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- Alexander & Baldwin 4th Quarter and Full Year 2004 Earnings Call

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CORPORATE PARTICIPANTS

John Kelley *Alexander & Baldwin, Inc. - VP of IR*

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

Chris Benjamin *Alexander & Baldwin, Inc. - VP, CFO*

CONFERENCE CALL PARTICIPANTS

Justin Hughes *Philadelphia Financial - Analyst*

Tom Spiro *Spiro Capital - Analyst*

Rob Mattin *Schneider Capital - Analyst*

Jon Chappell *JP Morgan - Analyst*

Jamelah Leddy *McAdams Wright Ragen - Analyst*

Nicholas Aberle *Caris & Co. - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to today's Alexander & Baldwin fourth-quarter earnings conference call. Just as a reminder, today's call is being recorded. At this time, for opening remarks and introductions, I would like turn the call over to Mr. John Kelley, Vice President of Investor Relations. Please go ahead, sir.

John Kelley - *Alexander & Baldwin, Inc. - VP of IR*

Good day, everyone. This is John Kelley in Honolulu. Representing the Company today are Allen Doane, President and CEO of A&B; and Chris Benjamin, CFO and Vice President of A&B. Allen is on the mainland. Technology allows us to sound like we're in the same room, we certainly hope. And I do the slide changes, so I'll do my best. After this introduction, Allen will provide an overview of the unit's operating and financial performance and the outlook. Chris will then comment on financial matters, and I'll return with a quick overview of the Hawaiian economy, and then we will open for your questions.

In today's (technical difficulty) displayed on our website, please note that you have the option to enlarge the slides on your screen. That may help you see some of the details on the slides. You also can print the slides using the PDF file listed under supporting materials, and that may be worthwhile to record notes. If anyone on the live call has trouble hearing, please dial *0 and the operator with help you. Copies of the earnings release also are available at the A&B website. There will be a replay available on the web for one week, and I am available to take calls later on. Please note at this time of the year, Honolulu has a five-hour time difference with Eastern Standard Time.

Statements in the call set forth our expectations and predictions that are based on facts and situations know to us as of today, January 28, 2005. I'll let you read the rest of the slides and just wrap up by saying statements in the call are not guarantees of future performance.

I would like to remind listeners of our corporate website, www.AlexanderBaldwin.com. The site has very useful information about our land holdings, as well as likes to a number of sources of economic information about Hawaii and to all of our subsidiaries' websites. We'll be updating the website to include the new annual report and year-end 2004 property data on March 7th.

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

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

Aloha, everyone. These stacked bars that you're going to see in a moment give our earnings per share for the fourth quarters of 2003 and those of 2004. We just reported 42 cents per share compared to 44 cents in the same quarter last year. Given our internal forecasts, we are slightly ahead of where we thought we would be in the fourth quarter, so we feel pretty good about the quarter. Of course, we feel very good about a 20 percent increase in earnings per share and a net income increase of 24 percent.

The next slide is operating profit in the fourth quarter. There are two items worthy of note here on a comparative basis year to year. First is that Matson had a decrease. We'll talk in a few minutes about the fact that there were a number of nonrecurring items in the fourth quarter of 2003. We'll go over that. That is the primary reason for the decrease; otherwise, there will be an increase in year-over-year operating profit.

Second is we have anticipated and actually noted publicly we had very little property activity in the fourth quarter of 2004, as we did also in the fourth quarter of 2003, and that's just characteristic of the business. I would also note just in one final comment that last year's fourth quarter, we did reduce income by $7.7 million pretax to reflect the reduction in carrying value of our equity interest in C&H. Of course, that did not recur in 2004.

For the full-year operating profit, you can see the comparatives. Matson provides over 55 percent of our operating profit in the year. Our logistics service is now up to 5 percent, a very good increase in contribution. Property leasing and sales together are almost 40 percent, and our food products is at 2 percent.

Fourth-quarter operating profit for ocean transportation -- if you look at the segment, you will note that our fourth-quarter operating profit of 25.3 million was 7.5 million lower than the fourth quarter of 2003. This doesn't look very good, when you know that our revenues went up a sizable percent in the quarter. However -- and we can go over this again later on -- but we had $16.7 million of one-time gains in the fourth quarter of '03, offset by $6 million of what we would call also one-time or nonrecurring expenses. So we had a total nonrecurring of about $10.7 million last year. We really didn't have anything nonrecurring this year, other than some problems in L.A. that we'll talk about separately. So if you take that 32 million and you remove from it the nonrecurring items, we would have been at about 21.7 million last year, and we are up fairly significantly -- more than 15 percent this year on a quarter-to-quarter basis -- from items that we would consider normal operating matters.

Full-year operating performance for ocean transportation -- 10 percent increase in revenue, a 16 percent increase in operating profit. If we look at several of the metrics on ocean transportation, this will explain the year-over-year improvement. First is our volume metrics. Containers were up in all four quarters of the year, but most notably up in the fourth quarter versus last year, with an increase of 8 percent in containers versus last year. I have to say we somehow slipped a 14th week into the quarter where we normally have 13. This happens once every so many years at Matson. So that 8 percent would have been 4 plus percent in the quarter, had it not been for the extra week. The automobile volume, almost 30 percent, is not explained in any way by an extra week. So there was some fairly dramatic revenue increases there. And the 4 plus percent increase in containers is still a very good number.

On the yield side, the results are also favorable. On a year-over-year basis, our rates are up 4 plus percent. There are a lot of factors that go into that, including the fuel surcharge, as well as rate increases that have been implemented to offset increased costs. So the rate picture on containers and also on automobiles continues its year-over-year trend of increases.

One item that I think is quite interesting is our voyage days on a comparative basis, and here you'll really see, in this metric, a major increase. Now, this doesn't start at zero, so it looks a little more dramatic than it really is, in terms of the number of voyage days, in effect, that our vessels were at work in the quarter -- a very big increase in the quarter. Now, 60 of those days were associated with an extra week. When you take that out, we still have more than 125 days this year that we didn't sail last year. A combination of two things -- number one, additional volume, but also in part because of the longshore problems in L.A. which required us to have additional deployment of vessels in the fourth quarter.

I would note that at the end of the fourth quarter and the beginning of 2005, Matson has returned to its normal fleet configuration of 7 container vessels and 1 roll-on/roll-off autocarrier in-service. But, nonetheless, you'll see a very significant increase in ocean transportation costs, just because we had more ships out for more days.

The other item that is significant is fuel cost. That is no story to anyone. Our increase in the quarter on a year-over-year basis was $6.20 a barrel, about 22 percent. The fuel surcharge was adjusted to offset -- neutralize, in effect -- these fuel increases.

The next slide shows the operating margin comparatives for the quarter. As we discussed previously, when you remove from 2003 what we would call nonrecurring items, and you compare that to the margin we achieved this year, they are both at about 11 percent -- so about the same margin on a year-over-year basis. The one weight that we had on this year's margin -- I wouldn't call it a nonrecurring item, but certainly the L.A. labor problem did suppress our margins a bit in the fourth quarter of 2004.

In terms of other ocean transportation issues, I would just note to reiterate that the bunker fuel surcharge does cover our added costs. It's been very significant for us, and we hope that as prices go down that we'll also, at that time, be able to adjust our rates accordingly. We did, on a normal basis in early January, have rate increases that were announced in the Hawaii trade. We did put out a release on it. Those rate increases were about 3.5 percent plus a small increase to our terminal handling charge.

I would also note that our APL alliance does expire in February of 2006. That is information that's been provided a number of times to investors, and we are continuing to evaluate alternatives. When we have the direction that the company is going to take, we will let our investors know about that very quickly. Otherwise, we will provide a quarterly update on our progress, if there is any material progress. We are looking at a lot of different options, and we don't have the one final decision yet on a path ahead.

I would also just note -- this is an item that we have mentioned on a number of other occasions -- that Pasha with a pure (ph) car carrier is expected to enter the Hawaii service sometime in the spring of 2005, and it is the company's view that our response will be to provide the most competitive service we can to retain our current customer base.

In terms of the operating profit outlook for ocean transportation, cargo demand is good, and is expected to continue to be good in 2005. We have already implemented a rate increase in January. Our fleet operations, at least for the moment, are back onto a normal eight-vessel schedule. Our margins are really at what you would call a high historic (technical difficulty), and of course we have already noted (technical difficulty) prospect of a competitive entry likely in the second quarter of this year.

In terms of our small but growing logistics business, they had an outstanding quarter. The operating profit increased from 1 to slightly over $3 million. On a full-year basis, the operating profit more than doubled from 4.3 million to $8.9 million, a significant increase for us.

On the next slide, the metrics are all, I think, positive, particularly on the revenue side. The margins ended up the year at a very attractive, for us in this business, 2.8 percent. This is a low-margin, low-invested-capital business. The business has grown organically; it has also grown through acquisitions. We did announce a small acquisition that closed at the end of 2004, either yesterday or it may have been this morning. But that business continues to have favorable prospects as we look ahead -- very strong demand for the services. The traffic segments that we provide are growing nicely and, as I noted, we did do a smallish but a second acquisition in two years. This one was at the end of 2004. So we are feeling good about that business.

Food products -- you've got to get your eyeglasses out here to see this one. Year over year, there was a modest increase in operating income to $1.3 million. On a full-year basis, slightly surprising to us, we almost equaled 2003. In 2004, we had $4.8 million of operating income, compared to 5.1 million last year.

We did have a very good finish for the year, as the next page on our sugar production would indicate. We started the first half of the year way in the hole, and in the second half of the year, both in the third and fourth quarter, we improved our sugar production. That was helpful for us. We ended up the year only 3 percent below where we were last year, and so I just want to -- as difficult as this business is, and we are achieving 20 percent plus increases in our two core businesses, I'd also like to express appreciation to our agricultural team for the work they did to really come back well in the second half of the year.

The outlook for this segment in 2005 -- we don't see any major changes in what we are considering to be a low sugar price environment. We think that we'll be able to achieve some modest production increases. We also expect to receive a federal transportation allowance in the first quarter. While it is not a short, we do expect to receive it, and this would represent about 5.5 million to HC&S.

The next segment is property leasing. There, we had a very small, 2 percent, increase in year-over-year profit, from 9.8 to $10 million. On a full-year basis, we increased our profit from 37 to 38.8 million; it's about 5 percent higher. If you look at our (inaudible) metrics, there you will see that on the mainland we had continuing high occupancy rates, with Hawaii coming up a little bit but being relatively stable at about 90 percent. So we have a little way to go in Hawaii, in terms of increased occupancy, but not much at all on our mainland properties.

Property leasing operating profit outlook -- as I noted, high occupancies already -- relatively stable rates, small increases. We continue to sell properties and then to go through a tax deferral process and to acquire other properties to replace them. So we are constantly changing, in effect, the cards in our deck or the properties we have in our portfolio. There has been really, however, no material change in the capital in this business on a year-over-year basis.

Operating profit for our property sales activity -- relatively small in 2003 at 2.8 million. Actually, it looks like it's a loss, and I guess it is. There was a small amount of revenue, but we have about $2.5 million, or more than $2 million. Most of our operating overhead goes into this segment for our land holdings for our Wailea property for much of our activity. So, if we're not selling anything, we can in essence show a little bit of loss, because we are expensing costs as they are incurred in this part of our business, and that's precisely what happened. Again, this is completely within our expectations, and I will note in a few minutes that we are expecting a very good 2005.

Property sales -- we are showing there an increase from 23.9 million in 2003 to 34.6 million in -- excuse me, 2003 and 2004. So there was a very significant increase of about 45 percent. Our outlook for 2005 -- we expect to have higher sales. I think we're going to have more uniform distribution in 2005 of the sales than we did in the last two years. And we do expect to have a favorable year in this part of our business, as I will explain momentarily.

First, an update on several projects that could or will have operating impact in 2005. Lanikea is our Waikiki high-rise construction -- it is on schedule. We expect to complete it about the midpart of this year, and shortly thereafter, we are going to sell all of the 100 units in this development that have binding contracts, so you can expect to see a full income, maybe a little bit in the second quarter but more likely in the third quarter, for this project.

Our Hokua joint venture -- again, this project is just about on schedule. Maybe it's a couple weeks behind schedule, but relatively close. Essentially, the project, as we have noted on several previous occasions, is essentially sold out. We expect to complete construction in December of this year. We may have sales this year; we may not. If they slept, they will slip a very short period, maybe a month or so, into 2006. It's kind of a tough call right now to know exactly when we're going to begin recording income there. But the key is that we do have the binding contracts. Construction is going apace, and we see the finish of this project relatively soon. At Wailea, we closed three bulk parcels in 2004. We have also, already in January of 2005, we have closed one more bulk parcel. And we have sold a few of our remaining house lots that we have in the project, so we are doing very well there. We had a great 2004. We are expecting to continue to show good results in 2005.

We have a joint venture that was announced in this past quarter. We call it MS-8 (ph), which I think in your map is in blue. If you go and look at a rendition of this project, it is called Kai Malu at Wailea. It is a 150-unit project. It's a joint venture with a very good developer that we have had experience with in the past. We, on an initial basis, released 34 of the units in the middle of January, and all 34 were immediately taken, non-binding basis, average sale price between 1 to $1.1 million. Construction is expected to begin at midyear 2005, and first closing in 2007.

As you know, we are now moving into projects that go beyond 2005, but they are significant for the future. Next one -- we are well on our way to completing a very small community shopping center on Oahu. We have a total project cost of $14 million, and we expect to be completed about midyear. And we are well on our way to leasing this project out. It's well located on Oahu.

The next project that is in the launch phase is our Mauna Lani joint venture. We announced the acquisition of the land in 2004. It's a joint venture with Brookfield Homes, 137 units, a development on the big island at the Mauna Lani resort. We've made good progress there, and you will be hearing more about this soon. We expect to break ground on the development, perhaps in the third quarter of this year.

The last slide that I have is our five-year total return. This is my favorite. When you combine price appreciation with the annual dividend to the Company, our shareholders have been able to achieve an annual return of 17 percent a year over the last five years, based upon our year-end 2004 closing price, I believe, John Kelley, of $42.42 per share.

John Kelley - *Alexander & Baldwin, Inc. - VP of IR*

Correct.

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

We feel very good about that. We're not in a position to say where we are going to go in the future. We are in a position to say where we want to go in the future.

So, with that, I will turn it over to Chris Benjamin.

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Thank you, Allen. I will start with a review of the balance sheet. There were fairly few changes in the fourth quarter, so I'm simply going to recap some of the major changes for the year. Current assets were up $41 million at year end, of which 36 million was an increase in cash. The increase of $43 million in investments is mostly due to real estate activity. The largest portion of that is an increase in our Hokua investment by $26 million. At year end, we had put in a total of $36 million to that project. The balance of that line, investments, is made up of smaller investments in real estate joint ventures, primarily.

The largest contributor to the increase in property was the new vessel at Matson. We also added $17 million of containers and purchased a development parcel in Honolulu for 14 million. Of course, all of those are offset somewhat by depreciation.

The capital construction fund has been reduced significantly over the year by about $125 million, and that's a result of a $40 million withdrawal to pay the nondebt portion of the Maunawili purchase, and then a withdrawal of $100 million to repay and retire our commercial paper program. That was offset somewhat by an accrual of $15 million for deposit to the CCF.

On the liability side of the balance sheet, we had a $53 million increase in current liabilities, and that was due primarily to higher accounts payable and a $16 (ph) million shift of long-term debt from up to a current portion. On long-term debt, we had a $116 million delta. Of course, as I just mentioned, $16 million of that was a shifting up to the current portion, and the remaining $100 million reduction year over year was a result of the retirement of the commercial paper program for $100 million, and normal repayments of debt during the year, exactly offset the $55 million increase in debt for the purchase of the Maunawili. So our net change for the year in total debt was $100 million. And the last line -- shareholders' equity is up $93 million due to earnings and also stock option exercises, partially offset by nearly $40 million of dividend payments.

Total debt at year and, as I mentioned, was down $100 million at 245 million. Our total debt-to-capital ratio right now is about 21 percent, and our debt as a percent of enterprise value at year end was 12 percent. In a moment, I'll describe our capital plan for the coming year and some of the ways we hope to be using our cash balances and our borrowing capacity. I should reiterate that we have a clear intent to increase our leverage, and we have a number of potential investments in the pipeline. Obviously, the exact timing of those investments and whether or not we even make them is difficult to predict, but we do, certainly, have aspirations to put that capacity to good use.

As we do increase our leverage, we'll also be bringing our ratio of fixed and floating debt into better balance. At year end, we were 97 percent fixed -- not an ideal balance, but of course, this does provide us some protection against rising interest rates in the current environment.

On the cash-flow statement, we had an increase of $36 million year over year in cash. That was partly due to the fact that we have, as I said, very low variable-rate debt and we have significant repayment penalties on our term debt, making it difficult to pay some of that down. However, we do have near-term uses for that cash balance, both in payment of taxes and, later this year, for the funding of the CCF deposits that I mentioned earlier.

Operating cash flows were higher by $37 million, as a result of strong earnings. And capital expenditures, which are classified differently for GAAP purposes than how we think about them for management purposes -- and therefore I'll defer discussion of CapEx until a later slide -- but I will just mention that on GAAP accounting terms, our CapEx was $151 million during the year.

I've already talked about CCF withdrawals and debt repayments, so the last thing I will mention on this slide is that in the stock transactions line, we have the net impact of $26 million in option exercises and about $2 million in share repurchases during the year.

Now, looking at capital expenditures, the top half of this slide focuses on the way we think about our CapEx for management purposes. It's really our total CapEx. The bottom half of the slide is a reconciliation of those numbers to what we show on our financial statements as CapEx. In the 2004 total of 215 million, the biggest items that we had were, of course, the Matson vessel construction costs at Hokua and Lanikea, and the acquisition of a parcel in Honolulu for development.

For 2005, what you'll see is a meaningful shift in our estimated capital spending, consistent with the strategic direction that we have talked about in the past of expanding our real estate business. Over $90 million of our $179 million budget for real estate in 2005 is for as-yet-undesignated acquisitions. So our success in identifying sound investments in the current market still remains to be seen, but clearly our aspirations are high. The balance of the real estate 2005 budget is primarily for construction or infrastructure work at existing projects, including Lanikea, Kukui'Ula and Kunia.

At Matson, while there is a decrease in the budget because we completed our two-vessel acquisition program, our target remains well above what we consider maintenance capital. There is a provision for Guam service-related expenditures, as we prepare for the transition from our APL alliance. As Allen has indicated, our plans for Guam are still being defined, so this figure could change if those plans firm up.

Finally, a few general topics of interest. First, we closed 2004 with an effective tax rate of 38 percent, as expected, and we're anticipating the same rate for 2005 at this time. Our corporate expenses for 2005 were $5 million higher than 2003, primarily as a result of our Sarbanes-Oxley section 404 compliance efforts. The SOX 404 project, as it has come to be known, has proven to be a remarkably far-reaching and disruptive process, one that all public companies are navigating their way through. Our process has gone extremely well, and I can report that to date, we identified no material weaknesses, and we expect to be able to certify that our controls are effective when we issue our 10-K.

Our costs for section 404 compliance and the audit of that compliance effort was about $3.5 million. We expect this figure to decline significantly in 2005, but have to reiterate that ongoing compliance efforts will remain a big undertaking and probably an expensive one.

Our Board renewed our 2 million share repurchase authorization in the fourth quarter. This was a routine renewal. It was set to expire at the end of December, and so the Board renewed it for that reason. This was not a signal of any immediate intent on our part.

Finally, I am pleased to report, and you may have seen a press release on it this morning, that S&P has announced that it has established a corporate credit rating for A&B. The rating is an A- with a stable outlook. Matson also has a corporate credit rating of A- stable, which is consistent with its pa ratings on its commercial paper program. The Matson rating reflects, of course, the strong market position and cash-flow characteristics and conservative balance sheet. The A- for A&B, we feel, reflects the fact that our real estate business has developed an attractive pipeline of activities to supplement the strong income portfolio performance of past years and future years. And we continue to demonstrate good discipline in investment policies, which I think has also helped us achieve that rating.

I should point out that establishment of this rating does not imply any intent to issue new debt. We simply wanted to have an objective third-party assessment of our credit for use in routine negotiations over rates and covenants with our lenders.

So with that, I would like to wrap up my remarks and turn it to John for a discussion of the Hawaii economy.

John Kelley - *Alexander & Baldwin, Inc. - VP of IR*

Thanks, Chris. At this point, the two primary drivers for Hawaii's growth remain in good shape -- the visitor industry and the very strong real estate and construction activity in the economy. Here is a long-term charter visitor arrivals to Hawaii, with the gold star over 2000 showing the record 6.95 million visitors. Domestic visitors are on the bottom of each bar with international arrivals on the top. The preliminary total for 2004 was just released, and it was 6.91 million, just 40,000 people below the all-time high. Interestingly enough, in 2000, international visitors, most of whom are from Japan, were 36 percent of the total at 2.5 million. In 2004, international visitors were 2 million or just 29 percent of the total.

Record domestic arrivals, which are shown above on the chart, in '04 led to record total visitor days of 62.8 million and a record total visitor expenditures of 10.3 billion. Also, recently-reported hotel revenue for the year 2004 was 2.73 billion, also besting the previous record high in the year 2000. Fewer rooms were sold, but the rates were higher than they had been in 2000. '04 occupancy was 77.8 percent, plus 5.1 percentage points versus 2003. And it was statewide, and the outlook is continuing to be quite strong. And then, just to wrap up this slide, these increases in '04 were based on an 8.5 percent increase in airline seat capacity, which is a measure of potential that continues to grow.

This chart shows the contracting tax base, which is a proxy for construction put in place statewide. Historically, you can see the drawdown of the construction backlog in the '90s; that's the downslope part. And then, from 2000 onward, you can see residential leading good, steady growth to the present time. With substantial military housing work beginning now, the best available forecasts look for a 13.8 percent step-up in 2005, followed by somewhat more moderate growth thereafter.

The unemployment rate captures the overall trend for the economy, with the full-year 2004 rate averaging 3.4 percent. December's number was 3 percent, substantially below the national unemployment rate of 5.4 percent.

On the consumer side, here are retail, new car and light truck registrations. Note that rental car units are not included in these numbers. Clearly, people held back on their buying during the '90s, but have been buying more cars more actively since. New retail car and light truck sales hit an all-time high of 66,300 in 2004, up nearly 6 percent. Recently a forecaster predicted an easing of 3.4 percent, but the auto dealers expressed strong doubt in that forecast. In any case, they say that any number over 60,000 units represents a very good market.

So, summing things up, in real estate, the residential market has blown right through concerns about higher interest rates, although affordability for local buyers is an increasingly hot topic, particularly on the neighbor islands. We also are watching construction cost indicators very carefully, with higher prices for raw materials and, as we dig deeper into the finite supply of skilled local labor.

Even with one of the lowest unemployment rates in the country, forecaster see continuing job growth in the state, about 1.8 percent in '05 and 1.4 percent in '06. And as I said, planning and early activity continues on the three big and long-term military housing refurbishment and replacement efforts. And with the Stryker Brigade and supporting aircraft being deployed to Hawaii, the effects of current overseas troop deployments should be short-term.

Lastly, with Hawaii's relatively high exposure to costs of housing and energy, forecasters do expect a pickup in inflation, to about 4 percent in '05 and moderating to 3.3 percent in '06. All in all, Hawaii continues to have moderate, sustainable economic growth.

And I think, with that, we would like to open for questions. Operator, if you can explain to folks how to do that?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Jon Chappell, JP Morgan.

Jon Chappell - *JP Morgan - Analyst*

Focus on the transportation side, first. There's two container ships being built in the container shipyards right now, and rumors have it that Matson may be the frontrunners for those. I'm not going to ask you to comment on those specifically, but is that an option that you can potentially use to focus on the Guam service? I know you can access ships that don't necessarily have to be US-built for the (indiscernible) trade for the Guam service. So, hitting those ships in the Kvaerner shipyard -- is that financially feasible?

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

We know that ship number three is going to be completed sometime this summer, we think, and ship number four is at a later date. We know also, we believe, that Kvaerner has not found a buyer for either of those ships yet, and we know that we are under the strong impression that they are looking to package those two ships into an operating business and, in effect, sell them as an operating entity in some related transaction; we are not quite sure.

That's what we are hearing, and we know that there is an active effort underway on their part in one fashion or another to, in effect, sell those two vessels. I would prefer not to comment on any plans that we might have, relative to those vessels or any other vessels, at this moment.

Jon Chappell - *JP Morgan - Analyst*

Allen, have you heard a price tag for those ships that's similar to what you pay for the Maunawili and the --?

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

I don't know what the price tag is.

Jon Chappell - *JP Morgan - Analyst*

Sticking on this front and uncomfortable situations, the impact of Pasha -- obviously, it doesn't have the ship in the market yet. But are you seeing anything on the pricing front, other than the one auto customer that has already signed with them, anything from a competitive standpoint?

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

They do have the one customer. I know that they have announced it, and we have noted it, as well. That would be Chrysler. I'd say at this stage it would be -- it's not uncomfortable, it's just not a known. We don't know what sorts of pricing impact there could be on the auto trade. They will be in the market in the second quarter at some point, we believe. But I'd say it's probably a little bit premature on that one to talk about it.

Jon Chappell - *JP Morgan - Analyst*

One quick housekeeping question for Chris. Typically, you have reported G&A in the filings -- Q or K -- and I imagine we will be waiting a little bit for the K. Do you have a fourth-quarter G&A number?

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

John Kelley or Chris?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Yes. Our fourth-quarter G&A for the Corporation was $6.1 million, and that compares to $5 million for 2003, the same quarter. And the variance there again is primarily due to increased costs for Sarbanes-Oxley compliance.

Operator

Jamelah Leddy, McAdams Wright Ragen.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Looking out over the longer term, I know over the last couple of years, and even including this year, that have been a number of items that have impacted Matson, and we certainly had the issue in L.A. recently. But over the long term, do you think that Matson can realize margins of midteens, say 14 to 15 percent?

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

I can't speculate specifically. I think that that -- as we characterize, that's very much at the high level, both in terms of Matson's experience and in terms of the experience of other shipping businesses. I believe we ended up the year at, what was it, 12.8 percent?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

12.7, yes.

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

12.7. That, on an aggregate basis, is about as high as we have been. As you know, in looking at those quarterly numbers, that we peaked in the second and the third quarter, and then we have typical seasonal reductions in the fourth and the first quarter. On an aggregate basis, we did see that level during a very robust period this past year, but to sustain that kind of operating margin -- I don't think I would bet on it.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Also, Allen, in your comments, in which you said that you expected more uniform distribution, in terms of the property sales, I understand that the sales of Lanikea and Hokua will certainly help make that a little bit more even throughout the year. But I guess what I am trying to understand is what is the chance or possibility of additional sales or additional variability in your projections for this year?

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

Well, we have -- that's a good question. We just showcased several of our major drivers. We did express and probably wouldn't want to express other activity, just because there is a lot of it in terms of selling commercial properties. It's small land sales that we do from time to time, so to put all those things in a package with the major development projects and you come up with a result. I think we're going to have a good first quarter in the property sales area, based upon what we see coming out the end of the system now.

And the comment was principally, Jamelah, because if you noticed last year, this ticket got turned off in the third and the fourth quarter. And I think this year, you are going to see it's going to be more of a uniform, if not equal -- I would not even say it's going to be proportionate, but there will be a better distribution of income on a quarter-by-quarter basis than we had in the last year or two.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

And just one last question. I think it was during the slide of capital expenditures you talked about having the potential and the large opportunity for undesignated real estate. And I know I ask this almost every quarter. I just want to get a sense of your level of comfort and optimism that there are opportunities out there that you are -- I know you probably look at projects every day, but I just wanted to sort of maybe get a little more color on that.

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

I can't tell you what we're going to look at the second half of this year, but right now, we did announce, in effect, the formation of a joint venture, which was an incremental investment in capital at Wailea in the fourth quarter at that Kai Malu project, and that is going very, very well with the first increment of sales.

In terms of new development investments, we have got several that are in different stages of review and negotiation. So I would characterize us as having what I would consider to be a typical -- neither large or small -- number of acquisition opportunities we are looking at. What we're trying to do is keep our shoes nailed on the ground, so we don't reach too far for things that we shouldn't be dealing with.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Thank you very much, and congratulations on a great year.

Operator

(OPERATOR INSTRUCTIONS). Nicholas Aberle, Caris & Co.

Nicholas Aberle - *Caris & Co. - Analyst*

Allen, you referred to rate increases here in January. I was just wondering if you could elaborate on the extent of those increases, and perhaps what your strategy is, in terms of pricing for the remainder of the year?

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

The rate increases were 3.5 percent on a general basis. In addition to that, there was a $40 terminal handling charge, which makes the overall increase a little more than 4 percent. Over and above that, the fuel surcharge will go up or go down, based upon changes in fuel costs for the Company. Other than that, the Company doesn't have any present plans to modify its overall rates for the rest of the year.

Nicholas Aberle - *Caris & Co. - Analyst*

And operating margin at the ocean transportation business or segment of Matson dipped during the fourth quarter. Could you provide any type of breakout as to what affected it most? Was it mix, was it seasonality, or was it the expenses associated with running some extra vessels during the quarter?

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

I knew this was going to be a complicated question. I want to go back to my notes just for a minute. Essentially, what happened, we had a lot of nonrecurring items -- that's what we're supposed to call them -- in the fourth quarter of 2003 that, in effect, provided a benefit -- correct me if I'm wrong, John Kelley, because I don't have the page -- of about $10.7 million?

John Kelley - *Alexander & Baldwin, Inc. - VP of IR*

That's correct.

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

So if you take the 32 or so million dollars -- 32.8, I got the page now -- $32.8 million that we achieved in the fourth quarter of '03, and you take those nonrecurring items out -- this is not a totally GAAP financial analysis -- you come up with a number that's 21-point-something million dollars. And then you compare that to what we achieved in the fourth quarter of this year, of 25 million, you had a 15, 16 percent plus year-over-year increase.

The margins -- in terms of margins were -- essentially when you wash the nonrecurring items out, were pretty much stable, almost exactly the same as they were last year, when you try to take those '03 items out. The one item that we had in '04 that we left in the margin was the increased costs associated with the L.A. Long Beach labor availability problem. That probably would have bumped our margin up a little bit, but this is a business where labor and other issues have a tendency to be nonrecurring, but to recur with some degree of regularity. So we hesitate calling that a completely nonrecurring items.

Nicholas Aberle - *Caris & Co. - Analyst*

I was referring a little bit more to the sequential move in operating margins from Q3 to Q4. Would you say that that's more a seasonal event?

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

The sequential down?

Nicholas Aberle - *Caris & Co. - Analyst*

Yes.

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

It definitely is. I can't say 100 percent of it is due to that; we had a superb third quarter, and we had a very good fourth quarter. But I think the majority of it certainly is in sort of the normal patterns of having the second and the third quarter being the higher-margin periods, and the fourth and the first quarter being lower margins.

Nicholas Aberle - *Caris & Co. - Analyst*

And on the property side, talking about being patient in the real estate market, as obviously it's a better time to be a seller than a buyer. Looking at CapEx projections for 2005, it looks like you guys are shifting more of your focus to the real estate side. I was just curious as to what the thinking was there, with respect to spending more on the real estate side when it looks like the market is actually better for sellers.

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

Yes. That is an objective. Chris, I think you had identified it that way. Could you just comment on that for a moment, and then I'll follow up?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Sure. I guess the first thing to keep in mind is that the capital budget really reflects our aspirations. So we have a goal of $90 million of investment in new properties. Those could be income properties that we purchased through 1031 exchanges or new development projects. So, of our $179 million of capital, roughly 90 million of that is for known projects and construction activity, and the other half of it is for undesignated acquisitions.

In terms of that target, in the current environment -- the target is reflective of our strategic direction and our desire to expand the real estate business. But you make a good point, and as we had also acknowledged, that $90 million target may be aggressive in this environment. But then again, we may be able to find a large, attractive deal that will eat that up, and of course, we have always have the prospect that we could find even bigger deals. So it's tough to set these targets. We set them really as goals and as aspirations, and then we see where we end up, based on market conditions.

Nicholas Aberle - *Caris & Co. - Analyst*

And I guess my last question was, I didn't really see anything in the presentation about the Kukui'Ula project. Any update there, Allen?

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

Only one item. We're going through the normal process, lots of intensive planning going on dealing with site and construction. But on a soft basis, there will be the commencement of some marketing activity somewhere in the quarter. It won't be sales activity, but we will be commencing the public phase now of our Kukui'Ula activity in the first quarter. I think that's the most significant accomplishment there. Otherwise, everything is on track, based on our development plans at Kukui'Ula.

Operator

Justin Hughes (ph), Philadelphia Financial.

Justin Hughes - *Philadelphia Financial - Analyst*

On the property sales, you said that in '05, the sales should be a little bit more consistent. But you also said first quarter should be -- I think the exact word you said was good. And when I look at your returns for '04, you had a high of 19 million in operating income to a low of a $300,000 loss. I don't really know where to place good in there. It's a pretty wide range.

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

Yes. I won't be in a position -- I can't comment specifically on an income number for any of our segments or even the quarter, but what I was trying to do is just to express the fact that our real estate sales activity -- for us, it's more about the year than it is about any one quarter. It's a hard thing to do. Something is going to close for us, so if it's hard for us, it's got to be even harder for us to try to explain it to you.

But we have a tendency on an annual basis to kind of get most everything that we want to do done, and usually a little bit more. So the only thing that I was trying to note was that we expect to have a good year in our development segment in 2005, and in comparison to the last year or two, where we have had virtually no sales activity in the third and fourth quarter, this year looks like we will. So, instead of completely front-end loading it, as we have done in the last couple of years, it looks like because of some of our large projects, you'll be seeing a fair amount of activity in the second half of the year.

Justin Hughes - *Philadelphia Financial - Analyst*

So we should see, kind of similar to past year's type of results in the first half, but that's going to fall through to the whole year?

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

I sympathize with you on this one. All the other businesses are operating businesses, and this one is one where all we can do is express to you when -- you'll know when we start having problems on an annual basis. If we call it timing, it's one thing. If it's an annual problem, I think you will get that communication one way or the other.

Justin Hughes - *Philadelphia Financial - Analyst*

And on the pre-marketing for the Kauai project, do you have any price ranges yet that you expect to premarket that at?

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

No.

Justin Hughes - *Philadelphia Financial - Analyst*

And last question -- any updates on the third leg of the stool that you talked about looking for at the investor day?

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

No updates at this stage. It's certainly part of our strategy, and we are looking. (Multiple speakers).

Operator

(OPERATOR INSTRUCTIONS). Tom Spiro, Spiro Capital.

Tom Spiro - *Spiro Capital - Analyst*

Let me start by congratulating you on a great year. It was just a fine year from stem to stern, if you will pardon the pun.

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

Well, can I also -- and you saying that, let's talk stem to stern, I think the Matson people should be congratulated for achieving what they did, and our real estate people should be, as well. So there are a lot of what we call mahalos that we need to provide our people for what has been a solid year almost all around in this company.

Tom Spiro - *Spiro Capital - Analyst*

Amen, I'll second that. It's such a good year, Allen, that I won't even bother to ask you about why you don't increase the dividend. I'll skip that.

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

Thanks, Tom.

Tom Spiro - *Spiro Capital - Analyst*

You're welcome. I did have a few questions. Number one, on Matson, an earlier caller raised the question and I didn't fully understand the answer. But if I compare Q4's results just reported to Q3, I see that revenue was up about 15 million and operating profits were down about 8, and I'm trying to understand why that should be. The seasonality looks like we did not have a typically seasonally weak Q4. Volume seemed to have been quite strong, and yet the operating margins came down noticeably.

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

Our margins at this time of year have traditionally been in, I believe, in the 10 to 12 percent area. And I think we ended up at 11?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Correct.

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

But also, remember that we had an element that -- I don't think you can take this one to the bank, but I'd say maybe about $1.5 million or more of disruption, maybe a little bit higher, which probably would affect our margins by about a percentage or so. So that did suppress us a little bit. (technical difficulty) Other than that, it really (technical difficulty) remarkable about the quarter, in terms of our margins.

Tom Spiro - *Spiro Capital - Analyst*

The quarter's volume, unit volumes -- the containers, automobiles -- even if I adjust for the 14th week, were quite strong. I think it was about as strong in Q4 as at any point during the year.

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

Yes, particularly the auto. We have been doing okay on the containers in the last couple quarters, but the autos really, really spiked.

Tom Spiro - *Spiro Capital - Analyst*

That's great. Ethanol -- could you update us on your ethanol plans?

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

At the moment, we have what I would call an agreement, but it's a contingent agreement to supply molasses to an ethanol producer who would build a plant on Maui. So that would, in effect, take what is a low-value byproduct of sugar and make it more valuable. However, having said this, and without giving you quantification, Tom, it's not going to change the overall financial profile of that business. It's just going to improve it a little bit.

Tom Spiro - *Spiro Capital - Analyst*

When does this begin?

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

We are not sure. It could be in late 2006, maybe 2007. It's something that we don't have in Hawaii, so the party has to raise the funds to build the plant, and once that party does that, then we'll supply the molasses to the plant.

Tom Spiro - *Spiro Capital - Analyst*

And next, property leasing in Hawaii -- what is your sense of the trends in occupancy and rentals, as we go into '05 in Hawaii?

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

On the commercial side, there is essentially no vacancy in industrial. It's like 98 percent occupied. The one at the bottom is office. That still is more challenging than the numbers may indicate. There, the occupancy rates are about in the high 80s -- 88 percent or something like that. But that continues to be moving kind of slow. And the retail is very, very strong. The retail is not at 0 vacancy, but it's at a very low vacancy rate, as well. So it looks like there's definitely pressure on industrial, and there probably will be on retail. I don't think any -- as soon as I say that somebody's going to build an office building -- I don't think anyone can justify putting a high-rise office building up in Honolulu at the present time.

Tom Spiro - *Spiro Capital - Analyst*

And I've got a couple for Chris, just so he stays awake. The 245 million of long-term debt -- does that include the 110 of Title 11 debt?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Yes, it does.

Tom Spiro - *Spiro Capital - Analyst*

Is that Title 11 debt recourse to the parent?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

No.

Tom Spiro - *Spiro Capital - Analyst*

Is not recourse to the parent? So Alexander & Baldwin, Inc.'s recourse indebtedness is about 150?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

I think that is correct, if you are just looking at our existing debt, yes.

Tom Spiro - *Spiro Capital - Analyst*

Can you give us some sense of the borrowing capacity of the parent? Let's just say you went to the banks. You don't have to do anything fancy. Just as you are presently constituted, ignoring any cash flow of any potential acquisitions, but just what you have today?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

What we have today is about $300 million of additional capacity.

Tom Spiro - *Spiro Capital - Analyst*

But is that the limit, or that's simply what you happen to have lined up as we speak? How much do you think you could get if you wanted it?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

The answer I gave you, the 300 million, is what we have under current facilities. What we could get obviously depends on what we are using the money for, and the extent to which there are additional earnings associated with it, so it's a little bit difficult to answer that question. But I would say it's certainly probably another $150 to $200 million. But it's a tough question to answer, Tom, just because you know the impact that the earnings characteristics of what you're spending that money on have on the capacity.

Tom Spiro - *Spiro Capital - Analyst*

Sure. I think your principal Hawaiian service competitor has been in the market over the last number of months, refinancing some of their LBO debt?

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Yes.

Tom Spiro - *Spiro Capital - Analyst*

On party favorable terms.

Chris Benjamin - *Alexander & Baldwin, Inc. - VP, CFO*

Yes, I think they have.

Tom Spiro - *Spiro Capital - Analyst*

Well, thank you very much and good luck in '05.

Operator

Rob Mattin (ph), Schneider Capital.

Rob Mattin - *Schneider Capital - Analyst*

I just had a couple more real estate questions for you. You mentioned that the next phase at Kai Malu is going to becoming up here in March. Have you made any determination on pricing levels for that phase, given that it sounded like the first phase had pretty high demand?

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

They are looking at it right now. Yes, the first one was very good.

Rob Mattin - *Schneider Capital - Analyst*

Okay. So you are not sure yet whether you're going to bump that up, or by how much, at least?

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

No. We don't know yet.

Rob Mattin - *Schneider Capital - Analyst*

And I know you have not even started the marketing on Kukui'Ula yet. But do you anticipate that you would have similar size releases of 30, 40 units at a time, or is it a bigger scale, given the size of the overall project?

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

That whole issue of how you -- the size at which you release is really under very thorough analysis right now. There are a lot of different theories about how to do it, but the project, obviously, as I know you know, is much larger than this one. And just by virtue of that, the releases will likely be larger. But larger as a percentage of the total, it's a different thing. Here it's 34 of 150. There you have got 1,200. And my guess is you will be using a strategy that will have you release small increments of it in different phases. But we are not ready yet to say what that will be. It's a good way to do it, though, in general. A very good approach.

Rob Mattin - *Schneider Capital - Analyst*

And then the last one is you mentioned a couple of additional sales at Wailea in January. Have you seen pricing increase there over what you did the earlier part of last year? I don't know if those are comparable lots and parcels, but do you have a general sense of what kind of appreciation you have seen in the last year for comparable?

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

Yes. The prices are definitely higher now than they were at the outset. These closings of these single-family lots are in escrow, have been in escrow for a period of time, in some cases. There is really not that much spread or difference between, say, things that happened three or four or five months ago. I don't think there's -- on the resort side, there is large-scale appreciation. I think this clearly a digestion of what has been some pretty major increases over the last couple years.

Operator

And, gentlemen, it appears we have no further questions at this time. I will turn the conference back over to you for any additional or closing remarks.

John Kelley - *Alexander & Baldwin, Inc. - VP of IR*

I would just like to say thank you for your participation, and aloha.

Operator

And that concludes today's teleconference, and we thank you all for joining us.

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