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CORPORATE PARTICIPANTS

Kevin Halloran *Alexander & Baldwin, Inc - Director Corporate Finance & IR*

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

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

Jim Andrasick *Matson Navigation Company - President & CEO*

Stan Kuriyama *A&B Land Group - President*

CONFERENCE CALL PARTICIPANTS

Jonathan Chappell *JP Morgan - Analyst*

Brendan Maiorana *Wachovia Securities - Analyst*

Chris Haley *Wachovia Securities - Analyst*

Alex Barron *JMP Securities - Analyst*

Jay Habermann *Goldman Sachs - Analyst*

Jason Kremer *Caris & Co - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the 2006 fourth quarter and full year-ending Alexander & Baldwin earnings conference call. [OPERATOR INSTRUCTIONS] I'd now like to turn the presentation over to your host for today's conference, Director of Corporate Finance and Investor Relations, Mr. Kevin Halloran. Please proceed, sir.

Kevin Halloran - *Alexander & Baldwin, Inc - Director Corporate Finance & IR*

Thank you, Operator. Good day, everyone, and welcome. We will report the fourth quarter and year-end results for Alexander & Baldwin, which was a good year and one that provides great momentum for us in 2007. Joining me for the formal presentation are Allen Doane, Chief Executive Officer and Chairman of the Board, and Chris Benjamin, our Senior Vice President, Chief Financial Officer, and Treasurer. Matson Navigation Company President and Chief Executive Officer, Jim Andrasick, and A&B Land Group President and Chief Executive Officer, Stan Kuriyama, will be standing by for the Q&A at the end of our presentation. I will follow with a quick review of the Hawaii economy before turning the call over to Allen, who will speak about our consolidated and business segment performance. Chris will then address some of the pertinent financial matters that closed out the year. After that, we will open the call up to your questions.

Before diving in, I should note that statements in this call that set fourth expectations or predictions are based on facts and situations that are known to us as of today, February 1, 2007. Actual results may differ materially due to risks and uncertainties, such as those described on pages 16 through 21 of the Form 10K in our 2005 Annual Report and our other subsequent filing with the SEC. Statements in this call are not guarantees of future performance.

It is certainly my pleasure to speak to you today. The Hawaii economy continues to grow, but at a slower pace than what we experienced in the first half of 2006. The year-end numbers are being finalized, but what they will show is that there was modest real income growth, relatively flat growth for total visitor arrivals, and a plateau in real estate activity.

We still have a buoyant construction industry, as evidenced by our building activities on all of the Hawaiian islands, but we do not expect to see the tremendous growth rates from 2004 and 2005 to be repeated soon. Rather, we will look for sustained, steady growth in all of the key metrics as outlined in this slide. Slide six clearly shows that there continues to be a very robust commercial market in Hawaii, which certainly bodes well for our income portfolio moving forward. And in the case of the retail segment, we have actually seen the vacancy rate drop from the third quarter of 2006. Like a lot of real estate in Hawaii, we believe that the commercial market is supply constrained and is likely to remain so for many years. We simply don't see weakness at this point, and the strong fundamentals of the economy as a whole should provide for continued growth in this sector. On the residential front, we have seen a slowdown in the market that began in early 2006. And while the median price for single family homes and condominiums continue to rise in year-over-year comparisons, we do expect prices to plateau as the volume moderation we are experiencing shows up in the transaction level.

Since the third quarter, the median price of a single family home on Oahu has decreased 3%, while the medium price for condominiums have flattened. These results are shown in the following two slides. Slide eight details the quarterly median sales price for single family homes on Oahu, the largest market, and Maui and Kauai. It should be noted that the relatively small number of transactions in certain market segments, especially for the Kauai and Maui markets, can lead to increased volatility in median prices. The next slide, slide nine, shows the plateau which now characterizes the condominium market in Hawaii. Whether the single family home market will follow this pattern is unknown. What is known is that the local economy is sound and new housing supply remains constrained by entitlement and infrastructure issues. So it is no surprise to us that our well priced projects, like Keola Lai, Kai Malu and Port Allen, continue to book solid sales in this environment. And on that note I will turn the call over to Allen.

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

Thank you, Kevin. Slide 11 shows our fully diluted earnings per share for the four quarters of 2005 and 2006. And as you will note, our fourth quarter earnings of $0.63 per share was a marked improvement from 2005. Buoyed by a favorable fourth quarter, we boosted our full year earnings to $2.81 per share, just a $0.05 shy of last year's high standard. We're pleased by this performance, which is a more than respectable conclusion to a year that we all understood would have significant challenges. We're ready for 2007. First, let me articulate a few of the milestones we reached in 2006. I'm proud of each of these accomplishments, but in particular, we would like to note those pertaining to an increase in our dividend in April and the share repurchases we undertook. We've paid dividends annually for 104 years and expect to extend this streak, while we evaluate the prospect of another increase in 2007.

In 2006 $114 million, or 93% of our net income, was returned to shareholders. And in the past decade we've returned over 70% of net income to our shareholders. In 2006, we've successfully launched our China Long Beach Express service, marking our entry into this burgeoning marketplace. We've learned a lot in the last 11 months since the launch and we'll continue to translate this growing knowledge base into measurable results. I would also point out that two of our businesses had banner years, including our Real Estate group, which reached $100 million in operating profit, and the fast growing Matson Integrated Logistics, which delivered over $20 million in operating profits. Slide 13 shows the composition of total operating profit in the fourth quarter year-over-year. As you can see, with the exception of our Agribusiness segment, every operating group surpassed last year's operating profit, and some by a very considerable margin. In total, operating profit for the quarter increased by 16%. This next slide shows the operating profit by segment for the full year. Again, you will note the strong performance of our Real Estate sales and leasing and MIL segments.

I'm also keen to point out that Matson's Ocean Transportation showing for the year was quite favorable given the changes that occurred in the year. The Matson team successfully launched and integrated a new string into Matson's operations and did so while delivering the world's best on-time arrival performance, according to Drewry Shipping Consultants. Slide 15 depicts the compounded annual growth rates for each of our operating segments since 2001. In aggregate, our operating profits have grown by over 14% annually during this time frame. Not bad for a Company that others believe operates in static markets and mature industries. Turning now to the performance of our business units. As you will note in slide 17, Matson operating profit declined by 18% for 2006, which did not surprise us, given the expiration of the profitable APL Alliance early in the year. We're encouraged by the progress Matson made in China and can safely report that this trade lane is profitable for us.

Along the way, we've established a service with a market leading transit time and next day cargo availability at our dedicated terminal in Long Beach, California. Despite a slight decline in westbound container volume to Hawaii, we realized favorable cargo mix and associated yields. These developments led to a good fourth quarter at Matson, as demonstrated by our 12% operating margin for the quarter versus a 10.2% margin in the year earlier. Slide 19 points out some of the key elements that helped drive our margin for the quarter. With the addition of the Maunalei in July, we streamlined our routing and are beginning to see the positive impact from that investment through a reduction in voyage days. We've also benefited from a significant increase in the number of autos transported using auto frames, which makes our value proposition in this market stronger. With the conversion of one C-9 vessel under way, we will continue to realize this benefit moving forward. We also realized cost savings throughout our system as part of our ongoing response to market conditions in Hawaii and Guam.

Slide 20 shows a slight decrease in the Hawaii container volume due to a moderation in the pace of construction activity and, therefore, construction materials coming to the islands. We are and will continue to be the leader in transporting these goods to Hawaii. Total Hawaii auto volume was off 20% for the year, due to a reduced number of automobiles sold, roll backs at auto manufacturer incentives for rental fleet sales, and competitive pressures. Fourth quarter 2006 container yields in the westbound Hawaii service were 9% higher than the prior year quarter and decreased marginally from the third quarter of 2006, due primarily to two reductions in the fuel surcharge which took place in the quarter. I might add that Matson reduced the fuel surcharge for the third time in late January to its current level of 17.5%. These decreases are in alignment with our philosophy related to surcharges, where we strive to match the surcharge against volatile fuel prices.

Slide 20 depicts the average cost per barrel of fuel Matson used in the quarter -- quarterly in 2006 and 2005. As you will note the cost per barrel in the fourth quarter in 2006 roughly equaled that from a year earlier but was markedly below the level for the third quarter of 2006. It's important to note that the fuel cost above is the cost per barrel for the operation of the ship, but does not include indirect fuel costs associated with terminal handling, drayage and other supporting services which surged in 2006. One of the key metrics of any ocean transportation company is it's service reliability and I'm delighted to note that Matson was recently named the world's number one on-time shipper. The table above describes several of the 65 carriers rated for the period April-September of 2006. Along with the service reliability, Matson launched its China service in 2006 and its operating metrics are indeed impressive. The 10.2 day transit time from Shanghai to Long Beach, the fastest by the way, and just over 16 days from China to Chicago. We expect continued progress in the China trade, as we begin to realize the benefits of our service superiority.

Modest margin improvements are forecast for Hawaii and Guam, where we see relative flatness in volumes for the upcoming year. There will be ongoing improvement on the cost side of our network.

Moving on to the Logistics Services segment, once again, this segment delivered an extraordinary year of growth, culminating over $20 million in operating profit, which is a milestone for us. We attribute this increase to both higher volume and yields in our trucking services, coupled with yield improvements in our railroad services. This large growth in profitability for the year was achieved with only a marginal increase in revenue, about 3%. As slide 21 demonstrates, our revenue in the fourth quarter actually declined versus the year earlier period, while our margin improved from 3.6 % to 5.4% for the same period of comparison. The seeming paradox is best explained by our continued drive to find and execute the best supply chain solutions for our customers. We've come a long way since 2001 when our operating profit was $1.6 million, and these results not only reflect the investments we have made in our technology but also in our human capital.

Looking out into 2007, we do expect a moderation of our margins as we rollout new expedited service offerings to our customer universe. We will continue to grow the business organically through focused sales initiatives and integration of new volume we are seeing as a result of Matson's China service, which lends itself to this expedited service model. Slide 29 shows you the present status of our national footprint in 2007. We hope to expand our local presence through the purchase of regional logistics based companies that complement our service platform. Our Real Estate Leasing segment increased its operating profit by 6.6 million for the year 2006 compared to 2005. This improvement of 15% reflects higher occupancy levels, increases in year-over-year rent, and acquisitions to our portfolio. And as we have recently acquired new assets in the growing markets of Phoenix and Sacramento, we hope to increase the future value of our investments there.

As previously noted, our portfolio-wide occupancy currently stands at 98%. We are, of course, quite happy with this performance, but we also know that it will be a challenge to maintain it at this level. Yet we believe that the underlying strength and the quality of our properties provides a foundation for similar occupancy in 2007. Slide 32 details the growth we have seen in operating profit, which goes hand in hand with the increase in occupancy. In 2007, we will continue to actively manage and grow our portfolio through tax advantaged dispositions and acquisitions. With today's current cap rates, we do expect to initiate and execute several 1031 exchanges in the coming year to realize the value we have created in some of our properties.

Complimenting the stable performance of our lease portfolio is our Real Estate Sales segment, which grew its operating profit by 13% in 2006 to a record high of nearly 50 million. Excluding a fire insurance gain that we realized in 2005, operating profit increased 28% in 2006. This increase can be attributed to sales at our joint ventures at Hokua and Kai Malu and market time sales in several commercial properties.

Combined with our leasing segment, our Real Estate group delivered $100 million in operating profit for the year, a milestone noted previously. We're particularly encouraged by sales at Kai Malu at Wailea on Maui. Construction of the first phase is almost complete. We completed the year 2006 with 22 closings and we expect Kai Malu to be a key margin contributor in 2007. Augmenting these sales are other lot sales at Wailea, which we expect to receive strong market acceptance. All in all, Wailea is a tremendous asset that offers significant short and long term opportunities for the Company. Slide 35 shows some of the recent construction activity at Keola Lai, where we are now in the 25th floor of vertical construction. The 42 story project has approximately 80% of its market units under binding contract and we expect that most or all of the units will be under binding contract by the time construction of the project is complete in early 2008. This primary housing project demonstrates that demand for well located and priced residences continue.

Construction and closings continue at Kukuiula, 17 closings occurred in 2006, considerably below original expectations. This is a reflection of current market conditions but does not diminish our confidence in Kukuiula's performance over the longer term. In 2007 we'll begin construction of the resort amenities and expect that these, when they're brought online, will increase sales velocity. For accounting reasons, the bottom-line impact will be minimal in 2007 with contributions to earnings expected to increase in 2008 and 2009. Very much like Wailea, Kukuiula is a truly unique locale and we remain very positive for this project, our partner, and its potential. Operating profit from our sales activity was strong in the fourth quarter driven by the sale of a retail center in Kona and initial closings at Kai Malu. Operating profit for the entire year was 13% higher than 2005 and we expect equally good performance in 2007.

Given the Street's concerns over slowing residential market activity, it is important to note that only a small percentage of our projected 2007 Real Estate income is expected to be derived from residential sales that are not already under binding sales contracts. As we always remind you, property sales are episodic,making quarter to quarter comparisons unreliable barometers of performance. Looking ahead for the first quarter of 2007, for example, it is unlikely property sales will match the very high level achieved in the first quarter of 2006.

Agribusiness operating profit declined nearly 40% in 2006 or $4.3 million. Production shortfall, low sugar pricing, and expenses related to dam repairs caused a fourth quarter loss and reduced full year earnings. However, excluding a $5.5 million disaster relief payment the Company received in 2005, operating profit actually increased 21% for the year, primarily due to better performance at our Kauai Coffee Company and sales of specialty sugars. As shown on slide 39, we experienced a 10% decline in raw sugar production in 2006.

We are focused on improving our yields in 2007 and expect improvement for the year. The Company continues to look for higher margin opportunities. In its sugar operation in 2006 we expanded our specialty sugar capacity and are encouraged by the potential that this investment offers. We also concluded, based on the limited amount of molasses we produce, that we lack sufficient scale to pursue molasses to ethanol conversion. We will continue to explore energy related initiatives in 2007, such as converting sugar juice into ethanol and burning cane leaves for electricity. While our production shortfall was disappointing, we feel positive about market acceptance of our specialty sugar products. We do, however, expect only nominal profitability for Agribusiness in the coming year, based on our present business model. With that, I will now turn the time over to Chris Benjamin for a number of financial matters. Chris?

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

Thanks, Allen. I'd like to start by elaborating a little bit on the dividend increase and share repurchases that Allen referenced. Our Board did increase our annual dividend by $0.10 to $1 per share effective in the second quarter of 2006. We paid a total of $42.6 million in dividends during the year. We also repurchased 1.65 million shares of A&B stock at an average price of $43.34. The accelerated share repurchase we initiated earlier in the year was completed in early November and, based on the average price during the ASR period, we received an additional 108,000 shares in November at no additional cost, bringing the total ASR shares to 1.45 and resulting in the average price overall that I mentioned a moment ago. These repurchases took place under an authorization that expired December 31st, and our Board has approved a new 2 million share repurchase authorization that will expire at the end of 2008. We first announced that in December.

Before I get to the financial statements, I have a couple of somewhat esoteric items that will be of interest only to those of you who are trying to model our earnings for 2007. First, while we closed 2006 with an effective tax rate of 37.5%, we expect this to rise in 2007 and I suggest that you use 38% as an initial estimate. Second, I want to point out that earnings in both our Real Estate sales and Agribusiness segments are likely to be much less weighted toward the first quarter in 2007 than they were in 2006, making first quarter comparisons difficult. Allen alluded earlier to the episodic nature of Real Estate sales and the difficulty of quarter-over-quarter comparison. While we expect solid full year growth, the first quarter will not match the extraordinary first quarter of 2006.

As for Agribusiness, we've revised our methods for estimating production volumes and calculating our standard costs, and we're hopeful that this will address the recent pattern of large profits in the first quarter giving way to lower profitability and even losses in later quarters. Our new approach should reduce first quarter reported earnings but also reduce the need for third and fourth quarter negative adjustments. As Allen noted, we expect nominal profitability for the full year in 2007 and it should be recognized more evenly throughout the year. Finally, I'd like to remind you that the Ocean Transportation business always has been subject to seasonality and the addition of the China service will reinforce this, with the first quarter continuing to be the seasonal low for the year.

With that let me move on to the balance sheet. Our total assets grew by $180 million in 2006. Current assets are $12 million lower than 2005 due entirely to a reduction in cash. The modest decrease in investments reflects the return of capital from Hokua, which was mostly offset by investments that we made in joint ventures, including Kukui'ula, and also increased retained earnings at SSAT. The increase in real estate developments of $76 million was due primarily to construction spending at various projects, especially Keola La'i and Port Allen, while the acquisition of the Matson vessel drove most of the property increase. Income portfolio acquisitions also contributed to the property increase that you see of $210 million. One final note on this slide is that the vessel purchase also drove the significant reduction in the capital construction fund. Moving to liabilities, the most dramatic shift in our liabilities is evidenced by the debt levels that are $115 million higher than at year-end 2005. This is consistent with our intent to increase leverage over time.

Deferred income taxes also increased in 2006 as we benefited from significant tax deferrals from the use of the CCF for purchase of the MV Maunalei. Finally, while shareholders equity is up only 13 million for the year, this is the result of net income that more than offset a record $114 million distribution of cash to shareholders. I'll move now to cash flows. Despite earnings in CapEx that approximated 2005, our cash flow statement looks very different in 2006. The first difference is a dramatic reduction in operating cash flows. You'll recall that in 2005 we had proceeds from the sale of all 100 units at the Lanikai condominium and we also had an extremely high level of tax deferrals that actually resulted in a tax refund in 2005. So higher tax payments in 2006, lower proceeds from Real Estate inventory sales and higher expenditures on Real Estate for sale were the primary drivers of the operating cash flow reduction. The rest of the cash flow -- I should say the lower operating cash flow produced in 2006 versus 2005.

The rest of the cash flow line items have generally been touched on elsewhere with the exception of the All Other line, which primarily includes proceeds from sales in the leased income portfolio. And finally, with respect to CapEx for 2006, we spent a total of $438 million compared with a 2007 budget of $315 million. The reduction going forward of course will be due to the completion of our vessel replacement program in 2006, which accounted for 147 million of the spending last year. The adjustments at the bottom of the page will help you reconcile our gross capital expenditures to the CapEx shown on our cash flow statement. With that, operator, I'd like to conclude our presentation and open it up for questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question comes from the line of Jonathan Chappell of JP Morgan. Please proceed.

Jonathan Chappell - *JP Morgan - Analyst*

Thank you, good morning, guys.

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

Good morning, John.

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

Good morning.

Jonathan Chappell - *JP Morgan - Analyst*

You guys gave a pretty good outlook on the China market and the developments of it in the first three quarters. As you look to 2007, can you address the broader topics of volumes and pricing? In the past you had said that your volumes were kind of exceeding expectations and pricing wasn't there yet. I haven't seen a particular shift in the transpacific, international container markets, so I'd imagine pricing is still the same. But can you speak about the volume growth and what you are seeing in the competitive pricing front?

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

Yes, I'm going to ask Jim to respond to that. I just would say on the first side, pricing is relatively similar to what it's been in the last quarter or two, so Jim ?

Jim Andrasick - *Matson Navigation Company - President & CEO*

Well, looking forward, I believe that Maersk and APL and others have announced that they intend to pursue full cost recovery on their inland moves because that's been the biggest, probably, single point of increase in costs for all the carriers in the transpacific, probably internationally. So we just will ride that particular trend. As far as other increases that have been announced, I think you're aware of what those are and what the shippers will accept, of course, remains to be seen. And the contract cycle really begins on April 1st, so right now that's all we can say. Matson, of course, as we previously discussed, will be into its second year and yield management has taken on greater prominence in what we do. So we hope to be shifting the value equation upward as the year progresses.

Jonathan Chappell - *JP Morgan - Analyst*

So as you look back at your performance of '06, the total new service, would you say was in line with expectations, with volumes offsetting pricing or a little bit above or a little bit below?

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

I'll tell you, looking back at it now, almost a year, we're feeling pretty good. A lot of things could have gone wrong here when you do something as fundamentally different as what we did by entering the China market. We finished our year just slightly below our plan for the full year, but we had a heck of a good fourth quarter and very, very good momentum going into 2007. So as Jim had indicated and you know that we did exceed our volume expectations, but rates were softer than we thought. I think stepping back, the most important thing that happened, other than having a good financial year start the service, is the fact that the Company, that Matson established a really, really strong reputation for having something to sell, which is an expedited and reliable service from China to the U.S. That to me is the most fundamental accomplishment of the year. Jim?

Jim Andrasick - *Matson Navigation Company - President & CEO*

I could can only agree with that.

Jonathan Chappell - *JP Morgan - Analyst*

So, Allen and Jim, has your outlook for '07, has that changed at all since you started the service in the beginning of last year?

Jim Andrasick - *Matson Navigation Company - President & CEO*

No, I don't believe it has. We exceeded expectations, we expect that kind of performance to continue and perhaps even be enhanced by new expedited products. And on the volume side, we continue to experience very good vessel utilization. And as I said before, yield management is really where we're at and we can't control pricing in this very dynamic market, but we certainly can pick and choose the cargo that we do book.

Jonathan Chappell - *JP Morgan - Analyst*

And just one more for Jim and then I'll turn it over. What's the status of the conversion of the C-9's, both the actual conversion process and then also what we spoke about a few months ago, I guess the labor unions of the shipyards, the lawsuit against the Coast Guard for doing the conversions in the Far Eastern yards?

Jim Andrasick - *Matson Navigation Company - President & CEO*

Well, we have one C-9 in the process of conversion. It's currently in China and then will be shifted to the Gulf for most of the work. So we intend to honor those contracts and they're moving forward quite well at the moment. As far as the lawsuit against the Coast Guard goes, it is in the administrative process and really, we have stated before that we have meticulously respected all of the Coast Guard rules and regulations that were in effect at the time this conversion was announced and we expect to prevail in those legal proceedings.

Jonathan Chappell - *JP Morgan - Analyst*

Okay, thanks, Allen and Jim.

Operator

Our next question will come from the line of Christopher Haley of Wachovia Securities. Please proceed.

Brendan Maiorana - *Wachovia Securities - Analyst*

Good morning, it's Brendan Maiorana with Chris. Just sticking with Matson for a second, your fuel surcharge, I think, was 18.75% for the fourth quarter of this year. How does that compare to what the fuel surcharge was in Q4 '05?

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

Jim?

Jim Andrasick - *Matson Navigation Company - President & CEO*

Well, just as a point reference to where we were a year ago, on January 1st of '06, which began the year at 15% and right now we're at 17.5%. Dealing with averages, I don't have the specific amounts, but we're up 5 to 6 percentage points, I would say, and part of the difference is the fact that we are attempting and striving to recover the costs of indirect energy, which are considerable and which have increased the most rapidly during the past 12 months, and that would include trucking fuel surcharges, other vendor charges for interisland transportation in Hawaii and just a host of other energy related costs that we have experienced. And that we strive to, this is not a profit center for Matson, and we strive to recover the cost of what has been a very volatile energy market during the past 12 months.

Brendan Maiorana - *Wachovia Securities - Analyst*

Okay, so if we just take the delta between the 15% at the beginning of '06 and the 17.5% now, that's 2.5%. Is it fair to say that your -- now your fuel costs on a per barrel were flat year-over-year, so is it fair to say that you're getting a 2.5% benefit in terms of your fuel surcharge in your margin and that's being offset by some other cost pressures elsewhere?

Jim Andrasick - *Matson Navigation Company - President & CEO*

I think that's probably a fair representation. But bear in mind that our average bunker cost and diesel costs don't precisely track crude oil movements, which is what you probably see in the market. And I think we reported earlier in '06 that we are under recovering even our basic fuel costs and we just missed it because we are on a quarterly discipline and we changed that completely during the second half of 2006 by making more frequent adjustments, both up and down, in the fuel surcharge. So dealing with averages here may be a little dangerous, but I think in essence, you're correct.

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

I think just in the larger perspective, it's almost impossible to exactly align costs in the surcharge and there's a tendency in rising market environments to lag on recovery and when the market price is going down, some of the opposite happens. So I think the key point that Jim made is that this is not a profit center for the Company and what we've seen is a very, very significant increase in all of these indirect surcharges that we have to pay, in effect, and then that's also part of the equation.

Brendan Maiorana - *Wachovia Securities - Analyst*

Okay, thanks, and Allen, you mentioned strong cap rate environment. You guys recently sold a retail center. Would you care to comment on what the range of cap rates that you've been selling some of your commercial lease portfolio at have been?

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

I'd say in general terms, probably the average is 5.5% these days. It can range between 5 and 6 depending on the property. What we're also try to do is we try to, not so easy these days, but we try to get some -- more than 100 basis points of spread between when we're selling and what we're buying. So we're not trading at one cap rate for one that's exactly the same. It's not so easy to do in this environment, though.

Brendan Maiorana - *Wachovia Securities - Analyst*

Right, so you're saying primarily, over the recent past, you've been selling more on Hawaii and buying more on the mainland, so you think the spread between those two, at least in terms of what you're buying and selling, is roughly 100 basis points?

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

Actually, we're doing -- we've done a fair amount of selling on the mainland as well. If you look at our property sales for the year, we sold several properties on the mainland and also a couple in Hawaii, so it's a fairly even balance between the two. What's happened over a long period of time is, and I can't be all that precise about it, but there used to be a huge spread between Hawaii cap rates and what was generally true the rest of the United States. That doesn't exist very much anymore. That spread is really not very significant at all. So what we experience here is relatively similar to what you would experience anywhere else in the country.

Chris Haley - *Wachovia Securities - Analyst*

I'm sorry, Allen, this is Chris. So you're saying cap rates were 100, 200 basis points lower in Hawaiian islands versus the Continental U.S. Or the other way?

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

No, no, I'm sorry. What I'm saying is that when we go through the sale process, we generally do an exchange and that's really coupling the other aspect of this is that to defer the taxes on the gain on the sale, we'll do a 1031 exchange and what we do is just as an objective is if we're trading a 5.5 or a 6 cap, we'll try to trade into a 6.5 or a 7 cap.

Chris Haley - *Wachovia Securities - Analyst*

Right, but most of it, if I recall, is it fair to say that the majority of what you were exchanging out of was not necessarily, maybe didn't have a vertical, it didn't have vertical construction on it in Hawaii, but on the continent it does have vertical?

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

No. I'd say that, as I recall, I think we did what, four exchanges in the year and two of them were in Hawaii and two of them were on the mainland and they were all commercial, mature commercial properties.

Chris Haley - *Wachovia Securities - Analyst*

And when you say 5 to 6% cap rates, is that comparable ? Is there any material difference between Hawaiian assigned values versus West Coast or western half assigned values?

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

Yes, that's what I was trying to answer before, is I think there's a little bit of difference but not a very big difference, Chris.

Chris Haley - *Wachovia Securities - Analyst*

Okay.

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

I mean, in years past there could be hundreds of basis points difference. Now, this is a pretty efficient marketplace. There's a very very small difference, a little bit but not much.

Chris Haley - *Wachovia Securities - Analyst*

Thank you.

Operator

Our next question will come from the line of Alex Barron of JMP Securities. Please proceed.

Alex Barron - *JMP Securities - Analyst*

Yes, thank you. How are you guys doing?

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

Hi,

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

All right

Alex Barron - *JMP Securities - Analyst*

Great. Hoping we could get into the real estate side of things a little bit.

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

I'm going to give Stan a chance to answer some questions now, Alex.

Alex Barron - *JMP Securities - Analyst*

I'm sorry.

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

I'm going to give Stan Kuriyama a chance.

Alex Barron - *JMP Securities - Analyst*

Okay, great. Hoping we could focus on your 31.7 million reported for the, I guess, various home and land sales and the 10.5, just trying to understand, are those only related to Kai Malu and Kukuiula or is there something else in there?

Stan Kuriyama - *A&B Land Group - President*

Just trying to think, which 31.5 are you referencing?

Alex Barron - *JMP Securities - Analyst*

You reported 31.7 million of revenue for the quarter and 10.5 million of profit.

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

Fourth quarter.

Stan Kuriyama - *A&B Land Group - President*

Oh, fourth quarter.

Alex Barron - *JMP Securities - Analyst*

Yes.

Stan Kuriyama - *A&B Land Group - President*

Okay, yes. A lot of that came from the sale of a shopping center in Kona on the Big Island and then we started closing sales at our Kai Malu project, a joint venture in Wailea.

Alex Barron - *JMP Securities - Analyst*

Can you just kind of help me, you guys give a number there, 22 closings at an average price of 1.3, so the bulk of the balance is coming from this shopping center then?

Stan Kuriyama - *A&B Land Group - President*

Right.

Alex Barron - *JMP Securities - Analyst*

I guess I just wanted to know how much revenue was recognized for Kukuiula at this point?

Stan Kuriyama - *A&B Land Group - President*

Okay. Let me first clarify an earlier point. In terms of revenue, Alex, joint venture income is not reflected in revenue.

Alex Barron - *JMP Securities - Analyst*

Okay.

Stan Kuriyama - *A&B Land Group - President*

So the Kai Malu earnings, because it's a joint venture, don't show up in revenue.

Alex Barron - *JMP Securities - Analyst*

So basically anything that's a joint venture will only show up as operating profit then?

Stan Kuriyama - *A&B Land Group - President*

Correct.

Alex Barron - *JMP Securities - Analyst*

Okay, got it. That's a good point. Wanted to know -- I guess let's take one at a time. Kai Malu. So you guys closed 22. I wanted to know what's the average deposit people have in these contracts?

Stan Kuriyama - *A&B Land Group - President*

Kai Malu we'd probably have about 15% hard money under the contract.

Alex Barron - *JMP Securities - Analyst*

Okay. And do you expect the balance of the 150 units to close in this year, in '07?

Stan Kuriyama - *A&B Land Group - President*

Yes. Most of them to close in '07, probably some that will spill over into '08 as well.

Alex Barron - *JMP Securities - Analyst*

Okay. And what was the rough operating margin you had on those 22 closing so far?

Stan Kuriyama - *A&B Land Group - President*

No, we haven't been disclosing our margins on that project, Alex.

Alex Barron - *JMP Securities - Analyst*

Okay.

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

But, Alex, when you build your model, make sure you remember that that is JV, that is roughly a 50/50 JV.

Alex Barron - *JMP Securities - Analyst*

Yes, yes, I have. I'm just trying to figure out how much of the operating profit came from that project this quarter. You don't have a dollar figure?

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

No, we don't disclose that.

Alex Barron - *JMP Securities - Analyst*

Okay, jumping over to Kukuiula, you guys said you had 17 closings, just kind of wondering, how many other guys you guys got in contracts so far.

Stan Kuriyama - *A&B Land Group - President*

Okay, we had 17 closings in '06. We had two more closings earlier this year. We have about 50 that are under contract or pending contracts or letters of intent.

Alex Barron - *JMP Securities - Analyst*

Okay. Is there any other people in some form of a backlog or wait list or anything like that?

Stan Kuriyama - *A&B Land Group - President*

Yes. We started cleaning out that founders list and requiring people to step up with their deposits, so right now we have a backlog of founders of about 60 founders that are waiting for future releases.

Alex Barron - *JMP Securities - Analyst*

Okay so the 50 guys, are those hard contracts with non-refundable money at this point or still the 50,000 refundable money-type contracts?

Stan Kuriyama - *A&B Land Group - President*

They are actually in the next stage of letters of intent, so they are either under contract, they signed a letter of intent and they are waiting for a contract or they've agreed to the terms of the letter of intent, which now require $100,000 deposit. So it's a real mixture of where they are in the process, but these are presumably the serious potential buyers in this phase.

Alex Barron - *JMP Securities - Analyst*

Okay, and the 100,000, is that non-refundable?

Stan Kuriyama - *A&B Land Group - President*

If it's a letter of intent, no, that would still be refundable.

Alex Barron - *JMP Securities - Analyst*

Okay.

Stan Kuriyama - *A&B Land Group - President*

Gets to that sales contract, it will become binding.

Alex Barron - *JMP Securities - Analyst*

And I guess in terms of using percentage of completion, I'm kind of wondering what, based on your capital expenditure to date versus expected costs, what kind of percent complete, where are we right now in the process? What percent complete have you guys recognized so far?

Stan Kuriyama - *A&B Land Group - President*

Yes, for the '06 sales, Alex, percentage completion was about 15%.

Alex Barron - *JMP Securities - Analyst*

Okay. Great. That's all I got for now. Thanks.

Stan Kuriyama - *A&B Land Group - President*

Sure.

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

Thanks, Alex.

Operator

Our next question will come from the line of Jay Habermann of Goldman Sachs. Please proceed.

Jay Habermann - *Goldman Sachs - Analyst*

Hi, good morning to you. Just a question, I guess, Allen or Jim. In terms of the automobiles, obviously declines quarterly and year-over-year, do you see those volumes remaining flat in '07 or where do you see that sort of trending?

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

Jim?

Jim Andrasick - *Matson Navigation Company - President & CEO*

Well there are several components to the auto business. One is retail sales of autos. That has been trending down in Hawaii modestly year-over-year, and I really don't have an opinion about whether that's moderating or continuing to decline. But the bigger component is probably the auto U.S. manufacturers and the kinds of fleet discounts they are offering to rental car companies primarily, which has caused the renters to delay when they turn over cars. And that limits the number of cars going westbound to Hawaii and also the used cars going eastbound. And I would say the trends there have continued downward but not nearly to the same degree as we experienced during the second half of 2006, so we would expect some moderation with those trends. And I think that it could be just a lag effect here as well because the tourism industry in Hawaii continues showing a very modest growth, as I think Kevin illustrated earlier in the call. So we would expect some recovery here as time goes on, but it's very hard to predict when.

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

Yes, that's kind of important to just re-emphasize what Jim said. Most of what's happened in the autos has been the rental cars. And when a new car is built and it's shipped, it's a one way deal. With the rental cars, it's a two way deal, because the rental cars that come here go back because the market in Hawaii can't absorb them. So when there's a pretty significant lengthening of the period in which these cars are in service, then that just compresses the entire equation and that's what's happened.

Jay Habermann - *Goldman Sachs - Analyst*

Okay, and Allen, while I have you, in terms of the China business, you mentioned being profitable. Can you quantify it in any way in terms of just how profitable the business is now?

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

The answer is no.

Jay Habermann - *Goldman Sachs - Analyst*

[LAUGHTER].

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

We don't break out like I think if you look at other people in the shipping business, you don't see people breaking out trade lane profitability, nor do we but we can represent that it is profitable and that we're just very pleased with the progress we've made so far.

Jay Habermann - *Goldman Sachs - Analyst*

Okay and lastly, in terms of Kauai, what are your share of the costs in '07 for the buildout of the amenities?

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

The share of the costs? You're really talking about how the joint venture structure funds the cost of the Kukuiula?

Jay Habermann - *Goldman Sachs - Analyst*

Right.

Stan Kuriyama - *A&B Land Group - President*

Under the joint venture, we fund 40% of all of the capital requirements for the joint venture. In terms of capital expenditures by the partners in '07, they really will be dependent on sales. So depending upon the sales volume, because we use those proceeds of course to fund costs, we may or may not be contributing additional capital in 2007. So right now it's too early to tell exactly what that contribution will look like, if any.

Jay Habermann - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Our next question will come from the line of Jason Kramer, Caris & Company. Please proceed.

Jason Kremer - *Caris & Co - Analyst*

Good afternoon.

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

Hi, Jason.

Jason Kremer - *Caris & Co - Analyst*

I was just wondering, so with the limited Kukuiula sales that you got this year, what are your expectations for '07? Do you guys have kind of a guesstimation there?

Stan Kuriyama - *A&B Land Group - President*

Jason, this is Stan. We're targeting -- we rolled out 123 units in that first release. Our target is to sell those units, the balance of those units in '07. It's just very hard, of course, at this early stage to predict exactly how many will in fact sell and close in '07, but that's our target.

Jason Kremer - *Caris & Co - Analyst*

Okay. And I think to begin with, you'd expected quite a few more in '06 and to go through the second tier in '07, if I'm correct, I would imagine, are you planning any expense cutbacks or cost cutbacks such as sales force reductions, etc, given the lower expected sales?

Stan Kuriyama - *A&B Land Group - President*

Yes. I mean, given where we are in sales, of course, costs are always an issue for us and we're focusing on that. I mean, right now, we don't really anticipate any significant cost reductions but it's something that we are always looking at, at the joint venture level.

Jason Kremer - *Caris & Co - Analyst*

Okay. I guess on the shipping side, I was just wondering if you could speak to the auto and container volumes, whether any of the reduction was due to a loss of market share at all or was it just the things you mentioned?

Jim Andrasick - *Matson Navigation Company - President & CEO*

It was what we mentioned. It was primarily on the auto side. It was primarily the rental cars and it was also a reduction in new car registrations. And I'd say, I don't have the exact numbers, but I'd say probably between 80% to 90% of the auto change was market driven. That's about as much specificity as we have. On the container side, we don't think there's been any appreciable change in the market share. The change is in our -- the 1% reduction in the full year was a reflection of the marketplace.

Jason Kremer - *Caris & Co - Analyst*

Okay. Just a couple more. I guess you mentioned the building materials shipping was problematic. What's your exposure, a percentage of your revenue, shipping revenue that comes from building materials? Or do you not break that out?

Jim Andrasick - *Matson Navigation Company - President & CEO*

We don't break that out.

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

I could answer that one for Jim. We don't break it out.

Jason Kremer - *Caris & Co - Analyst*

Okay. In addition, I've seen building material prices are expected to increase. How is this going to affect your business or have you already modeled this into your estimates or guidance, I guess ?

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

Stan?

Stan Kuriyama - *A&B Land Group - President*

Yes, certainly, we model whatever cost increases we anticipate into our investment underwriting, so that's not really an issue. But frankly, we think prices are going to moderate if not fall.

Jason Kremer - *Caris & Co - Analyst*

Okay. Great. Thanks a lot.

Operator

Our next question is a follow-up from the line of Christopher Haley of Wachovia Securities. Please proceed.

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

I would just say for everybody that we're probably at about near the appointed time, so Chris, you'll be our last call-inner of the day.

Chris Haley - *Wachovia Securities - Analyst*

Very kind of you. Thanks, Allen. Could you give us a sense as to what the -- in general terms, how would you characterize the core growth rates of your operating businesses, excluding the residential side, but kind of the shipping and the real estate business? How should we look at core growth rates recorded in 2006 and give us some perspective on how we should look at 2007 for those businesses.

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

Gee, Chris. That's a tough one. [LAUGHTER].

Chris Haley - *Wachovia Securities - Analyst*

Well that's just going to give you -- you could either take the quick exit and say we're done or you could give us some sense as to what to look --

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

Yes, I guess the one thing I would ask before we try to answer the question is tell me what you mean by core, because we can give you market growth rates which are generally not very high, or we can give you the growth rates of our Company, which are different than the market.

Chris Haley - *Wachovia Securities - Analyst*

Well, I'm very interested, more so interested in your performance, so one of the things you mentioned in your recent Qs is that you had a higher level of confidence regarding your earnings power for 2006, which we had partly ascribe to better shipping activities and wanted to really just try to get a sense as to whether or not that confidence was carrying through into 2007 on shipping as well as confidence in your ability to generate higher internal growth in '07 on your real estate, your leased businesses.

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

Yes. Well let's just look then at the -- first the real estate and then we will go to shipping and I'm trying to make very short comments and have Stan come in and make a short comment on shipping and then have Jim come in. In the real estate side on our leasing portfolio, I think we're going to see some fairly small increases in '07. I think we've suggested that. It's hard to get above 98%. We're at effectively 100% occupancy. We'll get some rate movement. You're at a better position, I think, to kind of have some feelings about that that we might be here. But we continue to have a very well operated, managed, set of properties and we're always trying to trade out into something a little more attractive and more value adding. So I think we'll do better in '07, but it's not going to be a sizzling '07 and I think that's what we've suggested. There on the sales side, I think we've provided a fair amount of guidance already into what looks like it's going to be a pretty good year for us on the real estate sales side. So overall when you take the leasing and the sales side of the business, I think we're going to have a very good year that's going to be relatively consistent with, on an aggregate basis in real estate, what we experienced in 2006. Stan, let me have you add to that or correct it.

Stan Kuriyama - *A&B Land Group - President*

No, I concur. I think we have --

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

Boy, that makes me feel better!

Stan Kuriyama - *A&B Land Group - President*

[LAUGHTER]. Yes, I certainly concur. I think the lease portfolios will perform very well, consistent with what we did in '06, maybe as Allen said, a slight drop off, but it's hard to maintain that 98% occupancy. You know the market occupancy numbers in Hawaii, they are really at historic lows, so they do expect -- vacancy rates are at historic lows or approaching historic lows, we do expect continued good performance there. We have our pipeline of development projects and one of the comments made earlier was that in terms of our residential sale , vast majority of our sales under binding contracts that we anticipate closing in '07, so we feel good about the pipeline. We feel good about the secured sales we have. And then we think we're going to have a number of good property sale opportunities. There are properties in our portfolio we created for value and we're going to be harvesting that value in '07 as we've done in prior years. And so -- then yes, as Allen said, we're expecting growth consistent with prior year growth.

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

And in order to protect myself here, I better let Jim go and then I'll chime in at the end and then I just have one final comment to make and we'll be done. Jim?

Jim Andrasick - *Matson Navigation Company - President & CEO*

I was going to agree with you completely, Allen.

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

[LAUGHTER].

Jim Andrasick - *Matson Navigation Company - President & CEO*

Well, our markets look stable, I would say, for 2007 just starting with -- and so do our shares. We intend to fully protect our interest. Hawaii looks reasonable, consistent with what's already been said about the Hawaiian economy. Guam is -- its future potential continues to be a matter of question as to when we're going to see the beginnings of some very significant infrastructure development work sponsored by the military on that island. And China's projections look strong once again. Most of the information I've seen suggests double-digit export growth out of China to the U.S. and a continuation of it and about matching the amount of capacity that's projected to go into the trade. And then our logistics business, which depends on the overall movement of freight in the Continental United States, it's I guess appears to be a soft landing for the U.S. Economy and we would expect to see some modest growth in domestic transportation volumes as a result. And on the cost side, we're flushing a lot of cost out of our network on the Ocean Transportation side with different improvements in our terminal operations. A combination of all these things, I think, points to what was characterized as modest earnings growth for Ocean Transportation and continued growth in our logistics business as we build that out.

Chris Haley - *Wachovia Securities - Analyst*

Okay.

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

Yes, I guess I think that's a good description. The other aspect and it's really not an '07 earnings driven comment, we're not just playing defense here. We're looking at a number of different ways to continue to grow the business. They're incremental. They're bolt-ons, they're add-ons. We're in businesses that intrinsically don't have that high of a growth rate and the key for us, as it's been in the past and is going to be in the future, is to continue to find other ways to propel ourselves ahead profitably. We're not interested in just growing the top-line and if you just grow the bottom-line and you don't grow the top-line ever, then that's not a long term strategy. So for us, the key is to do what we call -- get a number of growth initiatives and start to bring them into the business as we've done in the past few years but to continue to do that so that two, three, four years from now, we'll have positive momentum for the long run. So that's what we're about as well.

Chris Haley - *Wachovia Securities - Analyst*

Thank you.

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

Thank you. I think with that, Kevin, are we finished?

Kevin Halloran - *Alexander & Baldwin, Inc - Director Corporate Finance & IR*

I think we're all set. Thank you all for joining us, and we will see you next quarter.

Operator

Thank you for your participation, ladies and gentlemen. Have a great day.
