rates in the U.S. Mainland. So a lot of programs are under way and I do think that they will have a positive effect in a flat to down environment in the Hawaii business.

Jonathan Chappell - *JP Morgan - Analyst*

Okay, thank you very much.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Jonathan, I just would add. This is Allen Doane. I just would add one comment to reemphasize that we're obviously price takers, not price makers in the China market, but there is a certain band of pricing within market-rates that can be achieved based upon your ability to provide something that others don't provide. So we would hope that over a period of time that the premium service that has definitely been established is going to begin to be reflected in rates that will be sort of at the high end of market and that's quite important.

Jonathan Chappell - *JP Morgan - Analyst*

Understood. Thanks, Jim and Allen.

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

You're welcome.

Operator

And your next question will come from the line of Chris Haley of Wachovia.

Chris Haley - *Wachovia - Analyst*

Good afternoon. Good morning.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Hi, Chris.

Chris Haley - *Wachovia - Analyst*

Just before I forget it, how wide is that band, Allen and Jim?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Jim?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

I'd say 300 or 400.

Chris Haley - *Wachovia - Analyst*

Percentage terms, that's ten?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Yes.

Chris Haley - *Wachovia - Analyst*

All right that's helpful. So I look at the shipping, I see -- I hear that you're saying things are full on the way back which is great. I don't recall that being the expectation at least this year which is wonderful. I could be wrong on that, if you could help me there, that would be nice and the rates lower than anticipated, so if I put stronger on the revenue side, stronger on one revenue side and one revenue input and weaker on the other revenue input in terms of the output, that would in terms of profits, that would lead me to believe that rates are probably lower than where you thought they were last -- where you thought they would be six months ago which were obviously building in a 10 to 15% price deflation previously. So I'm just trying to assess whether or not rates have actually come down a little bit more than you would have thought or effective rates?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

I think you're correct in assuming that, as we stated in the release as well as commentary, that the rates have gone lower than our expectations.

Chris Haley - *Wachovia - Analyst*

What I'm trying to get to is which expectations?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Going into the year, based on our own internal operating planning, which we base all of our capital decisions and manage to internally. As far as the volume expectations originally, they were, they turned out to be conservative.

Chris Haley - *Wachovia - Analyst*

Yes.

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

In fact, based on the China container information that we provided to you each and every quarter, in the first quarter we were effectively 35% utilization of our vessel capacity. The second quarter was 50%. Third quarter was 75%, and the last five sailings have been virtually 100% of the capacity and we didn't forecast it that way.

Chris Haley - *Wachovia - Analyst*

Right.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Don't interpret that to be 100% fourth quarter.

Chris Haley - *Wachovia - Analyst*

Absolutely. Yes, Jim. That's just eastbound?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

That's correct.

Chris Haley - *Wachovia - Analyst*

How about from Guam to China? Is it the same progression or is it slower?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Guam to China is a dead leg for us. It's mostly equipment movement, so we don't really measure that, but we don't reveal our, for obvious competitive reasons, our profitability by trade line. I would tell you that there are a lot of factors that go into the measurement of that, not the least of which is just operational and how well we do in each and every port and the mix of cargo and equipment sizes and how far inland we have to go, there's probably a dozen levers that push it one way or another.

Chris Haley - *Wachovia - Analyst*

Okay. I guess we're still kind of in the first or the early second quarter of a football game for this --

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Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Since it's the World Series can we use the baseball game and say it's the start of the second inning?

Chris Haley - *Wachovia - Analyst*

Okay, second or third, that's fine.

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Sure, it's a long term committment and we haven't made any of those bad throws from the mound, either.

Chris Haley - *Wachovia - Analyst*

All right. Hopefully there are no Detroit fans on the line. Going to the real estate side what would you say your year-over-year rent growth has been in your Hawaiian assets, commercial assets versus domestic assets?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Chris, could you repeat that once more for Stan Kuriyama?

Chris Haley - *Wachovia - Analyst*

What would you say your year-over-year rental rate changes have been on leasing on the Hawaiian islands versus say the West Coast, western half of the U.S?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Actually the Hawaii rates have been improving, Chris. As you know the vacancy rates in office, retail, industrial are very low in Hawaii, pretty much near historic lows. Latest indication, for example, that office was under 7% and we're under 4% vacancy for retail, under 2% for industrial so this has had an impact on rates. I would say generally, you are probably looking at rental rate increases in the 3 to 5% range right now.

Chris Haley - *Wachovia - Analyst*

And that is versus last year?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Right.

Chris Haley - *Wachovia - Analyst*

And that is on the overall portfolio or just kind of a same-store?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

That would be Hawaii.

Chris Haley - *Wachovia - Analyst*

That would be Hawaii as a whole or just, well, there really isn't much of a change but that would be approximating same-store?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Correct.

Chris Haley - *Wachovia - Analyst*

And that's revenue or operating profit?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Lease rents.

Chris Haley - *Wachovia - Analyst*

Okay. And how about in the states or I should say the West Coast, excuse me.

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Yes. I would say same-store growth, you're looking at probably 2 to 3%.

Chris Haley - *Wachovia - Analyst*

Okay, great. Just one other question on the comments on Kukui'ula. The conversion ratio, would you care to comment on that or in terms of what ratio you're assuming for the fourth quarter and how much might bleed over into the early part of the year?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

We're too early in the process to give you a conversion rate, Chris. I can say that as Allen indicated, we're dealing with about a total of 90 LOI's. Most of these with $100,000 deposits, we're in the process now of converting those LOI's into sales contracts. We started issuing contracts for the first subdivision. We've closed five sales to date, but because we're still pretty early in that process, it's too early to say how many we're going to close this year.

Chris Haley - *Wachovia - Analyst*

And the 120 was a number that I think had been batted around?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Right. We have 123 lots and we have actually held back about eight of them, so 118 or so, 116 lots we've fully released for sale.

Chris Haley - *Wachovia - Analyst*

Okay. So obviously we just have an issue with regard to the recognition of '06 numbers versus a roll into '07. How long does a conversion process take like this would you guess?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

It really varies, Chris. Some we can get back pretty quickly. Others might take a couple months to get done, and as I indicated, we've issued contracts for the first subdivision and we just right now begun issuing contracts for the second and third subdivision.

Chris Haley - *Wachovia - Analyst*

Okay, great. Thank you.

Operator

And your next question will come from the line of Alex Barron of JMP Securities.

Alex Barron - *JMP Securities - Analyst*

Yes, thanks. Wanted to continue on this Kukui'ula, so help me understand the five closings. That means you just got a firm contract or that means that you got the 1 or $2 million per lot?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Right. We actually closed the sale, transferred title and received the full purchase price.

Alex Barron - *JMP Securities - Analyst*

And so you're expecting the other 85 will do the same before the end of December?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

No, no. All these sales are kind of in different stages, so we've issued some contracts for some of the lots. We're getting some back. We've just begun issuing contracts for the majority of the lots, so no. We don't expect that many to close this year but it's a little early to say exactly how many will. Also remember that for '06, the book income impact isn't that great. We're working on the percentage of completion and of course not much construction has actually been completed in 2006 so the amount that we book from these sales is pretty minimal, but we do get 100% of the cash from these sales that close.

Alex Barron - *JMP Securities - Analyst*

Right. So those 85, when would you expect them to close then, by March?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

It's hard to say. I mean some will be this year and it will roll over into next year but because we've just started, it's too early to say, Alex.

Alex Barron - *JMP Securities - Analyst*

Have you had people cancel like decide to take their 50,000 back?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Yes. If you remember, we actually started this reservation program well over a year ago with people that submitted $50,000 deposits. So I haven't kept track of the numbers but some of them have cancelled and asked for their money back. A good number have just deferred making a decision at this time, and the balance is sort of what we're dealing with now in terms of getting contracts signed.

Alex Barron - *JMP Securities - Analyst*

I guess I'm just trying to understand the gap between the 123 you mentioned has been released for sale versus just 90 I guess total LOI's post-closing.

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Well, the 90 are the ones that have expressed the most serious interest in closing in the near term. They've increased their deposits to $100,000 a deposit now. Some of these, the LOI's are still non-binding so some of these could still cancel but basically you have 90 seriously interested buyers and we're still pursuing the sale of the balance of those 123 lots.

Alex Barron - *JMP Securities - Analyst*

Okay, got it. And then I guess moving on to Kai Malu, did I hear you right, you said you expect 1/3 of the closings in the next two quarters or was it just this quarter?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Yes. This is Allen. That's precisely right. We figure about a third of the total of the approximate 150 units, about a third of the total will close between the fourth quarter and the first quarter, but it's just hard to call exactly how many will take place in each quarter.

Alex Barron - *JMP Securities - Analyst*

Okay, got it. Thanks a lot.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

You're welcome.

Operator

And your next question is from the line of Jay Habermann of Goldman Sachs.

Jay Habermann - *Goldman Sachs - Analyst*

Hi, good morning to you.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Hi, Jay.

Jay Habermann - *Goldman Sachs - Analyst*

How are you? Just a quick question in terms of Allen, I know in the press release you defined the Matson sort of superior service. Can you just give some context to how you're defining it and how ultimately over time you're providing better competition and ultimately how you exact sort of a pricing premium?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

I'll let Jim give the long answer, but let me give the short one first this time. Superior service really represents getting it from the port in Shanghai to the hands of the customer fast, so it's the reliability and the speed with which you do it. Basically, we're advertising it's taken us an average of 10.4 days to go from port to port and you may recall that we also have a significant advantage there because we have a single user facility in Long Beach. We are able to basically unload our much smaller ships quickly and get it into the hands of our customers maybe two, sometimes three days before a competitor would, so not only do we get to Long Beach faster, generally the others are not non-stop service but once we get there, we have a couple day advantage. So we're selling speed and reliability. Jim?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Yes, one thing that enables that is we have Matson's dedicated terminals on the West Coast and the one that services the China run is Long Beach and that terminal handles just the Matson vessels, so there's no queueing, there's no waiting for labor and so forth. I would also say that Matson Integrated Logistics has played a large role in our initial success here in delivering this superior service, thanks to their intermodal connections and just their business acumen in this particular area, because it's very important for our inland customers that range all over the country to get their shipments in a timely basis, and so far, I think our performance to those inland destinations has also exceeded expectations. So it's a combination of all those things and of course we like to pride ourselves on relationships with customers and we have both the U.S. and the China-based sales team and it's augmented by other personnel within Matson all highly trained and skilled in solving customer problemsThere’s my sales pitch.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Yes, we've been absolutely delighted with the service and when you kind of think about there are lots of problems that you could have. But if you don't have a service to sell, I'm not sure what you're going to have, with 20 to 25 competitors, and we definitely are differentiating ourselves there.

Jay Habermann - *Goldman Sachs - Analyst*

Great. In terms of oil, obviously price came down pretty sharply. It's up a little bit, but the swing in volatility in the price of oil, I guess how much does that impact the margin? If it's up, again, say 10 to 15% over the short-term with some sort of shock?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

Well, it's quite a dramatic impact on the margins because energy related costs including bunker fuels and diesel represent, I think we've disclosed this in the past, over $100 million a year of expenditures to us which is 15 to 20% of our overall costs, so a swing up or down, I think you can do the math on that one.

Jay Habermann - *Goldman Sachs - Analyst*

Yes.

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

During the first half of the year, we obviously were chasing upticks almost weekly in energy prices and in the second half, we're chasing them downward and we've also changed the frequency of when we adjust our surcharges. It had been on a quarterly basis and in a volatile market that just wasn't working for us so we switched to more or less monthly. Andso I think some aspect of our margin improvement during the third quarter was certainly related to being able to recover, as Allen said, the full bite of energy cost increases.

Jay Habermann - *Goldman Sachs - Analyst*

And just a couple if I could for Stan. On the Kauai project, the Kukui'ula, are you generally getting the pricing you're looking for and I guess a broader, maybe for Chris, does this project have any impact on '07 or is this really just recovering cost?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

No. Our pricing has remained the same. We haven't lowered prices so they are consistent with the prior guidance that we provided there.

Jay Habermann - *Goldman Sachs - Analyst*

Okay.

Chris Benjamin - *Alexander & Baldwin - SVP, CFO, Treasurer*

Yes. To answer your question, Jay, about '07, the way this works, and I think we may have talked about this in the past, the percentage of completion is basically what drives revenue recognition and margin recognition. So, given some of the delays in construction activity that Allen referenced in the call, percentage of completion will be, it will be much higher for '07 than '06. But it's still going to be relatively low as we go along with some of the major infrastructure work such as golf course, clubhouse, some of the bigger ticket items we'll just be getting under way next year. Therefore the margin that we recognize on whatever sales we have will be relatively modest and then offsetting that, we have some period costs and marketing costs and related things that go straight to the bottom line. So really once you offset one with the other, the profit impact for 2007 is not going to be significant really regardless of how many units we sell next year, so I wouldn't look to that as a big driver one way or another of profitability in '07.

Jay Habermann - *Goldman Sachs - Analyst*

Just one last one. You're not actually slowing down work on the project, are you? Just given more--?

Chris Benjamin - *Alexander & Baldwin - SVP, CFO, Treasurer*

No. We're moving forward as quickly as we can. The delay is just in the process of getting construction permits through the County.

Jay Habermann - *Goldman Sachs - Analyst*

Okay, great. Thank you.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

I think we have time for one more question.

Operator

And your last question will come from the line of [John Hollander] of Intrinsic.

John Hollander - *Intrinsic - Anallyst*

Hi, thanks for taking my call.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

You're welcome.

John Hollander - *Intrinsic - Anallyst*

I guess a few quick questions on the Kukui'ula project. Clearly, DHI, Syntax and some of the other home builders have been, I guess you'd say restructuring their sales organizations. Has there been any change to staffing levels at Kukui'ula given the push out of some of the sales estimates?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Stan?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

No. There hasn't been the level of activity actually will increase next year. We certainly will continue to put on a full sales and marketing effort but the construction level will also increase significantly, so no, in terms of staffing, we don't anticipate any downsizing.

John Hollander - *Intrinsic - Anallyst*

Okay. And then last one on the shipping side, are you finding that Chinese shipping customers are willing to pay for quicker service?

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Jim?

Jim Andrasick - *Alexander & Baldwin - President, CEO, Matson*

I would say at this early stage in our service, the answer is probably no. We have not gotten a premium. They tend to be the China-based people, straightforward, who are more cost sensitive than others. I call it the spot market as opposed to the longer term contract market, but as I said earlier, our real objective and where most of the effort is going to be applied is to communicate that better and to actually deliver an expedited product in this particular trade lane which should result in better margins.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

And I would also just note parenthetically that the majority of the purchase decisions are not made in China. They're made in the U.S. for this freight.

John Hollander - *Intrinsic - Anallyst*

Okay. And just a final, in the beginning of the call there was a mention that all of the permits were already in hand and then I think there was a statement that there was a delay in getting the construction permits. Can you help me understand exactly where you stand in the permitting process? I'm just a little bit confused.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Stan?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

What I was referring to was we needed certain permits in order to create the legally subdivided lots for this first 123 units they were selling. So there's some question raised earlier in the year whether we would get all of the permits and approvals needed for that, and we did. We were successful. We got all of the permits so those 123 lots are legally created and they are subdivided and capable of being conveyed. The second reference suggested construction permits. Generally we have a whole number of construction plans that are being submitted, as you can imagine, for various aspects of the project. That's the process that just takes awhile to get through which is why the level of construction activity has been somewhat slower than we had hoped for.

John Hollander - *Intrinsic - Anallyst*

Okay. So then -- but the permits, so you can deliver it on the 123 lots?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

That's correct.

John Hollander - *Intrinsic - Anallyst*

But on those deposits, are those binding or can they still walk away and still receive the $100,000 deposit back?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

Yes. If it's a pure letter of intent they are still non-binding.

John Hollander - *Intrinsic - Anallyst*

Any idea on how those are going? Has there been any concern like getting those deposits back or are they all moving to close?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

I think there's been some inflow and outflow. I this it's a continually evolving process. Those are the ones that we are currently working with and as I mentioned the key is to get those sales contracts issued to them, to work out whatever questions the buyers may have and then hopefully convert them into binding contracts.

John Hollander - *Intrinsic - Anallyst*

Got it. Now, this project also includes I think something like a retail component also?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

That's correct.

John Hollander - *Intrinsic - Anallyst*

How is that going in terms of finding -- in terms of that development getting the permits and going forward, any delays or concerns with that?

Stan Kuriyama - *Alexander & Baldwin - President, CEO, Land Group*

That project is moving on track. We are in design. We are in pre-leasing. So far the pre-leasing results have been very positive.

John Hollander - *Intrinsic - Anallyst*

Okay. Well, thank you very much and I appreciate the time.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Okay. I think we have now pretty much taken a full hour and Chris, in terms of follow-ups for you, Kevin, or any of us?

Chris Benjamin - *Alexander & Baldwin - SVP, CFO, Treasurer*

Yes, just so you know, Kevin and I are in Oakland today. If you call our Honolulu offices you can be rerouted to us. We'll both be back in Honolulu on Monday and at that time there will be a five-hour time difference between the East Coast and Hawaii so thank you very much for your participation in the call.

Allen Doane - *Alexander & Baldwin - Chairman, CEO*

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Have a wonderful day.
