REFINITIV STREETEVENTS

EDITED TRANSCRIPT

- Q1 2004 Alexander & Baldwin Earnings Conference Call

EVENT DATE/TIME: APRIL 23, 2004 / 7:00PM GMT

CORPORATE PARTICIPANTS

John Kelley *Alexander & Baldwin - IR Contact*

Allen Doane *Alexander & Baldwin - President, CEO*

Chris Benjamin *Alexander & Baldwin - CFO*

Jim Andrasick *Alexander & Baldwin - President of Matson Navigation Co.*

CONFERENCE CALL PARTICIPANTS

Jamelah Leddy *McAdams Wright Ragen - Analyst*

Nicholas Aberle *Caris & Company - Analyst*

Tom Spiro *Spiro Capital - Analyst*

Stewart Scharf *Standard & Poor's Corp. - Analyst*

PRESENTATION

Operator

Good afternoon and welcome, ladies and gentlemen, to the Alexander & Baldwin Inc. first-quarter 2004 earnings conference call. At this time, I would like to inform you that this conference is being recorded and that all participants are in a listen-only mode. At the request of the Company, we will open the conference up for questions and answers after the presentation. I will now turn the conference over to John Kelley. Please go ahead, sir.

John Kelley - *Alexander & Baldwin - IR Contact*

Good day. This John Kelley in Honolulu. With me are Allen Doane, President and CEO of A&B, Chris Benjamin, CFO and Vice President of A&B, and Jim Andrasick, President and CEO of Matson Navigation Company. As many of you recall, Chris succeeded Jim in the CFO role in early February of this year.

As is typical in the call, I will do this brief introduction and then Allen will give an overview of the financial performance and some comments on the outlook. Chris will comment on the financials, and I will give a quick review of the Hawaiian economy and then we will open for your questions by Quick-Q polling.

In today's call, we're using slides on our Web site, and I'm on Slide Two right now. You can change the slides from your own PC and we will try to call the changes to help you stay with us. This is an experimental way to give you some exhibits to help you follow subjects that might otherwise be difficult to describe or follow verbally. Fortunately, this is a fairly easy quarter to describe, so we're just trying this technique, and I'd be pleased to hear how you think it helps later on.

There are two types of participants; the public is listening in on the Web and we have invitees who are investment professionals on conference call basis, and they will be able to ask questions in the Q&A portion. (Caller Instructions).

Copies of our press release are available on the A&B Web site, and invitees on the call should have been faxed or e-mailed copiers earlier today. There will be a replay available on the Web for one week, and I'm willing to take calls on the subject at any time. Please note, at this time of the year, there's a six-hour time difference between ourselves and Honolulu and the East Coast.

We will be visiting New York, Philadelphia and Baltimore during the week of May 3rd and will be setting appointments for that trip in the next few days.

Moving onto Slide Three, statements in the call set forth our expectations or predictions based on facts and situations that are known to us as of today, April 23, 2004. Actual results may differ materially due to risks and uncertainties such as those we describe on Page 21 of the Form 10-K in our 2003 annual report. I would also remind listeners of our corporate Web site, www.AlexanderBaldwin.com, and its links to our subsidiaries' Web sites.

With that, I would like to turn the call over to Allen Doane for his thoughts. Allen?

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

Thank you, John. Let's go immediately to slide number five, earnings per share. We did have a very, very good quarter. You can see the 2003 quarterly earnings on the left bar chart and on the right, of course ,is our 49 percent increase in EPS first quarter '04 versus first quarter '03.

We can go to slide number six; it will give you the composition of those earnings. Basically, it's a performance summary, and Matson was on target for the quarter. Our real estate business is above target. That's really a combination of two factors; we had some timing and pull-forwards; essentially, we had more of our sales activity in the first quarter than we had thought we would, but underlying that is better results in our real estate business than we had forecasted.

Our Food Products segment, the smallest part of the Company, was a little less than 10 percent of our capital. It did have a production shortfall in the quarter and essentially did not perform all that well.

If we could go to slide number seven, it gives the composition of the first-quarter operating profit. There really were two drivers in the year-over-year increase in profit. The first was the increase in Ocean Transportation profitability from 12 million to $18.6 million, and the second was the increase in our property sales and development income from almost 12 million to 19 million. So, those were essentially the two major drivers in the year-over-year improvement in performance for the Company.

If we can go to slide number eight, just to reference, first, we will talk about Ocean Transportation at Matson, a very big increase, more than 50 percent year-over-year in the quarter. If we can go to slide number nine, this will give you an idea of where that large increase came from. Our revenues were up about 6 percent; that was a combination of about a 2 percent volume increase with a yield/mix increase of about 4 percent.

The cost side of the equation for Matson -- really, there was nothing remarkable in the first quarter of 2004. We had some what we would call unusually high costs in the first quarter of 2003 in the aftermath of a labor disruption that carried over into '03 from the end of 2002. I would remark, as well, that there is an element of seasonality that we've discussed previously. The first quarter is typically the lowest in both margins and absolute earnings for Matson, so we believe that we will be able to improve our margins and our income as we go through the rest of the year.

If we can just quickly turn to slide number ten, our logistics business -- very small, 0.5 million of operating profit last year, one million this year. Those numbers are going to grow in absolute terms over the remainder of the year. Our first-quarter is normally the weakest here.

Onto slide number 11, the operating profit from our Food Products business, while it shows an increase -- and I think GAAP accounting requires us to show the increase, the underlying performance metrics are not very good for Food Products, which is essentially and primarily composed of our sugar-growing and processing operation on Maui.

If we go to slide number 12, you'll note on the left-hand portion of that slide that we produced 206,000 tons of sugar, and you can see the quarterly composition of that in the year 2003. It's important to note that, in 2003 in the first quarter, we produced 19,000 tons of sugar. We start midway through the quarter and then the production gets larger as the year progresses. You can see that we had a very small production of 12,000 tons in the first quarter of 2004. There was a reduction of 37 percent. Not to make an excuse but as an explanation, I believe that we've had just about the wettest first quarter certainly on Maui than we've had in about 50 years, so it's been really difficult for that business to get started. I am not confident, at this point, that we're going to be able to make all of our targets in production for the year at HC&S.

If we go to page 13, our property leasing business, operating profit increased profitability 8.6 million of operating profit in the first quarter of '03, an increase -- a nice increase, actually -- the 9.5 million in the first quarter of '04. Our occupancy rates are up; we've had a little bit of rate-improvement, not much, but there's also an underlying upgrading of our portfolio. As you know, we sell businesses and we buy -- or I should say we sell properties and we buy other properties and we are in a continuous process of upgrading our portfolio. So here, it's more the efficiency of the portfolio than it is any major change in underlying market dynamics.

If we can go to number 14, there's a big story here. The operating profit of our property sales and development activity increased from 11.6 to $19 million year-over-year in the quarter.

If we go to page 15, sort of overviews on what's going on in our market in Hawaii -- very briefly, the residential market is very strong – red hot would, I guess, be an apt description.

The commercial market has not been that strong but it is strengthening and certainly, we're seeing some improvement in most aspects of commercial properties.

The flip side of that, at least in the short run is, that while it's a great time to be a seller, and we are selling, it's not the greatest time to be a buyer. We have not, at this point, closed any major investments or acquisitions in real estate in the first quarter, and I am not in a position to tell you when we will but certainly, the dynamics of the marketplace have shifted somewhat from the last few years.

If I can now speak for a few moments in conclusion about several of the larger projects where we've made major investments in recent years and give you an update, the first would be on slide number 16, Alakea Corporate Tower. There, we closed 7.5 floors. This is a 31-floor office tower that we bought just a year ago for $20 million; we've sold 7.5 in the quarter. Altogether, we've sold 15.5, which is exactly one-half of the building. We've had a return of about $17.6 million on our investment, obviously before taxes. We think that sales are going to slow now after the initial rush but this project has been tremendously successful and it's a very, very positive picture there.

Go to slide 17. This is our wholly-owned development on Waikiki. This is the first high rise residential condo to be developed by anyone in Waikiki in almost 15 years -- Lanikea. Of the 100 units in this development, 99 have binding contracts and sale. We have had a concrete strike in Hawaii; it lasted six weeks. We believe our project is about four weeks behind schedule but that the cost impact will be pretty minimal from this delay. The project is going to be expected to be completed in the third quarter of 2005, so we're going to wait a little time for that one, but everything is going very well. For those of you on the net looking at this, this is an aerial photo on the right of the construction site with a rendition of what the building is going to look like on the left.

The next is the Hokua Luxury High Rise development in Honolulu. We've talked about that a couple of times. That is a 50-50 joint venture. Two hundred thirty-seven of the 247 units have binding contracts. Again, this project was affected by the concrete strike; it's also running about four weeks behind schedule. Here, the completion of that project will be sometime around the end of -- we think sometime near the end of 2005 or the beginning of 2006. That is a project that has an average of about $1 million per unit of sales revenue, so it's a $250 million-plus development -- everything going well there.

The next slide, slide 19, is a scenic -- I guess you would call it -- from our Wailea project. Slide 20 is as well. I think you'll find slide 21 to be kind interesting for those of you who have it; it's identified as Wailea Parcels, and it's essentially an aerial of the 17 sub-divided parcels that the Company acquired last October, comprising 270 acres of developable property. We had very good news and reported it in our earnings release. We had -- when we bought the property, there were 29 single-family home sites that had been already developed by the early -- previous owner. These involved about ten acres of land, but it's essentially the only ready-to-go, fully developed residential product that we have. These lots were put up for sale. Twenty-one closed in the quarter; 27 of the lots have -- 21 have been closed; six are in escrow; there are two available for sale. Of the 21 that have closed, the average sales price has been about $900,000. If you kind of run an extension on that, we are estimating we're going to have proceeds from sale of about $26 million on this one parcel against our total investment of $67 million. I would caution, however, not to extend this for all of the acreage. More representative of the value of the property and what we're going to do with it is the ability to develop or sell these parcels, in effect, on a more bulk basis.

In April, actually, we have been successful in closing our first bulk parcel. It's a nine-acre parcel that you can see just to the right called 10-F-15 (ph) on this aerial view. It's a nine-acre parcel. We sold it for about twice the $250,000 basis that we acquired it for. So, we do have a couple of other bulk parcels that we are in the process of selling. We are also in the development stage of a 25-acre parcel that we plan to develop with a partner. So, everything is going very well there.

With that, John, I will turn it over to Chris Benjamin.

Chris Benjamin - *Alexander & Baldwin - CFO*

Thank you, Allen. I will be commenting on the financial statements included with the press release. I will begin on Slide 23 with a few comments about the income statement and some below-the-line items.

First of all, interest expense for the first quarter was up about $700,000 year-over-year as a result of debt levels that are about $43 million higher than they were at March 31, 2003. I will comment further on debt in just a minute.

Our expected tax review for the year is 37.5 percent compared with the statutory rate of 38.1 percent. This lower rate reflects the impact of tax credits.

The year-over-year increase in average shares outstanding of 900,000 reflects principally option exercises during that time period.

Moving to Slide 24, we had fairly modest changes in our balance sheet in this quarter compared to year-end 2003, but I would like to point a couple of items, starting on the asset side. The $14 million increase in investments reflects primarily a $13 million increase in our Hokua joint venture investment as a result of preferred equity drawls, which support ongoing construction activity. Our Hokua investment is now at about $23 million of a total eventual $40 million investment.

An $18 million reduction in property is the result of depreciation outpacing capital expenditures for the quarter, as well as the transfer of some land to real estate developments, which resulted in increase in that line item.

On the liabilities slide and moving to slide 25, our total debt at March 31st, including the current portion, was 335 million, compared to 334 million at year-end. This change reflects normal debt repayments. The increase in shareholders' equity, of course, reflects primarily in net income for the quarter of 27 million.

On Slide 26, I will comment on our debt. As you know, we had an active investment program in 2003 with the purchase of a new vessel and the Wailea property being the two biggest components. With the delivery of a second vessel later this year, we do expect to take on some new debt but also will be using funds from our capital construction fund for a significant portion of the vessel purchase. We have authorization for up to $75 million of Title 11 financing for the second ship but don't expect to use that full amount.

Other net borrowings or repayments for the balance of the year will depend largely on our real estate-investing activity for the balance of the year.

On Slide 27 is a photo of the ship I just mentioned, the M.V Margaret Lilly (ph), which is under construction in Philadelphia. This will be the newest member of the Matson family and it is expected to be in service by the fourth quarter of this year.

On Slide 28, going back to the financials, the cash-flow statement -- you will note the $43 million year-over-year increase in operating cash flows, which is attributable, of course, to higher earnings, as well as the sales of real estate assets held-for-sale, which increased our cash from operations.

Finally, the $9 million swing in the all/other category is primarily a result of the increase in our Hokua investment that I mentioned a moment ago.

To conclude my remarks, on Slide 29, I'd like to give you some insight into our capital expenditure budget for 2004. Before I start, let me point out that these numbers do not include 10-31 exchanges of property but do represent all the new capital being invested in our businesses.

In aggregate, our expected capital spending for 2004 resembles 2003, largely because both years include a $100 million vessel acquisition. The next-largest piece of Matson's capital budget for this year, 2000/2003 (ph), is about $20 million of container equipment. The rest of Matson's spending for each year is comprised of several smaller items, including Information Systems and other vessel-related expenditures.

At Properties, our capital spending is always unpredictable because we don't know what acquisition or JV opportunities may develop. The $81 million shown on this slide does not include any acquisition capital and as Allen mentioned a moment ago, we have not yet close any transactions. This, of course, could increase if we take on any new investments during the year.

We have budgeted about a little over $70 million for Hawaii development activity, including the projects that Allen referenced a few moments ago. The balance of our properties capital budget shown on the slide goes towards maintenance and improvements of our income portfolio. Finally, our Food Products capital budget is in line with last year.

With that, I'd like to turn it back to John Kelley, who will provide some insights on the economic outlook for Hawaii.

John Kelley *- Alexander & Baldwin - IR Contact*

Thanks, Chris. I'm on slide 30, and I'm just going to talk through some bullet points. The growth rates in several measures are slowing slightly, and I think this primarily results from some short-term deceleration -- personal income, the job count and a little bit in construction that I'll touch on. Looking from not far ahead, though, I think the key is that we're still operating in what I would consider the economic sweet spot for the economy in an island community, and there are some new factors that I expect to see kick-in and bring the pace back up.

First of all, we are expecting some military housing replacement and refurbishment programs to begin to contribute to the economy shortly and a bit of a wild-card is out there that I'm seeing a number of gradual improvements in measures of Japanese economic progress. To the extent that Japan strengthens and the fact that we have not really expected much from Japan in a long time, that would provide support certainly to the visitor numbers and retail spending and business confidence, at the very least.

I will go on now to talk about some items relating to the visitor industry, consumer durables, construction, and the real GS outlook. On 32, I have to apologize; there's a typo in the first line. It should be the fourth quarter. We are talking about visitor industry metrics. In the fourth quarter of '03, the total of all visitors was up about 4/10 of 1 percent. That was the net result of a good increase in domestic travelers, which represents about two-thirds of the market. That was up about 3 percent. International travelers with a very sizable portion of that number of folks coming from Japan, down 5 percent, and that is roughly a little as than one-third of the market.

That trend is improving as we go forward in time. February was better; that's the latest full-month data we've got. The total was up 6 percent with the domestic portion up 11 and the international still lagging about 4 percent. In the short run, this bounces around an awful lot. For example, in the seven days ending April 15th, the total visitors, excluding Canada, was up about 8 percent and Japan amazingly was up 48 percent for that seven-day period, and the domestic market was up 3. So, there is some statistical noise in that short run that smoothes out on a quarterly basis.

For the year, the forecast from the state agency Department of Business and Economic Development and Tourism expects about a 5 percent increase for '04 and about a 3.5 percent increase for calendar year '05. We've been watching the yen primarily because, in the last few months, it has come off about 110 to the dollar basis and in the last 13 weeks or in the 13 weeks in the first quarter, it ranged from about 105 to 109, still helpful for Japanese visitors coming here for their retail and expenditure levels.

On hotel occupancy, the fourth quarter saw a nice increase -- fourth quarter of '03 saw a nice increase from about 67 percent in the prior year's fourth quarter to about 71 percent in the fourth quarter of '03, or about a little more than 400 basis points. The month of February had a slightly larger increase, about 510 basis points, from 78 to about just 83.5 percent. Another measure of visitor activity, Canadian Airline operating out of Vancouver just announced an increase in capacity of about 67,000 annual seats. They will be serving both Honolulu and Maui with a greater number of flights coming in the winter months, reflecting, no doubt, their climate.

Moving on to 33, in the last call, I commented a little bit about total auto registrations. This is statewide and it reflects, I think, one measure of consumer optimism, perhaps interest rates, and there's also a tie to the visitor industry via rentals. But in the last call, the Auto Dealers Association was expecting about a 12.7 percent increase between '03 and '02 in total registrations. In fact, the actual numbers came in at 17.6 percent, considerably higher. Their expectations at our last call were about a 2.5 percent growth between '03 and '04. That's been raised more recently to a 7 percent increase, so overall, the expectations for '04 registrations are up about 5,700 cars, which is certainly a positive view for those of us in the car transportation business.

Moving on to Slide 34, some comments about construction -- I mentioned earlier the contracting tax base, which is a proxy for construction activity. It came down a couple of percent in the fourth quarter but from a very high-level; it's still about a $1.1 billion rate. The construction job count in the fourth quarter was up 5.5 percent and it reflected increases in three of the four island economies. Maui was down slightly but from a fairly high level.

Residential house authorizations were up about 2 percent on value in the fourth quarter and almost 18 percent on units. It's reflecting continuing strength in the residential construction and the demand for residential.

Then on Oahu, resales of existing single-family homes and condominiums in the first quarter, very active -- up 37 percent on dollar volume to $907 million.

Then I mentioned earlier these military refurbishment and replacement homes. It's a long-term effort to both physically do to construction and refurbishment and then manage the homes, going forward, a total of about 16,000 dwellings, three large contracts involved.

Putting this all together, again using the Department of Business and Economic Development's forecast on Slide 35, the outlook for real gross state product is now for an increase of about 2.6 percent, and that's about 20 basis points off their forecast 13 weeks ago. For '05, the forecast is for plus 2.4 percent real and that forecast is unchanged. One factor is they are beginning to expect a slightly higher inflation rate, particularly because of the pricing in housing.

With that, I'll move to Slide 36. Operator, I think we are about ready to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. The question-and-answer session will begin at this time. (OPERATOR INSTRUCTIONS). Jamelah Leddy with McAdams Wright.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Hi. Excellent quarter. I have a question, first of all, in terms of the margin on your property sales. It was in the 40 percent range. I'm wondering if you expect to see that type of margin continue.

John Kelley - *Alexander & Baldwin - IR Contact*

Yes. Thank you for the question and thank you for the comments at the beginning.

No, you're not going to -- the range varies greatly on margins and property sales. We can have one project that can have 15 or 20 percent margins; another can have 60 percent, so the mix differs tremendously. We had such a high proportion of land sales at Wailea, where we are in fact having a huge margin, but that gave us an unusually high margin number.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay, that makes sense. Do you have a feel -- are you willing to share with us the timing of the additional parcel sales of Wailea throughout this next year?

John Kelley - *Alexander & Baldwin - IR Contact*

I can't tell you specifically what the numbers are going to be, but I can give you a general idea. We are fairly far along in several other -- two to three other sales at this point in time, in addition to the one that we've just completed in April that I mentioned. We are also working quite hard on a development of our own with a partner, so we're going to be in a position that the sale, on a bulk basis of these parcels, the completion of these Golf Vista sales to reduce the basis at our property dramatically and then be in a position with much of the land remaining to develop it on a more -- what I would call a more regular, orderly basis.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Have you, at this point, determined if the remaining land to be developed would be sold off in parcels or developed internally, or are you just going to kind of take your time on that decision?

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

We've gotten to the point where we've identified what we're going to do with about one-half of the 17 parcels, so we got a pretty specific idea about halfway through the process. What we do after that is going to have a lot to do with how we do in our first half and what the market looks like. But yes, we have actually, from the beginning, had a very completely organized approach towards, first, how we were going to significantly reduce the basis in this property. I did mention, when we announced the purchase, that this was not going to be dilutive, which is something that's a little bit unusual when you are buying raw land. We are proceeding to do pretty much what we said but I think market conditions are quite favorable, so it's going quite well.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

That's excellent. Would you consider purchasing property, should it become available, such as the Wailea acquisition or some of the other key properties that you discussed during your conference call, on the mainland, given that the Hawaiian real estate environment is a difficult environment to be a buyer?

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

You know, we've had lots of discussions about exactly who we are and what we are capable of. There is a possibility that, strategically, we could be expanding and do some investment development work probably on the West Coast. There are a couple of markets there that we're pretty familiar with. I don't think we're going to go through some Helter Skelter kind of growth in that area.

The fact is that we really know what we're doing in Hawaii; we're not perfect but we definitely have a market advantage in terms of our knowledge. So in some ways, higher interest rates and less-favorable conditions will make it better for us to be in the acquisition market.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Why were the margins so high in your sugar business? I understand it was down sequentially in terms of production, but margins were quite high!

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

Margins were high, and it's really an anomaly. We don't produce very much sugar, so we can only book what we produce, but we did sell a lot of power in the quarter. It's a really odd situation, electrical power. It's really odd that we can see that we're having problems with production. When we do produce the sugar later on, it's going to be at a higher cost, so we're going to have some profit issues there. But in the meantime, in the first quarter, we sold a lot of power. That, among other things, gave us margins that were -- I hate to use the word 'deceptive' in public but certainly it was not representative of what the underlying economics of the business would be but is totally consistent with GAAP.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay, that makes sense. Turning quickly to (indiscernible) and let someone else ask some questions.

John Kelley - *Alexander & Baldwin - IR Contact*

Good! (LAUGHTER) (indiscernible).

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

On a sequential basis, obviously margins were down, as it's a seasonal business. It sounded like you talked a little bit about some higher expenses in the quarter, but I guess margins were down a little bit more than I had expected. I'm wondering if -- I know you don't give specific forecasts but is the general trend if we should expect to see Matson getting back to maybe some of the margin levels that you've historically achieved?

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

Jim Andrasick, please?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

Yes, thanks for the question. The first quarter is seasonally our lowest, and I think history bears that out. If I could just cite last year's experience, the second quarter was -- excuse me, it's a high fixed cost business, as you are aware, so as seasonal volumes improve quarter-by-quarter-by quarter, we would expect to get back to, I think, a historical range, which previously we said was about 11 to 12 percent on the high side. There is nothing untoward going on in our business that would -- that I can see that would preclude that kind of performance. We are still making -- before I get the question -- we're still making steady progress at our Sand Island facility and right now, the fleet is (indiscernible) levels that really have never been better for the last 2.5, 3 years. So, I hope that answers your question.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

That's great. Thank you very much.

Operator

Nicholas Aberle with Caris & Company.

Nicholas Aberle - *Caris & Company - Analyst*

Hello, congrats on the quarter, guys. First question -- I guess I've got a couple of follow-ups for Jim on Matson. You recently announced rates were being raised in the Guam service. Can you just give us a little bit more color on what that can mean for the topline, going forward and then quickly comment as well on the westbound service rates that were raised at the end of 2003 and how those are taking?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

Certainly. In both cases, the rates were principally in the form of what we call a terminal handling charge to help us recover a portion of the costs related to both our West Coast and Hawaiian and now our Guam port activities and cargo-handling activities.

The Hawaii service rates at the beginning of the year have held quite well. We don't comment on particularly the segments of our service, but I would just categorize it by saying that they've held quite well. This is not the type of rate increase that we intended to be bargained up or down, but it's a true reflection of absolute cost increases that we see in our business.

As far as the Guam increase, there's not much color to it. The Company has not raised rates there for six or seven years, so it does reflect -- in the theater of international rates in the Pacific trade, I guess it's a very small change. We pointed that out in our press release, but on average, I believe it's about a 4 percent increase. What that goes to the topline -- I don't believe we break out our revenues that way for public consumption, so I can just say that it's a modest increase and we don't expect any push-back on that.

Nicholas Aberle - *Caris & Company - Analyst*

I got it. With horizon lines rumored to be on the block, Carslyle (ph) shopping this thing, how could that affect business or the competitive environment, going forward?

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

Jim, why don't you comment on that first?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

Clearly, first of all, for the benefit of the other listeners, Horizon Lines is (indiscernible) principle competitor in the Hawaii service and in the Guam service, so it's certainly an important factor for us. The financial well-being of a competitor is certainly a factor in the market dynamics, and I would say that we have no specific information about the status of the rumored sale. I believe that, from our perspective, Horizon Lines continues to be a very good and agile competitor to us in both services. So we're just standing back at this point and just observing. That's all I can say about that.

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

I have no additional comments to make on that.

Nicholas Aberle - *Caris & Company - Analyst*

Allen, is there any chance of the Food Products segment being a loss for the remainder of the year, due to the poor environment there?

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

Yes, there's a chance but I don't think there's a likelihood. It's not going to be a good year and our projections are a year that's going to have a fairly small marginal amount of profitability, but we are doing an awful lot there to see if we can get our production back on track. The costs are completely under control, so it's just a matter of getting production going. But I would not expect us to be in a loss position.

Nicholas Aberle - *Caris & Company - Analyst*

okay. Any update you can provide with respect to a potential dividend increase in 2004?

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

There's really not much of an update. The Board did declare a quarterly dividend which, on an annual rate, is 90 cents per share. The view, at this time, is that that is still a good dividend yield, about 2.7 percent, and based on last year's earnings, about a 46 percent payout ratio. So, given the investment needs of the Company, where we have some essential needs in terms of the two vessel replacements that have been undertaken or are being undertaken now and the real estate investments that we are already committed to, plus what I would call the somewhat-opportunistic nature of our real estate activity where it's good to be in a financially flexible position that, at the moment, the view of the Board and certainly that of management as well is that we are going to stay with the dividend at 90 cents a share.

Nicholas Aberle - *Caris & Company - Analyst*

That's going to obviously be reviewed on a quarterly basis, going forward, but your comment just basically says that, at the present time, it doesn't seem like a plausible solution.

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

Well, the Board does make a determination each quarter, and it is within the province of the Board to establish the dividend policy of the Company.

Nicholas Aberle - *Caris & Company - Analyst*

I got it. All right, thank you very much.

Operator

Tom Spiro with Spiro Capital.

Tom Spiro - *Spiro Capital - Analyst*

Aloha! First, on the Matson, did the concrete strike affect Matson's volumes much in the quarter?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

No, I would say no. We don't handle any of the bulk -- certainly not the bulk materials that go into the manufacture of concrete. I believe that, as far as the supply-side, it was not a material difference for us. A lot of the bulk materials like 2-by-4s and other lumber comes in by barge and we don't handle that type of cargo currently on a -- for the time-sensitive materials that go into construction. So, I would say that, generically, it's had very little affect on Matson's business.

Tom Spiro - *Spiro Capital - Analyst*

Can you give us an update on both Fosha (ph) and the acquisition of the new boat, please?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

Yes, I certainly can. From all public reports, Fosha (ph) has I think announced that the vessel will enter the Hawaii trade in the fourth quarter of this year.

For Matson's part, we continue to upgrade our vehicle service. We've discussed previously our charter-in of a rolo (ph) vessel which went into service in October of last year. We've expanded the garage capacity on another one of our liner vessels, which combined took us up to about 50 percent railroad capacity. One of the capital projects, which Chris mentioned earlier, was really dedicated to Information Technology to improve, for our auto customers, their ability to track vehicle shipments and to enable them to do many more things downstream. We're spending $4 million on that particular project, which is under development right now.

Of course, we've established separate terminal operations in both Oakland and in Honolulu to sort of facilitate vehicle business, but we are preparing for the entry and that's all I can really say about it at this point.

Tom Spiro - *Spiro Capital - Analyst*

And the new boat?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

The Margaret Lily (ph)? That continues under budget and on-time as far as we're concerned and as Chris said, we expect entry into the Hawaii service early in the fourth quarter of this year.

Tom Spiro - *Spiro Capital - Analyst*

What's been your experience with the boat you put into service four our five months ago?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

It's been excellent. As far as the actual operating specifications, it meet all of its speed and fuel-consumption requirements. Like any complex piece of machinery, there are open items that need to be corrected. There's a one-year warranty period essentially to accomplish all of that. I would say our overall experience, based on the crew comments, has been very positive.

Tom Spiro - *Spiro Capital - Analyst*

Shifting over to real estate for a moment, the occupancy rate of the Hawaii properties I see is about 90 percent. What is the likelihood that we can boost that up a couple of points in a strengthening environment?

John Kelley - *Alexander & Baldwin - IR Contact*

Certainly possible, Tom. It's possible.

Tom Spiro - *Spiro Capital - Analyst*

Is there one particular property or category of properties that keeps the rate down in the 90s?

John Kelley - *Alexander & Baldwin - IR Contact*

Yes. Do you want to know what is? (LAUGHTER).

Tom Spiro - *Spiro Capital - Analyst*

Sure, you read my mind.

John Kelley - *Alexander & Baldwin - IR Contact*

Yes, it's the office property market. We have a little bit of a mainland phenomenon here of office vacancy that is right now at about a 12 or 13 percent rate in Honolulu. Essentially, the industrial market has no vacancy, so that is very, very strong. The retail market is relatively strong, so if we are going to get an uplift in occupancy, it's going to come into several of our office properties that are somewhat mirroring broader occupancy rates.

The good news, if it is any on that, is that we didn't buy these office buildings at really high prices, so we can handle lower occupancy rates than perhaps some others who acquired them on a different basis.

Tom Spiro - *Spiro Capital - Analyst*

Allen, I know the Company has spent a fair amount of money over the last I guess it's for our five years, since 1999, buying real estate in Hawaii. Roughly how much have we spent over that timeframe in Hawaii? Do you have a rough number?

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

Well, I do, but it also depends on how you count it, Tom. If you use the most narrow definition -- and I will give you an example; that Hokua project is one where we have, in effect, a 50 percent interest in what is about a $250 million real estate activity, and our capital in that is about $40 million. So, on the basis of just our at-risk money, our total investment has been north of $400 million.

Tom Spiro - *Spiro Capital - Analyst*

That's just cost-basis?

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

Yes.

Tom Spiro - *Spiro Capital - Analyst*

To whatever extent Hawaii or real estate is appreciated, it would be reflected in growth over 400?

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

Well, yes, and to the extent we haven't sold what we've invested because, over this period of time, Tom, there have been 19 investment that we've made in these last five years that differ from what we used to do because they are not on Company lands, so they are in Hawaii but they are not our traditional landholding. Several of those projects, we've actually gone through the whole investment cycle where we've spent $30 million or more, on a couple of occasions, to develop residential projects. So, we will put the money in, we will get the return, and then there's no basis there. So, when I give you a number, as I did, it's really a number that's based on how much incremental investment we've made, not how much we have in-place right now, which we don't disclose.

Tom Spiro - *Spiro Capital - Analyst*

I see. Okay, thank you.

Operator

Stewart Scharf with Standard & Poor's.

Stewart Scharf - *Standard & Poor's Corp. - Analyst*

I'd like to know, firstly, what your average borrowing costs are.

Chris Benjamin - *Alexander & Baldwin - CFO*

Yes, Stewart. At this time, our average borrowing, our average debt interest rate is about 4 percent. That combines an average of about 6.2 percent on our fixed-rate borrowings and about 1.2 percent average rate now on our variable borrowing.

Stewart Scharf - *Standard & Poor's Corp. - Analyst*

Okay. Are you planning to use cash mostly to pay down debt, or do you have any interest in buying back stock? I know you have that authorization for a long time and you haven't really gone into that market.

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

In terms of the stock buyback question, we have authorization to buy back up to 2 million shares of stock. We have not been active in buybacks recently. I would say that, if you look at the last five years of history, that is certainly a tool that the Company has used at the appropriate time, and we could use it again. It's one way to return value to shareholders.

Stewart Scharf - *Standard & Poor's Corp. - Analyst*

Okay. Anything new with the fuel charges? Any changes that you're looking into regarding the volatile fuel market?

Jim Andrasick - *Alexander & Baldwin - President of Matson Navigation Co.*

I think Matson has certainly tried to keep pace with changes, and we are currently at an 8 percent fuel surcharge -- (technical difficulty) -- have experienced year-over-year during the first quarter about $1.40 a barrel increase in our average costs, so we think we are current now. Certainly, the trends still appear to be upward. This doesn't seem to be enough refining capacity to meet the demands of an expanding economy. We use the residual portion of the tracking process for our primary fuel in most of our ships, so we expect to see further increases but I can't begin to predict how much.

Stewart Scharf - *Standard & Poor's Corp. - Analyst*

Okay, thank you very much.

Operator

Tom Spiro with Spiro Capital.

Tom Spiro - *Spiro Capital - Analyst*

Just to stay with the subject of financing for a moment, perhaps we are in an environment where interest rates will start to go up. Do you have any plans to fix some of your floating-rate debt? Do you have any plans to lock in the cost of the Title 11 financing now? What are your thoughts?

Chris Benjamin - *Alexander & Baldwin - CFO*

We do have a rate lock on our Title 11 financing for the new vessel, so that we are protected on. We also will look at opportunities, although we fixed a fair amount of debt last year and really have relatively little at this time, but certainly as we -- of variable-rate borrowings, outside of our commercial paper program, which I think you are familiar with. As we make additional investments this year, we will evaluate opportunities to use fixed-rate borrowings if it seems appropriate.

Tom Spiro - *Spiro Capital - Analyst*

Allen, you mentioned it, on a couple of our Hawaiian properties, we have binding contracts on a variety of apartments and such. I'm not quite sure what it means to have a binding contract. Under what terms or at what extent can a buyer walk away?

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

Tom, there are some very limited conditions. I hesitate on a call like this to give you what would have to be a very legalistic response to the question, and we will give you that answer specifically.

The general principle is that they are binding in terms of the amount of down payment that has been -- the refunding of the down payment, which is substantial for these units. So the party is at risk of losing the deposits that have been made if they walk away.

The principle risk you have is that it is necessary to complete the construction, once you've signed a contract, within 24 months of when that contract has been signed with the buying party. So, that's kind of what you have to watch out for, Tom, is to make sure that you are able to deliver that development in that time period.

Now, I would say that if, for example, this strike that occurred in concrete -- there is a force majeure provision associated with that 24-month period that would exclude, so you would be able to extend the 24 months for an event like that. So, that's kind of the major dynamic of it, but we can send you the description of it. They are pretty strong.

Tom Spiro - *Spiro Capital - Analyst*

One other question on the real estate -- Allen, you mentioned that the real estate sales in Q1 were ahead of budget. I wasn't sure whether that was merely a timing matter, that the transactions which you expected to occur later will occur later in the year just were moved up to Q1 (sic), or whether in a more fundamental sense the sales process was going better than expected.

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

I hope you weren't going to ask that question, Tom! (LAUGHTER). It's both. There was a major positive variance in the quarter and a little more than half of it was timing, so you can figure out that a little less than half of it was just better performance.

Tom Spiro - *Spiro Capital - Analyst*

Thanks a lot. Good luck!

Operator

(OPERATOR INSTRUCTIONS). If there are no further questions, I will turn the conference back to Mr. Kelley.

John Kelley - *Alexander & Baldwin - IR Contact*

Thank you very much for participating. For those of you on the East Coast, I realize it's fairly late on a Friday afternoon. We appreciate it. Aloha!

Operator

This includes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.
