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CORPORATE PARTICIPANTS

John Kelley *Alexander & Baldwin - Vice President of Investor Relations*

Allen Doane *Alexander & Baldwin - President & CEO*

Jim Andrasick *Alexander & Baldwin - Executive Vice President & CFO*

CONFERENCE CALL PARTICIPANTS

Jamelah Leddy *McAdams Wright Ragen - Analyst*

Nicholas Aberle *Caris & Company - Analyst*

Tom Spiro *Spiro Capital Management - Analyst*

Dan Moore *Stevens - Analyst*

PRESENTATION

Operator

Good afternoon, and welcome ladies and gentlemen, to the Alexander & Baldwin third-quarter earnings conference call. (OPERATOR INSTRUCTIONS). I will now turn the conference over to Mr. John Kelly, VP of Investor Relations. Please go ahead, sir.

John Kelley - *Alexander & Baldwin - Vice President of Investor Relations*

Good afternoon. This is John Kelley. With me are Allen Doane, President and CEO of Alexander & Baldwin; and Jim Andrasick, who is Executive Vice President and CFO of Alexander & Baldwin, and President CEO of Matson Navigation Company.

I will do a brief introduction and then Allen will follow with an overview and some thoughts about the outlook. Jim will follow Allen with comments about Matson and financials. We'll do a quick review of the economy. And then, as the operator said, we will open for questions under queue (ph) poling (ph). I would like to thank you for participating. If anyone is having trouble hearing, you may dial star zero, and the operator will help you out.

Copies of the earnings release are available on our web site. Professional investors who are invitees to participate in the call should have received an e-mail or faxed version of the earnings release earlier today. And replay of the call is available both on the Web and on numbers provided on the invitation. I am happy to take individual questions later on. We still have a six-hour time difference until daylight savings time ends this weekend. And, after hours, e-mail and voice mail are appropriate.

Statements we'll make in the call set forth our expectations or predictions that are based on facts and situations known to us as of today, the 24th of October, 2003. Actual results may differ materially, due to risks and uncertainties such as those we describe on page 19 of the Form 10-K in our 2002 annual report. I would like to remind listeners of our web site, www.alexanderbaldwin.com, and its links to our subsidiaries are quite helpful for economic information. And we would refer you to the State of Hawaii Department of Business and Economic Development and Tourism site, and for news to the Honolulu Advertiser and the Honolulu Star Bulletin.

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

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

Thank you, John. As you have the press release, you will note that A&B did earn 52 cents per share in the third quarter, compared to 43 cents per share in the third quarter of 2002. On a year-to-date basis, the company had earnings of $1.50 per share, compared to 99 cents per share last year.

Let me set the stage for today's call with a few comments about the Hawaiian economy. First, the overarching comment is that we have a steadily-improving picture in Hawaii. 2004 tourist estimates are indicating that about 6 percent more tourist will be here in '04 compared to '03. That certainly is encouraging. The yen, at about 110 to the dollar, is favorable to increased Japanese tourist spending. I did attend a high level Japan/Hawaii economic meeting about a week ago. And certainly there is increased optimism about Japan's prospects, and as a result, the prospects for Japanese travel and spending in Hawaii.

Residential construction and sales are robust in Hawaii, and have been for the last 15 to 18 months. That is similar to the mainland. Commercial real estate conditions are improving in Hawaii. That is a little bit unlike the mainland, where, for the most part, our markets are pretty stable.

One other factor worthy of comment today is that there is a major privatization of military housing rehabilitation underway in Hawaii, and that will be a boon for this economy for a number of years in the future.

Let me just review, very briefly, the segment information for the third-quarter performance. I will first go to food products. If you could turn to page 5 of the earnings release -- food products did have a tough quarter. We have been direct in stating that this part of the company, which represents about 10 percent of our assets, was not going to perform as well in 2003 as it did in 2002. We were facing -- and we realized we were facing -- a year-to-year increase in 2003 of about $4 million in pension expense. So you will see about three quarters of that through the first 9 months of the year. We had planned for that.

In addition, we are expecting our production for the year at HC&S (ph), our sugar plantation on Maui, to be about 6,000 tons below our original estimate of 215,000 tons. That will impact, for the year, operating income by about $2 million.

As we go forward, and look at 2004, in the sugar business, futures (ph) prices are down -- somewhere between three-quarters to 1 cent per pound. That will have, certainly, some effect as we begin to plan for the year 2004 in this business. So, it will be a challenge as we go ahead in our food products business.

Let me turn to Matson next, on page 2 of the earnings release -- a very good quarter. Operating profit increased from 16.9 million in 2002 to 25.1 million for the third quarter of 2003. Seasonally, the third quarter is usually the best quarter of the year, but it was excellent performance, anyway. This is a business with fairly-high operating leverage. Smaller changes in rates and volume can have a larger effect on the bottom line.

The company is in a favorable environment -- rates are up; volume is up, as you can note in the report; and our freight mix has also improved. So, all those factors are moving in the right direction. Matson had an unusual surge of autos in the first half of the year, as we previously noted. And on a timing basis, in the third quarter, the autos were down a bit from the prior year.

The 4 percent container growth that Matson has achieve so far this year, we view positively. That is a good absolute growth rate. There are two offsets to otherwise-very-good performance at Matson from a P&L standpoint. First, is that pension expenses are up, on a full-year basis, $10 million 2003, compared to 2002. So you see about three-quarters of that 10 million in the year-to-date performance. And Sand Island, which is continuing to show improvement over prior year, did not improve over the second quarter of this year.

Transportation business -- I would just make one or two more comments. Fuel cost are an important component of the business. We do have a fuel surcharge in place to offset cost increases. The fuel surcharge was raised in September from 6.5 to 7.5 percent. I'm going to ask Jim Andrasick, in his remarks, to comment on our new ship, the Manukai, which entered the Hawaii service at the end of the third quarter -- the vessel cost $105 million. It's the first of two new ships to be completed and it is the first new ship in the fleet since 1992. And Jim will have a little bit more to say about that.

On the real estate segment, there is really nothing remarkable here. As we go to page 3 -- the leasing part of the business was up 6 percent, and operating profits from 8.6 to $9.1 million. The Hawaii is strengthening; the mainland market is stable, as previously indicated. There is really nothing remarkable. If you go to page 4 on the property development and management segment of real estate -- we are tracking well against our plans for the year. In the third quarter, we did use the proceeds from previous sales of property to reinvest in 3 new properties. One is the Broadlands Shopping Center in Broomfield, Colorado, just north of Denver. That is a neighborhood shopping center -- 95,000 square feet; consideration was

$11 million. Centennial Plaza was acquired -- that is a warehouse complex in Salt Lake City -- for $8 million. That is a 244,000-square-foot series of three industrial buildings. And, third, lastly, the P&L Plaza on Maui -- a 45,000-square-foot neighborhood shopping center -- was acquired for $7 million. This is part of our ongoing program of sale and purchase of commercial properties.

I will discuss the elements of our development activity, which is pretty exciting, in a few minutes, as it relates to things that we expect to occur over the next several years. I would like to just, for a moment, move and make some remarks about the fourth quarter of this year. As you know, as a matter of policy, we do not give specific guidance on earnings. Having said this, we can look at parts of our business and point to some reasonable directional conclusions.

In ocean transportation, we did have very good improvement in the third quarter, and are going to enjoy a good fourth quarter in the absence of the effects of the labor disruption that took place in the fourth quarter of last year. But, there is also seasonality in this business, and you have to take into account. Historically, the first quarter has usually been the smallest-profit quarter. The fourth quarter, the second smallest. The second quarter is usually our second-best, and the third quarter is usually the best quarter of the year.

In property leasing, we would expect a fairly-normal continuation of incremental growth. In property sales, as we previously indicated, the largest transaction that we had planned for the year have already closed. Sales for the rest of the year will be mostly smaller ones.

In food products, the fourth quarter is expected to be modestly profitable, compared to the unusually-high profits in the fourth quarter of 2002.

Taking all of these factors together, we expect that the composition of our earnings in the fourth quarter will be quite different than a year ago. But, in aggregate, the results will look something like the fourth quarter of 2002.

Let me now turn, just for a few minutes, to our real estate development activity, which really is not showing up yet on the income statement, but is beginning to show on the balance sheet. I am going to do this really, really quickly. So, I apologize in advance. I'm going to talk about five projects -- Wailea, Hokua, Lanikea, Alakea, and Kukuiula -- there's a lot of Hawaiian there. But, in aggregate, these five investments represent, initially, about $200 million capital investment for the company.

Wailea, first, is a $67 million investment. This started out at $135.5 million when we put our first press release, indicating that we were going to buy it. The investment ended up being 131.5 million, so there was a small reduction in purchase price. Of that, we were successful in selling off the Wailea golf courses and some Kauai golf courses and land in a back-to-back transaction. As a result, our net investment in Wailea is $67 million, or 270 acres of fully-zoned residential -- primarily residential -- land at Wailea. That is about $250,000 in acres. It's 270 acres --consist of 17, both development parcels, most of which have excellent ocean or golf course views. None of them are on the beach, but they is some very good view land. The purchase also included 29 single-family lots in an existing subdivision. And, we are going to begin marketing those in the next week or so.

The 17 parcels are going to be developed over a period 8 to 10 years, with a total buildout of at least 1,300 units. We are going to engage in a program of selling some of the lots to other developers, developing some ourselves or in joint ventures with others. We expect and plan to undertake the development of sale of two to three of these parcels a year. We think the prospects are excellent, and we are comfortable and confident that this investment is going to be a good earner from the beginning. And, that means in the year 2004.

The second project is Hokua -- we have talked about that before -- it's a $40 million investment. There are 247 luxury high-rise units; and a very beautiful tower to be built -- 232 of these have been pre-sold on a non-binding basis for more than $1 million a unit. Construction on the project will begin by the end of this year. The buildout could take 24 months, meaning that we should achieve income -- beginning to achieve income on this investment in the fourth quarter of 2005 or in the first quarter of 2006.

The third project is Lanikea -- that is a 43 to $45 million dollar investment. There are 100 units -- we put 97 of them out for sale. 97 of the 97 -- that means all of them -- are sold on a non-binding basis -- $560,000 per unit. We are in the process, as we speak, of converting these to binding contracts. Construction is going to start next month. We expect the first sales to occur sometime between the first and the second quarter of 2005.

The fourth project is Alakea -- that is an office building in downtown Honolulu -- thirty-one floors, Class A. We bought it for $20 million, $105 per square foot. We are doing something that is extraordinary Hawaii -- I guess it's extraordinary for anywhere. We're condominium-izing it, basically selling fee simple interest in the office. A lot of people did not think we could do this. We are in the initial sales effort right now, and the response has been really good. We will report more on this in the next quarterly report that we made make to you -- we will see a tiny bit of income in 2003, and more in 2004. But, remember, this is only a $20 million investment. So, it will not show up as a huge amount on other income line, but it's going to be a very good earner for us.

The last project -- and I'll be very, very brief on this -- is our Kukuiula joint venture with DMB Associates. We have negotiated in our joint venture a return from the land that we've contributed to the joint venture. The nominal book value of that land is $30 million. It's likely, at this point in time, that we will co-investment with DMB in the development of the thousand-acre project. We expect to finish up some very significant re-entitlement activity in the next year, and would think that either in late 2005 or in the year 2006 that we would begin to achieve income on this project.

So, there is a lot going on in the real estate area. And, we are just starting to put it on our balance sheet. With the $67 million for Wailea, the $20 million for Alakea, the transfer of the Kukuiula land interest for 30 million, and the other projects that have been noted.

With that, I'm going to turn it over to you, Jim.

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Thank you very much, Allen. To add to that level of activity, we would just like to briefly comment on the two major third-quarter events at Matson. The first, of course, was the delivery and acceptance of the first of two ships being built at Kimerna (ph) Philadelphia Shipyard. We did accept delivery in September. The vessel will be in a warranty period for about a year, but I can say now that the initial performance has been excellent. We have entered it into our Hawaii service, and it has now made 2 complete voyage turns, and as I said, performance is good.

It was delivered well within our overall budget of 105 million. That includes owner spares and inspection costs of the owner's (indiscernible), as well as the contract cost. The financing was fulfilled by taking about 42 million out of our capital construction fund, and supplementing that with 55 million in Title 11 government guaranteed bond financing under the (indiscernible) Title 11 program.

This new vessel, we feel now, will not be dilutive to A&B's earnings, based on a really expected fuel and food (ph) cost savings, as well as our actual financing costs. And the depreciation on the ships will be about $3 million, incremental per year, or 800,000 per quarter.

The second vessel, the Mauna Willie (ph), is well underway. Our expectation now is that delivery will occur sometime early during the second half of 2004.

The other major event at Matson was -- and I believe we have commented on this before -- has been our vehicle handling strategy. The company has adopted a program to increase our capacity to handle more cars in the Hawaii service on a -- what's called a roll on/roll off basis. Right now, our ability to handle cars in that way is about 25 percent of total capacity. And, our objective is to give that up to 75 percent. And, two important steps were taken during the quarter to achieve that -- First, roll (ph) vessel, the Greatland (ph), was chartered in for a period of -- a minimum of two years, with a series of one-year options thereafter to move cars. It was placed in service on October second, and the results, so far, have been very positive.

The company has also, as a part of this, secured the use of separate (indiscernible) facilities in both Oakland and Honolulu to load and discharge cars. We are also expanding the garage capacity on one of our current fleet units, the (indiscernible), which will be placed back into service after its modifications in December of this year. And we have reintroduced, as a part of this activity, a direct roll/roll (ph) service to Maui, which is a large destination for us in automobiles.

All these changes really are service-related, not really designed as cost-saving measures. It is industry standard -- international industry standard -- to move vehicles this way, and we are taking those important steps, which have begun in the month of September.

Now, I would like to just make some brief comments about the financial performance of the company. The industry segment data, which Allen has already covered for the principal businesses, is on page 8. I would just comment that revenues were very strong during the third quarter, up 8 percent, up 12 percent for the 9 months. (indiscernible) earnings were up significantly on a consolidated basis. Interest expense for the company was about flat during the quarter, and actually down by a million dollars for the first 9 months. And all of that was really rate-driven. Corporate expenses were lower by 1,300,00 during the quarter, in up slightly from the prior year. And we had a onetime impact of insurance proceeds and some adjustments to incentive plan accruals during the third quarter, which gave us that positive comparison.

Income taxes were -- the effective rate was moved from 37 percent to 36.5 percent in the third quarter. That reflects our best estimate of our tax position for the year 2003. So, good P&L performance, and also, I should note that there were no sales of ongoing operations in the real estate properties group during the quarter, so there's zero affect for that particular sales account.

If I can just turn briefly make a couple of comments on our balance sheet, which is included -- it's page 9 in the earnings statement. Really, all the impacts in the quarter and (indiscernible) dominating the first 9 months were the results of two major transactions. The first was the vessel financing and acceptance, and the second was the Wailea transaction. If I can just turn your attention to the property net account, it was up $120 million since the end of last year, and 100 million of that was the new vessel purchase. The capital construction fund was actually a source -- partial source, as I've already noted -- for that. So its balances have gone down by about 38 million since the end of last year.

The Wailea transaction was in escrow at the end of the quarter. Of course, it has subsequently closed, is Allen has noted. And, in other assets, 77 million of that increase is related to the funds that have been placed to support that transaction.

On the liability side, it has been noted that our long-term debt has increased significantly -- 118 million -- up to 365 million. That is a 33 percent debt-to-total-cap ration. We still feel that is prudent, given the mix of investment activity in which we are involved. And the composition of that debt has changed somewhat -- we have taken advantage of what we considered to be a favorable rate environment, and fixed additional debt. Of course, the vessel financing is fixed 25-year money -- $55 million, an overall (indiscernible) rate of about -- a little over 6 percent. We have also fixed additional money, with an average life of 6 years, at 4.1 percent. That was about $50 million. And we have retired about 15 million of special purchase revenue bonds at Matson. And that shows in other long-term liabilities, and indicates a decrease in those accounts, which should save Matson about $300,000 a year, going forward in its interest cost.

If I can just include my financial remarks -- a comment on page 9 -- the cash flow -- excuse me, page 10, the cash flow statement. And clearly, with better operating results, two of our major segments -- the operating cash flows -- are well-above last year's first 9 months -- 115 million. And the last year, you may recall, we had some very significant tax payments, which somewhat depressed those operating cash flows, so the comparison is even better this year. Capital expenditures totaled 130 million, as I said earlier, and most of that is the new vessels.

CCF was -- compared to 52 million of contributions made to the CCF last year, this year we withdrew 38 million and it's for the vessel financing. So, it was a very good quarter for -- and 9 months -- for cash flow.

With that, I would like to turn this back to John Kelley, who will talk more about the Hawaii economy and some recent trends.

John Kelley - *Alexander & Baldwin - Vice President of Investor Relations*

Thanks, Jim. I think in the interest of time, I'm going to eliminate some of the statistics I normally provide you with. If you need numbers on visitor statistics or construction activities -- some of the things I will allude -- let's talk separately.

As Allen indicated, the economy continues to perform very well, based primarily on high levels of real estate sales, both on the neighbor islands and here on Oahu -- both in the sales of existing homes and in the sales of newly-built homes. And that, in turn, is driving construction activity. These activities, plus good growth among visitors from the U.S., are more than offsetting the still lower-than-prior-year travel activity from visitors from Japan.

Recently, the state raised its forecast for real gross state product for this present year, for the second time this year -- it is now 2.6 percent real. Plus, prospects are improving for sustained moderate growth for the state, both with the accelerated visitor growth that Allen mentioned, plus projects that are in the pipeline, especially three very substantial ones to replace and upgrade military housing, via a process of privatization of the military housing.

And, there are a number of other wild cards -- I would call them -- among the growth prospects, including, in particular, the yen at 110 to the dollar versus (technical difficulty) a month or so ago -- I think 118, which enhances Japanese spending power, of course, here in the state. Plus, active prospects (indiscernible) investigated for basing an aircraft carrier at Pearl Harbor. And also, the very real plans to increase the number of cruise vessels based in Hawaii from one at the moment to three in the near future. Again, on statistics, on visitors and construction activity, I would be glad to talk to people separately. But, in the interest of time, I think I will end the economic comments right here.

So, operator, we are ready to open for questions and answers, if you will.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Jamelah Leddy, McAdams Wright Ragen.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

My first question has to do with Sand Island, and I know that you said -- I think, sequentially, you did not see any improvements in Sand Island. I'm wondering if you can maybe quantify that a little bit in terms of maybe container moves per hour?

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

Sure, Jim, would you respond to that question on Sand Island?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Certainly. As we reported earlier, we made steady progress during the past 6 quarters in correcting some of the startup problems with the new technology and the new processes and procedures there. The third quarter was a bit of a setback for us. I would call it -- not so much in a quantitative way, because the moves-per-hour metric that we have quoted was down only slightly. But rather, it stopped what had been steady progress that we were expecting and demanding.

I would, first of all, be quick to say that anything over 20 moves-per-hour will satisfy -- at Sand Island -- will satisfy all customer requirements. But, we have not had any diminution in service as far as the customers can see. But anything over, really, results in productivity gains, which were a part of the original capital expenditure that exceeded $30 million in that facility.

So, you know, we have dropped back a little bit from the second quarter -- maybe one and a half moves, one move per hour. But, I cannot really quantify that for you in dollar terms. Serve it to say we have not -- we have to renew those efforts there to continue what had been some very positive work practice moves and efficiency moves there. And, as I said, the customer has not suffered as a result.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

All right. Was there any issue that you can talk about? One issues? Or was it just like a lot of little things?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

A lot of little things.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

As you mentioned, you have made substantial improvements over the last year-and-a-half. Do you think there still are quite a bit more improvements to be made? Or have you really sort of achieved the bulk of the efficiencies you expected to get out of that facility?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

We've, I think, flushed out all of the major issues. Now, contributing to the complexity of new terminals, when you have a new vessel -- (indiscernible) -- in this case, two new vessels, one chartered and one owned -- They (indiscernible) differently, and there is some learning curve. So, the fourth quarter presents challenges as well. But, I think it is a lot of small things. And it is not going to be a 20 percent improvement. We're looking to get our golf (ph) score down maybe two or three strokes here to achieve our ultimate objectives.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Great. With respect to the new car vessel -- obviously that frees up more capacity for containers. I'm wondering, I guess, a couple of things. One is -- with the improvement in the Hawaiian economy and the construction, do you see a lot of demand for that capacity? And secondly, if you could comment at all on any potential competition from other auto carriers?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Certainly. The chartered (indiscernible) vessel actually replaced one of our container liner vessels, which is now on standby service. So, there was no net increase in container capacity. This roll/roll vessel actually does carry, by our design, 100 containers on (indiscernible). So, we are about neutral on that side of it. But, the vehicle capacity certainly has increased as a result of these actions.

In respect to competitive activity, we know, really, nothing more than we knew at the last earnings call about Facia (ph) and its intent or indication that they will enter the Hawaii trade at the end of next year, or perhaps in 2005 with their own pier car carrier.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Okay. Great. I will get back in queue. Thank you.

Operator

Nicholas Aberle, Caris & Company.

Nicholas Aberle - *Caris & Company - Analyst*

Congratulations on the good quarter. The first question is with respect to margins at Matson. The margin improvement was pretty impressive -- a little over 13 percent for the ocean transportation unit. It improved sequentially from another previous-strong number -- a little over 11 percent. What was the main differences between Q2 and Q3 if there was not increased efficiency at Sand Island?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Principally volume on containers. I think that was the main driver. And as we go (inaudible) here, we're going to see contractual increases in costs (technical difficulty) under the terms of our new six-year agreement. (technical difficulty) And as, I believe Allen has said, this is a volume-sensitive business -- very high fixed costs. So any improvement in volumes helps.

We have also -- in our Guam service -- have enjoyed higher volumes as a result of the rebuilding that is going on in Guam after last year's devastating tycoons. We do not expect that to repeat next year. (technical difficulty) The results of our affiliates also have improved, year-over-year, and actually, quarter-over-quarter. So those include our investments (inaudible) -- V-Star and the Puerto Rico trade, as well as our joint venture with SSA in our West Coast terminals.

Nicholas Aberle - *Caris & Company - Analyst*

Okay. So, the margins seem to, like, stabilize a little bit above the 10 percent mark. And, obviously, a lot better than the end of last year. Is this scope for further improvement? Or is this the top-of-the-line 13 percent operating profit margin for the ocean transportation business?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Yeah, I think that 13 -- I think it is 13.2 or 13.3 (multiple speakers) -- that is kind of top-of-the-line. Also, as noted earlier, the third quarter is really a kind of a seasonal high. So, to the extent to which you are getting a little bit more traffic -- and its actually even better, better freights -- you expect your margins to be higher than they probably would on a normalized basis, where you might expect the margins to be 10, 11 percent or more(technical difficulty) (inaudible)

Nicholas Aberle - *Caris & Company - Analyst*

Perfect. With respect to cash flow, it looks like you generated about 53, $54 million in operating cash flow in the quarter. Free cash flow probably would have been positive if the CapEx number had not been so high. Is that the type of cash flow generation that we can expect to see on a quarterly basis, going forward? And, does this strong cash flow affect your dividend policies, going forward?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

This is Jim. I will take the first part of that. And I will let Allen take the dividend issue part.

I think the cash flows are driven -- at Matson, they are certainly more consistent, but with major capital projects that we have -- which is vessel purchases -- in any one quarter, it is going to be a great distortion of that. But, peeling that off, I think Matson's cash flow is fairly regular throughout the year. The wild card, always, for A&B is where we set with our property development and sales -- resales. We have all these projects that Allen mentioned. We have it in inventory that is constantly changing of real estate units, whether they be raw land or subdivided parcels or buildout parcels. It is very hard to time those. And, I think that the variability in cash flow from real estate is high. And, I hesitate to even try to predict it, month by month.

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

On the second question of dividends -- certainly, the environment for dividend payments is a better one. And, it is better in several ways. The first is the obvious -- a change in the tax treatment of dividends. Hawaii's improving economy and the company's good operating results, I think, are also factors that are favorable. We have been, and we continue to, review our dividend policy.

We are cautious. This is a board decision, and, strictly a board decision. But, when you think about changing or increasing your dividends, you have to be very cautious because it is a permanent change. And, the company has had a very solid and a consistent record in the payment of dividends. And, so we need to take care in the analysis that we do, that we take all these factors into consideration. With the environment -- it is certainly improving for dividends.

Nicholas Aberle - *Caris & Company - Analyst*

Okay, perfect. Just one last quick question with respect to the Wailea resort transaction. You said that a good amount of the property had good views of the ocean and golf courses. Is there any kind of breakdown you can give us with what percent have those kind of amenities? And a breakdown of what percent is owned as single-family, multifamily, etc.?

Unidentified Speaker

I don't have -- it is principally multifamily. There is a fair amount of single families, but it is principally multifamily, with a little bit of commercial. I cannot give you the exact unit count, but it is pretty high multi. But, that is sort of the norm at Wailea.

What I can say, and I can give you this in a very real way, because I just spent a day walking up and down -- (laughter) -- every piece and part of the property the week before last. It has excellent views. And, really, the value of the land has a lot to do with not only where it's located, in terms of being part of Wailea, which is a very, very successful long-term development, but it also depends on what people see when they wake up in the morning. And, the graduating nature of the views there, I think, makes this an unusually-valuable and attractive property. And, the percentage of those views is pretty high as a component of the overall acreage.

Nicholas Aberle - *Caris & Company - Analyst*

Okay, perfect. As I understand, 270 acres, fully entitled and zoned at this point. You had mentioned that you guys had already began to market some of the single-family lots that you had. Is there a possibility that we could see this being accretive to earnings in 2004? And maybe even as possibly as early as Q4?

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

Q4 of '03?

Nicholas Aberle - *Caris & Company - Analyst*

Yes.

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

No. But in 2004, we do expect -- yeah, we do expect to achieve income. And I think when this was announced at the last call, I did indicate that we expected this not to be dilutive. It's not 137 million or 35 million -- it's 67 million. And I think we are also going to -- we expect to get out of the blocks pretty well on this project. So, the prospects for 2004 are good for income.

Nicholas Aberle - *Caris & Company - Analyst*

All right. Thank you very much, guys.

Operator

Tom Spiro (ph), Spiro Capital Management.

Tom Spiro - *Spiro Capital Management - Analyst*

First, on the subject of Matson -- could you review with us, please, the significant auto contracts that you have? And when they expire?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

That is, I guess, company-privileged information; I really cannot comment on that, Tom. Serve it to say that we do business with all of the major manufacturers, and have contracts that vary in length and term.

Tom Spiro - *Spiro Capital Management - Analyst*

Do any expire in '04?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

I cannot comment on that.

Tom Spiro - *Spiro Capital Management - Analyst*

Okay. On the property side, Allen, I think mentioned in your commentary that the commercial real estate market in Hawaii -- I think you said is beginning to improve. Can you just give us a little bit of a flavor for how rates seem to be trending? And also vacancies for commercial properties?

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

Yes, I can do this very briefly. First, the industrial people say there is a 2 percent vacancy rate, but you cannot find it. Basically, it is the lowest vacancy rate of any market in the United States -- it is essentially, zero. Rates are moving up fairly significantly on industrial space, especially in Oahu. But, just about everywhere.

The office market of the three major components of commercial is kind of sideways. Rates -- vacancy is about 14 to 15 percent. That has not changed that materially in the last year or two. There is an expectation that the vacancy rate will go down, but right now, it is pretty high. Rates are stable there; they are neither going up materially or going down.

In terms of the retail market, there is some slight upward pressure on rates. It is a little harder to get a grasp of what vacancy is there. But, it is generally in the -- probably vacancy is 5 to 7 percent. Essentially, what you have is any -- the only place -- the only vacant, really good real estate -- the real estate space that is vacant is usually the less-desirable locations. So I think the retail market is pretty robust, too.

Tom Spiro - *Spiro Capital Management - Analyst*

Okay. Thank you.

Operator

(OPERATOR INSTRUCTIONS). Dan Moore (ph), Stevens.

Dan Moore - *Stevens - Analyst*

Excellent quarter. I just wanted to asked one or two quick question. With regard to the change in name at Matson Intermodal to I guess, Matson Integrated Logistics. Should we interpret that in any way, shape, manner, or form to be a strategic development? And, could you on what your longer-term aspirations for that business are?

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

Yes. I think that it is certainly a signal of that (ph) strategic emphasis. And, Jim, would you comment more on that?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Yes. As you know, since we started breaking the results out last year for this segment, you can now see the progress that is being made on the volume side. We have added geographic coverage, headcount to go with it. And the earnings improvement. Although it is a small part of Matson, it is certainly growing the most rapidly. So, our expectations are high. This is a very fragmented industry. As I know you know, Dan, and there are a lot of opportunities to gain additional coverage, either through acquisition of agencies or people or businesses. For now, I would leave it at that. But clearly, we are putting more of our attention to this, and expect a fairly rapid growth in this segment.

Dan Moore - *Stevens - Analyst*

Great. And I may have missed this. If I have, I apologize. CapEx guidance for the full year '03, excluding any unforeseen purchase announcements?

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

For the 9 months, as we talked about for -- what hit our capital accounts -- was 190 -- or 130, rather.

Dan Moore - *Stevens - Analyst*

Sure.

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

If you grossed that up for our reinvestment activity in 10/31 properties and other real estate developments that are held for sale, gross spending for the 9 months was about 206 million. And, our expectation for the balance of the year will be -- we will add Wailea at 67 million, which is a done deal, as we said. And other normal capital, which is hard to time, but our investments in Hokua, and several other property ventures, will certainly increase that, as well as normal spending for the fourth quarter at Matson and in our food products group. So, we would expect that number to be in excess of $300 million for the full year, on a gross basis.

Dan Moore - *Stevens - Analyst*

Thanks, again, guys for (indiscernible).

Operator

Tom Spiro, Spiro Capital Management.

Tom Spiro - *Spiro Capital Management - Analyst*

Could you update us on the status of the Hawaiian tax dispute?

Jim Andrasick - *Alexander & Baldwin - Executive Vice President & CFO*

Certainly. Our 10-Q will be issued shortly. I don't have a -- it is similar disclosure to the last quarter relating to this matter. Talks are continuing with the State Department of taxation on this matter. And, as a result of those discussions, we have made the statement, once again, that we feel that resolution of this issue will not have a material adverse effect on either operations or financial condition.

Like most tax disputes with authorities, they take much longer to resolve that you think. And this one is no exception. I believe there is -- certainly a mutual intent to try to resolve this before the end of the calendar year, but I am not certain that can be accomplished either. So, small, but slow, progress -- is the way I would describe it.

Tom Spiro - *Spiro Capital Management - Analyst*

Separate question -- the company has a number of sort of small investments in different enterprises -- there's CNH, there's the operation down in Puerto Rico, there are one or two others, as I recall. In the aggregate, is there anything there of particular node in the quarter? Or is it pretty much status quo?

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

I would say that there's nothing of particular note, other than the comment that Jim made previously that performance of our (indiscernible) Star investment in Puerto Rico has improved this year versus last.

Tom Spiro - *Spiro Capital Management - Analyst*

Thanks, much, and good luck.

Operator

If there are no further questions, I will turn the conference back to Mr. Kelley for any final remarks.

John Kelley - *Alexander & Baldwin - Vice President of Investor Relations*

Thank you very much for your participation. Aloha.

Operator

Ladies and gentlemen, this concludes the conference for today. Thank you all for your participation and have a nice day. All parties may now disconnect.