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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2006 Alexander & Baldwin conference call. [OPERATOR INSTRUCTIONS] As a reminder this conference is being recorded for replay purposes. I would now like to turn the call over to Mr. Chris Benjamin, Senior Vice President and Chief Financial Officer of Alexander & Baldwin.

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

Thank you. Good day. This is Chris Benjamin in Honolulu representing the Company along with me today are Allen Doane, Chairman and Chief Executive Officer of A&B; Jim Andrasick, President and CEO of Matson Navigation Company; and Stan Kuriyama, President and CEO of A&Bs Land Group; John Kelly, A&Bs Vice President of Investor Relations is as many of you know, on leave and is undergoing treatment for cancer. He appreciates your many expressions of support and sends his regards.

After this introduction Allen will provide a brief overview of the quarter. Jim and Stan will then walk you through a more detailed look at each business' performance and outlook including the status of major initiatives underway. After I comment on financial matters and provide an update on the Hawaiian economy Allen will return with a few final remarks, we will then open for your questions.

Let me cover quickly just a few administrative matters. In today's slides, which can be accessed via a link on our website www.alexanderbaldwin.com, please note that you have the option to enlarge the slides on the screen. You can also print the slides using the PDF file listed under supporting materials. Copies of the earnings release are available at the website as well, and there will be a replay available on the web for the next week, and I will be available to take calls later today. Please note this time of year Honolulu has a six-hour time difference from eastern daylight time, so I will do my best to return your calls as promptly as I can if I'm not in. Recall that statements in this call that set forth expectations or predictions are based on facts and situations that are known to us as of today April 28, 2006. Actual results may differ materially due to risks and uncertainties such as those described on pages 16 to 21 of the Form 10-K in our 2005 annual report and other subsequent filings with the SEC. Statements in this call are not guarantees of future performance, and with that, I'd like to turn it over to Allen.

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

Thank you, Chris, and aloha, everyone. These stacked bars show our fully diluted earnings per share for the four quarter for 2005 and the just reported $0.84 per share for the first quarter of 2006. Our reported earnings per share this quarter include $0.01 per share of expense related to our January 1, adoption of 123R. We are pleased with our first quarter results, which virtually match an exceptional first quarter 2005.

Our Guam and China services designed to replace the APL alliance were launched in early February. Operating and financial results from the first six weeks of those services met our expectation with higher volumes than anticipated offsetting lower rates. Furthermore, A&B properties had an excellent quarter.

This next slide shows the composition of total operating profit in the first quarter 2006 versus 2005, and you can see some significant shifts. Two segments were down versus the same quarter last year. Ocean transportation, due in part to the APL alliance expiration, and the non recurrence of a favorable 2005 adjustment at SSAT. And food products due to the non recurrence of a 2005 disaster relief payment. Logistics and both real estate segments were up. We note that real estate sales activity is episodic and don't focus too much on quarterly comparisons in that segment. Still, it was a strong quarter to start the year. Ocean transportation profitability dropped but was in line with our expectation.

Revenue from the new China service did not fully offset the loss of the APL charter income, and start-up cost of the new service in our Hawaii trade higher yields were more than offset by reductions in auto volume, and increases in various costs, principally fuel. In addition, due primarily to the one-time adjustment in the first quarter of 2005, earnings from our stevedoring joint venture SSAT were down in the first quarter. The quarter did benefit from the sale of two surplus ships. Matson integrated logistics continued its significant growth with a 57% increase in operating profit over the first quarter 2005. Real estate leasing also showed strong operating profit growth, up 13% year-over-year. This was due both to acquisitions in the past year and a jump in occupancy rate.

Operating profit from real-estate sales meanwhile climbed $10.6 million thanks to the sale of an office building and several parcels of land, as well as the January closings of all 247 residential units in a commercial space at our Hokua joint venture. We're pleased with our real-estate performance in the first quarter and our prospects for the year. Finally, the food products segment was down 2.5 million for the quarter, compared to the same quarter last year, but as you recall, the 2005 first quarter had benefited from a special 5.5 million weather-related disaster relief payment from the Federal Government. Before I turn the presentation over to Jim and Stan for an operating update, let me provide you a couple of summary comments.

Our first quarter results were good and in line with our plans. These results give us a positive start in 2006. As we said before, however, 2006 will not be measured only by financial metric, but also whether or not we achieve important milestones in a number of key projects. On that score, the first quarter was successful with a smooth operational launch of the new Matson service. The progress made at several active real estate developments and our success announced yesterday in securing another attractive multiyear pipeline project with the residential joint venture on Oahu with Gentry Homes. Finally, the Hawaiian economy continues to have legs, and this gives us confidence that it will support our operation in 2006 and beyond. With that I'd like to hand it over to Jim Andrasick, Matson's President and CEO. Jim.

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

Thank you, Allen, and aloha. I'll cover the ocean transportation segment of our business first where most of the action was in the first quarter, then follow with a brief review of our logistics business. As you can see in this chart, operating profit for ocean transportation totaled 18.3 million, a decline of 11.4 million, or 38%, on a 13 million or 6% increase in revenue. This was in line with our expectations for the quarter and with our outlook for the year. 5.5 million of the operating profit decline was the result of our February termination of our alliance with APL and the related launch of our Guam and China services. The mid February cessation of charter revenue from APL and the relatively small volumes in the new service contributed to this figure.

Profit from our Hawaii service did decline by 4.7 million due to the combined effects of increased competition and auto carriage and increases in costs, primarily fuel costs that rose more than expected after we set our fuel surcharge rate for the first quarter back in December of '05. In addition, the income we received from our minority investment in SSAT terminals was lower by 3.3 million than -- in Q1 '06 than the prior year primarily because of 2005 favorable -- excuse me, adjustment did not recur. And finally, the 2006 first quarter operating profit benefited from a 3.3 million gain on the sale or scrapping of two surplus and obsolete vessels, which was a partial offset. This next slide shows the operating margin comparatives for the quarter. As we noted before, last year's 14% was unusually high, especially for first quarter. This quarter's 8.3% margin reflects several of the items mentioned on the previous slide. And as we've noted in the past, the APL alliance was a significant source of steady quarterly earnings. While we expect profits from the new China service to eventually replace the APL alliance earnings we don't expect that operating margins will reach the historically high levels achieved in 2005.

Our guidance in the past has been that full-year margins should average 10 to 12% for Matson's mix of business, and we would stand by that guidance for 2006, despite the early impacts of our new service launch. I would also caution that the seasonal patterns would be more pronounced because of these factors.

On the next slide we show our Hawaii service volumes, containers on the left and automobiles on the right. You can see that Hawaii container volume westbound and eastbound combined increased by 400 units, or approximately 1%. Volumes were impacted by adverse weather in February and March, especially with deferrals of construction material shipments. Absent those factors, we would have seen better growth. Total automobile volume declined by 3900 units, or 11% this reflects the entry of [Peja] into the Hawaii service since the first quarter of 2005.

While there's been both yield and volume impact to Matson from that competitive entry, the financial impact has been somewhat muted due to the fact that on the margin we are carrying all cars in the most expensive mode, which is container, so the cars we've lost to peja were much smaller contributors to operating profit. Going forward, we expect the Hawaii economy to modest year-over-year growth in 2006 as will be covered later in the economic report. On the yield side, container rates, shown on the left, are 8.6% higher due to increases in the bumper fuel surcharge, generate increase that was taken effective the first of the year, and an increase in the terminal handling charge. The auto rates on the right chart here are actual average rates for the first quarter. The overall impact is consistent with the $100 per auto rate decrease on private autos that followed a cut by peja at the end of the first quarter of 2005. I would also note that auto rates increased 6.6% over the fourth quarter of 2005 due to mix improvements.

Fuel costs were again a significant operating factor during the quarter with an increase of 64% over the same period a year ago. As most of you know, fuel surcharges are intended to offset these increases. Unfortunately the change in our surcharge that we set in December and put into effect in January for the entire first quarter does not fully offset the higher fuel costs during the first quarter of 2006. Effective April 1, the fuel surcharge increased to 18.5% from 15%. We continue to evaluate the need for future changes based on bumper fuel and diesel cost movement.

Now turning to our recently launched China service, as you may recall, these services were deployed in response to the termination of a ten-year alliance agreement we had with APL. The China service is an innovative solution to the challenge of transporting cargo to Guam and returning an otherwise mostly empty ship to the U.S. West coast. Through the five-ship service we provide weekly service and a 35-day ship rotation using new, reliable ships in a manner that enables Matson to meet its commitments to the Guam and mid-Pacific trades, provides access to the China market, enhance's Matson's ability to serve our core Hawaii market, and facilitates the completion of our 100% Jones Act fleet modernization and upgrade program.

Our China service is intended to be really a niche player in the growing China trade. The key service differentiators include a fast 11-day transit time, reliable service and rapid cargo availability through our Matson dedicated Long Beach terminal, and to date customers have responded well to these service advantages. Our target volume is approximately 1,000 containers per week, a level we expect to ramp up to in a 24 to 36-month period as we prove our service reliability and add to our growing customer base. As I have noted, we're off to a smooth start operationally. As of this week, 10 voyages have departed China for the West Coast. Our sales efforts netted higher volumes to date than expected with nearly 2,000 containers on the six voyage in the first quarter. Rate softness to date, however, has been higher than anticipated in the trade in general due to a variety of industry factors. With May 1 commencement dates for most contracts in the China to U.S. trade lane we don't yet know exactly where rates will settle, but estimates range from 5 to 15% below 2005 levels, depending on whether you're listening to shippers or to carriers. The one thing we do know, container movements out of the port of Shanghai increased over 20% in the first quarter over the prior year period compared to what many industry analysts have averaged at about 10%. So the growth in demand out of China remains very, very strong.

Looking forward, negotiations and signings are underway for contracts that will become effective May 1, and in aggregate these contracts will likely represent a majority of our China business over the coming 12 months. In addition, these contracts will give us centerline visibility into rates for the coming year, and while most will provide volume minimums, we'd expect those minimums to be exceeded so actual volumes will be determined as the year progresses. Important factors for us will be the mix of equipment sold as well as final destination points for cargo moved outside of the Southern California area. But in all we're encouraged by this China service launch and the performance to date. It's still early, but we believe we're on target to meet our expectations for 2006.

So in summarizing the ocean transportation segment, we're generally pleased with the aggregate segment performance and remain confident in the earlier guidance we provided. Regarding timing and year-over-year quarterly comparisons, you can expect them to be most negative in the first and second quarters, and improving in the latter part of the year, more consistent with the normal seasonality of our business. The second quarter will have a full three-month impact of the APL alliance terminations while China volumes will still be ramping up. But on the other hand, beginning in the second quarter the year-over-year comparisons will include the Peja impact in both numbers.

The move to the logistics services businesses and where operating profit increased by 57% on higher yields, and increased volumes, we're very encouraged by our progress in this business. Logistics operating metrics continue to be quite positive with revenue increasing 12% over the first quarter 2005. Consistent with our strategic move into more profitable segments of the business, MIL handled 16% higher volumes in its highly brokered segment versus 4% higher volumes in domestic intermodal. This business mix along with favorable yields resulted in an increase in operating margin from 3.1% to 4.3%, a very dramatic jump. Looking forward we expect MIL to continue its growth both organically and through selective acquisitions. Logistics services is growing into a strong performer for the Company with increased demand for its services and improving profitability. With that, I will hand it over to Stan to discuss our land group performance and outlook. Stan.

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

Thank you, Jim. As you know, our land group encompasses both food products and real estate operations. Let me first address our food products segment before moving on to a more detailed discussion of our real estate performance. As Allen indicated, 2005 first quarter results included a one-time $5.5 million weather related federal relief payment. The non recurrence of this payment produces the drop that you see here in 2006 first quarter earnings. Results reflect increases in power sales to the local utility companies, on Maui and Kauai, primarily due to higher prices but also to higher sales volume. Our sugar harvesting activity was delayed both because of the heavy rains and a planned later start-up. We produced only a nominal amount of sugar during the quarter.

There's been a lot of investor interest in sugar prices lately as the media has been focusing on the rise of ethanol as an alternative fuel and speculating about its impact on sugar prices for the future. Although it's true world sugar prices and domestic refined sugar prices have climbed recently. The number 14 price on which our sales are based has grown less significantly. As mentioned in our last call we price our sugar roughly according to when it will be delivered to our customer. And as this chart shows, future contracts are not significantly higher than the prices we obtained last year. To date we have priced a little less than half of our crops and the balance will be priced off the November and January contracts. For reference, a $0.01 increase in the selling price of sugar translates into about $4 million in pre tax earnings.

Longer term we continue to focus on evaluating the roll of energy in our agricultural operations. We are assessing the feasibility of an ethanol facility but are equally focused on the possibility of producing more electricity from the sugar cane plant. These analyses are still preliminary and we will update you as we progress. Here again you can see the effect of the one-time federal payment in the first quarter of 2005. Should current market prices for sugar, power, and molasses hold throughout the year food product has a moderate upside. However, we do expect the remainder of the year to be impacted by higher fuel costs and the possibility of lower production due to weather-related delays. Given these factors, we are anticipating at this time only a modest profitability for the balance of the year.

Let me now turn to our real estate operation. Leasing segment performed very well in the quarter with a 13% increase in operating profit and a 12% increase in revenue. The strong results were attributable to two factors. First, acquisitions have resulted in an 11% increase in the portfolio's net assets since the first quarter of 2005, and second, occupancies have improved over already high 2005 levels to 97% occupancy in our mainland portfolio and 98% in Hawaii. Our shopping center development provides a good example of the portfolio's excellent performance. Here we purchased 4.6 acres of land in central Oahu in November of 2002 and broke ground on a 60,000 square foot community shopping center in August 2004. At the time of our grand opening in November of 2005 we were already at 98% occupancy, and today the property is 100% leased.

Our first quarter results are a good reflection of the quality of our properties, the strength of our markets, and the experience of our management team. The challenge, of course, is to not maintain these high occupancy rates. We expect continued favorable year-over-year comparisons, but not to the degree achieved in the first quarter. Property sales had an excellent quarter generating $27.1 million, or a 64% increase in operating profit on 48% lower sales revenue. The quarter's results reflect the sale of all 247 units in our core condominium joint venture and four property sales. Note that joint venture operating process, such as the Hokua income is included in operating profit, but not in revenue which is why operating profit can exceed revenue, as it did in this quarter.

I'd like to now update you on several of our real estate projects. Besides Hokua, other sales in the quarter included an office building in Wailuku, Maui, three commercial parcels totaling 4.6 acres in Maui, and smaller property sales on Oahu, and Kauai. In addition, mainland joint venture land parcel was sold early in the quarter. Significant operating progress was made, and I eel cover the major milestones. Before that however, I would like to comment on the status of the Kakaako waterfront project.

In September of 2005 we were selected by a state agency to develop a live, work, and play community on state-opened waterfront lands near downtown Honolulu. In soliciting community input in our plans, it became apparent that certain segments of the community strongly opposed developing residences on the state land. It now appears that state legislature will move to stop the residential component of this project which will render the project infeasible for us. While unfortunate, the Kakaako waterfront project had never been a part of our plan. At Kai Malu, our 150 unit joint venture with Armstrong builders on Maui, sales and construction actively forged ahead. Market response continues to be outstanding. 149 of the units are sold under binding contracts at an average price of $1.3 million and we are on schedule to have our first closings later this year.

As for our other Wailea lands, we are in the planning and early development stages of four parcels totaling about 44 acres. The 14-acre MS-10 parcel is proposed to be a mixed use project consisting of commercial, retail, and residential uses. Current plans call for approximately 70,000 square feet of retail space on five acres and a combination of residential condominiums at the single family lots on the balance of the parcel. The 11-ache MS-11 parcel will be developed into a three acre business parcel and 12 single family lots. The three acre business parcel is in escrow while construction on the residential lots is expected to commence later this year. The seven-acre MS-19 parcel is planned for nine half acre lots and the 13-acre MS-7 parcel is planned for 80 multifamily units. We continue with long-term planning for the remainder of the parcels which total about 155 acres.

As Allen mentioned, we announced yesterday a new joint venture with Gentry Homes, an established Oahu home builder for the development of a 5,000 unit master-plan residential community at Waiaba, in central Oahu. Venture will act as the master developer building the community infrastructure and selling development parcels to home builders. Approximately 500 surety salable acres. Venture is not at this time planning to build the homes. The zoning conditions require that approximately 35% of the homes be affordably priced. Waiaba is ideally locate at the northwest corner of the H1 and H2 freeways providing access to both downtown Honolulu and a second city of Kapolei. This is an exciting project for us because it both addresses a critical housing need on Oahu, as well as complements our other projects on Kauai and Maui. This is long-term venture with a ten year time frame. There remains various conditions to closing the deal and commencing construction such as construction financing, presale and construction permits and bids. We will keep you posted on progress of this project.

Moving to Kauai, the Kukui'ula joint venture is progressing as planned and there are no changes of basic project information we've provided on prior calls. The one comment I'd make on this slide is that the total development cost of $850 million is unchanged from our prior estimate.

On the topic of permits we anticipate securing all four County approvals required to close our first lot sales as planned in 2006. We already received the first permit for the western bypass road and we expect to receive the second soon. Subdivision approval for the first two subdivisions in the project are anticipated for the third quarter. We do want to let you know that one of the seven members of the Kauai County Council who through the years has made persistent efforts to close development on the Island recently introduced a measure calling for a development moratorium on the entire southern portion of Kauai. Our Kukui'ula project has been strongly supported by the remaining members of the council and we're confident we can work with the council to ensure their continued support for this project going forward.

Turning to Kukui'ula sales, we're preparing now to roll out our sales program for the initial 123 units in the project. This schedule calls for buyers to visit the site and make their lot selections in the second quarter of this year, sign contracts in the third quarter, and close sales in the fourth quarter. We currently have 260 certificates of interest submitted under our Founders program, each with a $50,000 refundable deposit, and another

110 or so certificates of interest in our Discoverer's program, each with $10,000 refundable deposit. The certificate holders will be signed in order in which they select lots, and we'll proceed down the list until all 123 units are sold. Keep in mind that under the percentage of completion accounting methods we utilize, Kukui'ula sales won't be a big earnings driver in 2006 but we expect these contributions to increase as infrastructure work is completed over the next few years. The timing of our closings is dependent on these plan approvals, so we'll keep you apprised as we move forward.

Presale targets at our Keola La'i condominium in downtown Honolulu were met early in the first quarter allowing for the commencement of vertical construction in February. 193 of 352 total units are under binding contract at an average price of $634,000 with 159 units yet to be released, including both some of our finest view units and 63 affordable units. We anticipate completion of this project in the first quarter of 2008. As mentioned project closings during the balance of the year are expected out of Kukui' ula, Kai Malu, and the commercial parcel at Wailea MS-11. As you can see, the pipeline for 2007 and 2008 is filling up as well. Given that property sales are episodic it's important not to analyze first quarter results. That said, our outlook is positive and we continue to expect strong growth in this segment of our real estate business in 2006. And I'd like to now turn it over to Chris Benjamin, our CFO, to discuss our financials in mid continent.

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

Thank you, Stan. Before I run through my slides I'd like to comment on an important action that our Board of Directors took yesterday when it authorized an increase in our dividend to $0.25 per quarter or $1 per share per year. Our last dividend increase was in 1998 and this increase is a signal of the confidence that management and the Board have in the Company's long-term prospects and financial health. With that, let me start with the balance sheet where there are just a couple of items of note. You will see a drop of $39 million in the investments line due primarily to the return of our equity from the joint venture Hokua project.

Property is up primarily as a result of the purchase of an office property and spending on equipment at Matson and the CCF balance increased with a $20 million deposit in the quarter. I'll be even more brief on this next slide simply noting that shareholders equity was up $34 million during the quarter.

Looking now at our cash flows, our cash increased $25 million in the quarter as a result of strong operating performance. I'll talk about CapEx in a moment, but you can see that it was up compared to last year. The all other net line does deserve some mention because it's so large this quarter. The two primary components are the return of our Hokua investment, roughly $40 million, with the balance primarily being proceeds from the sale of real estate assets in the two shifts that Jim mentioned earlier.

Turning to our capital expenditures for the first quarter they totaled 76 million, at Matson, spending was primarily for equipment related to the China service, while in real estate the primary expenditures were acquisition related. You can see that we're projecting a significant capital program for the year, this includes continued investment in attractive real estate projects and the balance of our Guam and China related capital, especially the new ship to be delivered later this year. Looking ahead to 2007, we have similar aspirations for the amount of investment in new high-margin projects, but our projections for next year don't include another vessel.

In anticipation of the high level of investment both this year and next, and as we increase our leverage over the next couple of years toward our 35 to 40% debt to equity, I'm sorry, debt to debt plus equity target, we felt it was appropriate to secure attractive financing rates a couple of months ago. In early February we locked an interest rate, and last we executed an agreement to borrow $125 million from Prudential. We've structured the debt in three tranches. Each is a tranche of roughly 10-year notes at an all in interest rate of about 5.5% and you can see the specific rates on the slide. In addition to very attractive interest rates, we negotiated a favorable covenant package that also has been applied to more than $100 million of existing Prudential term debt at the A&B level.

The final attribute of this financing that I'll mention is a $400 million replenishing shelf facility that provides additional uncommitted capacity for us. For more information on this you may wish to access the 8-K that we filed last Friday on this subject. This financing represents a more integrated financing strategy at the A&B level and we believe it will prove very beneficial going forward. I'd now like to shift to the Hawaii economy and provide a summary of economic conditions. I'll start with an update on visitor arrivals which do provide a clear indicator for Hawaii's benchmark industry.

On the chart is quarterly visitor arrival data from 2002 through the first quarter of 2006. As you can see, visitor arrivals through 2005 had increased ten consecutive quarters on a year-over-year basis. With the 2005 full-year total of 7.4 million exceeding the historical record set in 2000 by nearly 6%. Preliminary numbers show that the first quarter of 2006 arrivals will come in about equal or just slightly below the prior year. That's not too surprising or alarming given the strength of last year's first quarter, the later timing this year of the Easter holiday, add the impact of the rains that we had during the month of March and also in late February. With that in mind, current month-to-date data suggest that April 2006 arrivals may increase on the order of 6% year-over-year. So the visitor industry remains strong and continues to provide momentum for the state economy. On the employment side, this chart shows the unemployment rate for Hawaii and for the entire U.S. on a monthly basis. Hawaii's unemployment rate remains the lowest in the country at 2.6%. That marks the 12th consecutive month of sub-3% unemployment for the state of Hawaii.

Turning to the job picture, equally positive total payroll jobs in Hawaii have risen year-over-year for 15 consecutive quarters including a 3.7% year-over-year increase during the first quarter of this year. Within the total job picture, you also -- we like to look at the construction employment indicator for us, particularly on the Matson side relative to shipping volume. Construction jobs have risen year-over-year for 16 consecutive quarters and that includes a 12.2% increase during this year's first quarter over the same period last year. So key employment measures remain very strong.

In the residential market I'll speak briefly about Oahu, Maui, and Kauai. Oahu, of course is the largest market and beginning in 2005, mid2005, the number of condo and single family home sales began trending downward somewhat towards the levels we saw in early 2005. That continued through February of this year, but we did see a strong uptick in March. On the right, you can see that pricing has continued its upward trend through this year's first quarter and remains strong. Relatively similar story on Maui with smaller absolute numbers. You get a little bit more volatility but you do see the trend is similar, volume trending toward the early '05 levels, and then an uptick in March. Prices also remaining quite strong.

Finally, regarding home sales on Kauai, there's even more volatility here on the number of sales because of a lower total base but you see a general trending upward of volumes, and of course, on the right side, you see a very nice trending upward on the single family side, and relatively level prices on the condominium side and you'll notice the jump-up in March of this year similar to the other two islands. Finally, regarding the economy, let me refer you to our website where you can access more detailed information from the economic forecasts released by Hawaii's two primary forecasting entities, the University of Hawaii and the State Department of Business Economic Development and Tourism. These two are generally in agreement that major factors supporting Hawaii's economy including Hawaii's economy including visitor arrivals, jobs, and real personal income will continue to grow but at a moderated and more sustainable level than in recent years. To summarize their range of expectations for 2006 visitor arrivals are expected to grow a little over 3%, 3.2 to 3.4% and wage and salary jobs are expected to grow in the range of 2% while real personal income, which is a good proxy for our GDP, is expected to grow 3.2%. It's worth noting the job growth faces practical limits based on the state's low unemployment rate and affordability factors. In all, we're pleased to see that the pieces are in place for continued strength in Hawaii's economy.. With that I'd like to hand it back to Allen for his concluding remarks.

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

Thank you, Chris. We haven't talked about the weather Hawaii experience in February and March. It was of historic proportions. 43 straight days of rain. A number of areas having ten times the normal rainfall. We know that it had a modest impact on our businesses. In agriculture, the rain delayed our sugar harvest start-up on Maui. The reservoir systems on Kauai held up remarkably well. And we're evaluating both the Kauai and the Maui reservoirs for any necessary follow-up action. The weather affected Matson where the sand Island Honolulu terminal's productivity was the lowest in years? It also caused a slight downturn in freight volume with reduced tourism counts that you saw in Chris' numbers.

The other area is real estate, where we lost several weeks of schedule time due to rain delays on Kauai and on Oahu, but we're going to do our best to make up the lost time there. So there was an impact but we think most of it is behind us. We weren't able to quantify it, but it certainly did have some modest influence on our first quarter results. Let me just, in summary, from what's been a very long call today, make a couple of comments. We really did get off to a very good start in the first quarter. Matson's operational in China providing service to an expanding base of customers there. Fuel prices did affect Matson but Matson was able to increase its fuel surcharge for the second quarter for Hawaii and Guam. The Wai'awa joint venture was announced yesterday. It's one more major investment in the real-estate pipeline. It will meet a significant market demand for housing on Oahu.

Finally, A&B announced a $0.10 per share annual dividend increase yesterday as well. The Company's first increase since 1998. With that, I'll turn it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

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

I'm not hearing any questions. We're still on the line.

Operator

Your first question comes from the line of Jon Chappell with JP Morgan.

Jon Chappell - *JP Morgan - Analyst*

I have a question for Jim. You've given pretty good visibility as to your expectations for this new China-Guam service and the loss of operating income this year, roughly $25 million. My question is, what type of pricing environment were you expecting in this analysis? There's been a massive influx of tonnage to the global container ship fleet. Just wondering if you had to reassess that given the pricing pressure, that most of the container ship market's seeing internationally?

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

This is Jim. We approved this project at the Board level in February of 2005 and I could say quite accurately that we had projected volume decreases -- excuse me, rate decreases as a part of that in 2006, and even into 2007. And based on the mix of business that was forecasted in that original projection, we still believe that we're fairly on track with respect to those early rate projections for the market. As you understand, this is a very competitive market. There are many players. I think the encouraging part is that demand from the China side continues to outstrip all analyst forecasts, but it does remain to be seen where rates are going to settle. But I would say that in answer to your question, that while they've softened somewhat from our expectations of three to six months ago, they still remain consistent with the original investment premise that we established at the outset.

Jon Chappell - *JP Morgan - Analyst*

And what do you think it is from your side that's led to the better than expected volumes? Is it your retail presence? Is it the fact that you have your own terminal operations on the West Coast? Can you just give any assessment as to why you think volumes may have been stronger, or if it's just industry wide?

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

Well, it's -- as I told Allen, it's tremendous management and leadership, but it's actually the fact that we did retain a very experienced sales force from outside the Company, because we had no inside experience, really, and that has paid dividends. We've established some very solid customer relationships. I would say the demand out of the China control side has been much heavier than what we expected, and that will shift to U.S.-controlled freight as we get into this contract season. But it's generally been, I believe, all of the above. It's superior 11-day transit times, it's the dedicated terminal, which I think probably has made the biggest difference for our customers. That is you can appreciate this. Freight arrives on a Sunday afternoon or evening, and it's available for customer pickup by 6:00 a.m. Monday morning in Southern California. So for time-sensitive customers, really, nobody can beat that right now. So I'd like to think it's a combination of all those factors.

Jon Chappell - *JP Morgan - Analyst*

Okay. Thanks, Jim. If I can just ask one quick one to Stan, your founders program for the Kukui'ula project is petty large, 260 interest right now. You only plan on selling 100 this year, if I remember correctly. Just wondering, as the market cools down a little bit, at least on the mainland, if you're seeing any significant amount of cancelations with the initial interest in that program, and if pricing points have changed from the guidance you gave us, I think was a year ago today.

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

We've experienced just normal attrition. Nothing out of the ordinary. I would say from the demand side or interest from our buyers we see no drop-off there. And the pricing guidance we gave you still holds for this initial release.

Jon Chappell - *JP Morgan - Analyst*

Okay. Thanks, Stan.

Operator

And your next question comes from the line of Chris Haley with Wachovia Securities. Please proceed.

Craig Duron - *Wachovia Securities - Analyst*

Hey, guys. Craig Duron here with Chris. just wanted to follow-up, Stan, with the JV announcement for Gentry could we get some more color on that? What's your ownership position, what's the value of the project in total, what's the rationale in choosing Gentry as a partner? If you could flush that out for us that would be great.

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

This is actually a project that Gentry had been working on now for nearly a couple of decades. They started working on the project in the late '80s, and now it's fully entitled, it's ready to go. They were looking for a good partner, and we fit the bill. The structure -- the ownership and management is 50/50, but there's a waterfall distribution of profit, so our ultimate share of profits will be determined by project performance. Gentry is a very well-known homebuilder here in the States. They've developed some very large communities on this Island as well as a pretty extensive commercial experience, so I think it's a good match of our capabilities with theirs.

Craig Duron - *Wachovia Securities - Analyst*

What's the total expected commitment from your guys?

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

Total commitment is R50 million of equity.

Craig Duron - *Wachovia Securities - Analyst*

What kind of leverage on it?

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

To be determined. We're still in the process of negotiating our construction financing.

Craig Duron - *Wachovia Securities - Analyst*

Great. And just following up you guys work out all the refinancing deal that you put together, but is your guidance of I think $12 million what you had in incremental interest expense, does that still hold?

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

That estimate was very preliminary, about almost a little over a year ago and I think that year-over-year increase is going to be a lot lower than that. We had indicated in the last quarterly call that in aggregate the guidance we had given for operating profit and interest expense combined was still probably good at the pretax line but that the shift would be a little bit more towards operating profit and less year-over-year incremental interest expense.

Craig Duron - *Wachovia Securities - Analyst*

Great. Thanks.

Operator

And your next question comes from the line of Alex Baron with JMP Securities. Please proceed.

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

Hi, Alex.

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

Hello, Alex.

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

Alex?

Alex Baron - *JMP Securities - Analyst*

Hi. Can you hear me now?

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

Yes, we can hear you now.

Alex Baron - *JMP Securities - Analyst*

I had it on mute. Apologize. I had a couple of questions, some having to do with transportation. I was having trouble with your slides, so I don't know if some of the information was on there. But can you break down some of the impact to your margin? How much of it you guys think was due to the fuel increases versus how much of it was due to the impact of Peja.

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

I would say, this is Jim, that the quarter over quarter, I believe we cited, and it's not in the slide, in my commentary, that about 4.7 million of profit deterioration occurred in that Hawaii service, and of that, about $2 million was related to the under recovery of fuel during the quarter. Another large part, which is much harder to quantify, and I won't even attempt to do it here, really relates to system disruptions caused by weather. We have a very tightly wound network in Matson where neighbor Island deliveries, if they're not there within the hour, cause big problems for our customers. And once a disruption occurs, it has a lot of downstream effects. So the weather, as Allen mentioned in his commentary, was quite disruptive in the month of March. We had a lot of crane down time. If it gets bad enough we literally cannot work the terminal, and that happened on several occasions. So the combination of all those factors and the volume loss to Peja, I would have to mix all that up in explaining the balance of the variance, which was about $3 million. I hope that answers the question.

Alex Baron - *JMP Securities - Analyst*

Yes, it does, it helps. One thing, one question maybe for Chris. I know you guys have offset the impact of the additional borrowings to fund the shipping, the two ships you guys bought, would be about $12 million this year, so I was kind of looking for an incremental 3 million of interest expense in your interest line. Was that buried inside the transportation margin, or?

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

No, that estimate was a very preliminary estimate before we had negotiated the financing agreement. The actual increase will be quite a bit lower than that with some of that impact shifting more to the operating profit line. So in aggregate the guidance we gave was good. Actual year-over-year increases in interest expense should be quite a bit lower than that. I don't have the numbers in front of me, but what you can anticipate is that, we'll be borrowing -- we have a facility for about $100 million of borrowings on the second shift that we would be taking delivery of probably sometime this summer, and we also have some cash on hand. We may not draw all of that, but in effect, I guess the best way to estimate it would be to assume that we take down that amount of borrowing, and we also have probably a modest amount of borrowing at the end of the year, as I've indicated with the first tranche of this new facility coming on line. That's probably going to be the best way to approach the interest expense question.

Alex Baron - *JMP Securities - Analyst*

Okay. But I guess my question is more, is the effect of that additional interest expense going to be explicitly given in the interest line, or is that going to be buried within the margin line?

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

It will be -- no, I'm sorry, it will be in the interest line, yes.

Alex Baron - *JMP Securities - Analyst*

Okay. Got it. And then I guess, moving on to the property side, I was interested in Hokua, again, sorry if the information was on the slides, but I think in previous slides you guys had given what the expected revenues and costs and profits were going to be for that project. I'm hoping you could update us there. Also, I guess I never knew what your percentage of ownership was in that project.

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

As far as ownership, again, it was a 50/50 management and ownership but with profits determined by a waterfall distribution based upon project performance. So of course, now with the project completed, we have pretty specific numbers on our earnings for the quarter. The quarter earnings reflected about $14 million of margin from the sales that we book, but we had booked earlier income from this project in prior years.

Alex Baron - *JMP Securities - Analyst*

Oh, you had. Okay. I guess I wasn't aware. So I guess the remainder of the income in the property side, excluding the REIT, was due to all the other land -- I'm sorry, all the other sales you guys mentioned, the various sales in your other projects?

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

That's correct.

Alex Baron - *JMP Securities - Analyst*

Okay. And then lastly, can you give us some estimate for Kai Malu, or how many units you think you are going to close at the end of the year?

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

Yes, we're expecting right now to close about 40 sales this year.

Alex Baron - *JMP Securities - Analyst*

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

Yes.

Alex Baron - *JMP Securities - Analyst*

got it. I'll get back in the queue. Thanks.

Operator

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

Sloan Nolan - *Goldman Sachs - Analyst*

Guys, it's Sloan Nolan here with Jay. Just a quick question, do you guys have a guided number for any more land parcels or building sales you guys have for the rest of the year?

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

We don't have a guided number. I just think that given what we said at the start of the year, we're feeling pretty good about, on a full-year basis, a year-over-year increase in our entire real-estate segment, Jay.

Sloan Nolan - *Goldman Sachs - Analyst*

Just to play devil's advocate for a second with regard to the Councilman Yukimura's bill, if that were to get approved by the council, what would that potential be to Kukui'ula.

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

Well, if the bill was passed in its present form, it would have a dramatic effect. Let me just say a few more words about this bill. This bill attempts to cover a huge area of the Island, maybe over 20,000 acres that include Kukui'ula, Poi Pua resort, Kiohuna resort, the towns of Keola and Kaila Ha'i, and so this has just really my opinion a very inappropriate measure, and as I've mentioned, we have always enjoyed really strong support from the council. We've been out in the community. We've addressed community concerns, so I feel very comfortable, confident that this project, at the end we'll not be subject to a bill such as this.

Sloan Nolan - *Goldman Sachs - Analyst*

Thanks.

Operator

And your next question comes from the line of Chaz Jones with Morgan Keegan.

Chaz Jones - *Morgan Keegan - Analyst*

Can you give us a sense -- you kind of broke out there at the end that the sales slides in terms of the real-estate markets. Could you maybe give us a sense for what the inventory picture is? Not necessarily at the A&B, but just the Hawaii market in general. I mean, whether it's up, down, flat. Just directionally.

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

Could you ask the question one more time, please?

Chaz Jones - *Morgan Keegan - Analyst*

Just the total inventory picture in terms of the housing market on the Island in terms of is it flat, up, or down, in terms of directionally.

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

Okay. I think we understand. Stan.

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

Yes, inventory is increasing, what we've seen in the marketplace is a decline in sales rate. So absorption for the residential side is slowing down resulting in an increase in inventory.

Chaz Jones - *Morgan Keegan - Analyst*

Maybe shifting over to Matson, I'm just trying to get a sense for the fuel surcharge impact. If we were to break that out of revenues, I assume it's contained in the revenue portion of the financial statements. But if you were to break that out, how much were revenues really up this year, ex fuel?

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

One of the slides that we show this is Jim, was per container quarter over quarter what the rates were, and that's probably the easiest way to address it, and the rates were up $300 for westbound container.

Chaz Jones - *Morgan Keegan - Analyst*

Okay.

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

And out of that $300, about $180 related to the fuel surcharge, and the balance was a combination of general rate increases and terminal handling charges that would total up to $300. So on a unit basis, and since volumes were relatively static during the quarter, I would say the majority of it was fuel surcharge.

Chaz Jones - *Morgan Keegan - Analyst*

Okay. That's helpful. I appreciate that outline there. And then maybe just from a maintenance side, what was the actual contribution of SSAT in the quarter?

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

We don't disclose that since it's a partnership with a privately held company.

Chaz Jones - *Morgan Keegan - Analyst*

Okay. And then lastly, could you help us understand maybe the improvement if you back out the federal relief payment in the food products line? It just seems like there weren't a lot of sugar sales in the quarter, but yet they posted the best operating profit that division has had in over six years.

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

We're ready for this one.

Chaz Jones - *Morgan Keegan - Analyst*

I'm surprised no one else has asked yet.

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

Chris, tell us what happened.

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

There are three people sitting here pointing at me to answer. I'm ready. Yes. In accounting for revenue and costs in our sugar operations we apply the matching principle, and since historically sugar has been the primary generator of revenue for the business we apply the majority of the costs to the sugar profitability, as we sell sugar. The byproducts of sugar, including primarily power and molasses has typically not had a lot in the way of costs assigned to them, nor have they had a lot of revenue associated with them. Over the past couple of years as power prices have gone up significantly you've got a phenomenon where you've got this byproduct all of a sudden generating a lot of revenue but not having a lot of costs assigned to it. As a result, in a quarter like we just had, where we sell very little sugar, and actually our sugar margins are slightly negative, you don't have the negative contribution from the raw sugar sales but you have a tremendous amount of positive contribution from power.

So that's why, going forward, you can expect that we'll have a somewhat similar pattern to last year, although we do expect profitability, modest profitability in each of the subsequent quarters. You can certainly expect that the first quarter will be by far the strongest quarter for the food products business. And I've had a couple of questions the last couple of days about is this a sign of sugar prices and their impact and the reality is no. We sold very little sugar in the quarter. We do expect some upside from higher sugar prices this year relative to last year as Stan indicated but that's not what's explaining the first quarter performance.

Chaz Jones - *Morgan Keegan - Analyst*

Okay, great. I appreciate the commentary, guys. Best of luck the rest of the year.

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

Thanks, Chaz.

Operator

And your next question comes from the line of Jason Kramer with Caris & Company.

Jason Kramer - *Caris & Company - Analyst*

I was just wondering if could you clarify, you mentioned China rates were going to be down 5 to 15%. I was wondering if you were talking about China rates versus China rates or China rates versus your rates overall last year.

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

No, this is just -- this is Jim -- just the industry reported rates for the China trade. So this includes, 25 plus competitors. By the way, it's a confidential trade, so there really are no totally accurate rates that can be quoted, but by industry analysis, it's between a 5 to 15% reduction versus the prior year. Matson, of course, was not in the business a year ago, so it doesn't apply to our numbers specifically.

Jason Kramer - *Caris & Company - Analyst*

Okay. Then going off another question that was asked earlier, could you guys maybe quantify the inventory increases in the state?

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

No, I don't have those statistics, but we can track them down for you.

Jason Kramer - *Caris & Company - Analyst*

Then lastly--.

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

If I can just say, we can provide -- the buildup of inventory is very modest at this point. I can tell you there's essential almost no new unsold homes anywhere. In fact, they're still backlogged. So on the new homes front, there's very little inventory anywhere, and on the resales front what you're having is, it takes a little bit longer to sell, but that's sort of a nationwide phenomenon, and we're really not any different here.

Jason Kramer - *Caris & Company - Analyst*

That's very helpful. And then lastly, I have heard that there's speculation that a large portion of your buyers for the Kukui'ula development are going to be basically house flippers. I don't know, do you guys have a percentage of what you suspect that's going to be, or do you have any safeguards in place so that doesn't occur?

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

Most of the founders that have signed up for the Kukui'ula project are people that bought in other D&B projects, so they like D&B, they like the successful track record. It's not our understanding that these are going to be flippers, so that's not an issue that we've been concerned about. So I guess I don't share that perspective.

Jason Kramer - *Caris & Company - Analyst*

Okay. Great. Thanks a lot.

Operator

[OPERATOR INSTRUCTIONS]

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

We might have time for just maybe one more question.

Operator

Your last question comes from the line of Robert Alford with Atlas. Please proceed.

Robert Alford - *Atlas - Analyst*

Thanks. Staying on the inventory questions, where are you getting -- you may not have the data at your fingertips, but where are you getting your data that shows that there's no new homes on the -- no homes -- inventory is not building and it's just taking longer?

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

What I had said was that on the new home market, there's still -- there is not any appreciable amount of homes for sale that are new. We can provide you -- we can give that you data separately, but separate from that, on the resale market, existing homes that are being sold, there is some lengthening of the time it takes an existing home to be sold, and that's public data as well. We can provide you, we can give you that data separately. But separate from that, on the resale market, existing homes that are being sold, there is some lengthening of the time it takes an existing home to be sold and that's public data as well. We can provide the sources for the specifics on both of those areas.

Robert Alford - *Atlas - Analyst*

The time is taking longer, but are there more and more houses for sale? I know this is mainly a second home market, but if you look at St. Joe and what's going on in Florida with second homes and things like that, would that happen in Hawaii or is that not an issue there?

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

You could see some of that. I think more people are deciding to list their market now. I think they realize this is still a good time to be selling their home. I think you see a tendency with the owners here in Hawaii to list their market because they think the timing is favorable for a good sales price. I think there's some of that going on, as Allen mentioned, it takes longer now. I was looking at some of the statistics recently. I believe during the course of the year the average listing days on market went up to 30 days from 15, 20 days. So you see an increase in the length of time on the market but that 30 days is still a very short period of time. But I'm sorry, I don't have the numbers to be able to quantify those observations. We can provide you with that later.

Robert Alford - *Atlas - Analyst*

Okay. Great.

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

Okay.

Operator

This concludes our question and answer session. I would now turn the call over to Mr. Chris Benjamin.

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

Thank you very much, operator, and thank you, everybody, for calling and listening today, and that concludes our call. Good-bye.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.