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PRESENTATION

Operator

Good day and welcome to the Alexander & Baldwin's second-quarter earnings conference call. As a reminder, this conference is being recorded. For introductions and opening remarks I will now turn the conference over to Mr. John Kelley, Vice President of Investor Relations. Please go ahead, sir.

John Kelley - *Alexander & Baldwin - VP IR*

Thank you, operator. Good day, everyone. This is John Kelley in Honolulu. Representing the Company today are Allen Doane, President and CEO of A&B; Chris Benjamin, CFO and Senior Vice President of A&B. After this introduction, Allen will provide an overview of the units and operating and financial performance and the outlook. Chris will then comment on financial matters and I will finish with a quick overview of the Hawaii economy and then we'll open for your questions.

In today's slides displayed on our website, please note you have an option to enlarge the slides on your screen. That may help you to see them more clearly to see some of the details. You also may print the slides using the PDF file listed under the supporting materials and that may be helpful to record notes. If anyone on the live call has trouble hearing, pleased dial star zero and the operator will give you a hand.

Copies of the earnings release are also available at the A&B website and there will be a replay of this conference call available on the Web for one week and I am available to take calls later on. Please note at this time of the year, Honolulu has a six-hour time difference with eastern daylight time.

Statements in the call that set forth expectations or predictions are based on facts and situations that are known to us as of today, July 28, 2005. Actual results may differ materially due to risks and uncertainties such as those described on page 22 of the Form 10-K in our 2004 annual report and are other subsequent filings with the SEC. Statements in this call are not guarantees of future performance. I would like to remind listeners of our corporate website, www.AlexanderBaldwin.com. It has useful information about our land holdings as well as links to a number of sources of economic information about Hawaii and to all of our subsidiary websites. With that, I would like to ask Allen Doane to comment on the quarter and the outlook. Allen.

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

Thank you, John. Good afternoon, everyone. These stack bars show our fully diluted earnings per share for the four quarters of 2004 and for the first two quarters of 2005. The $0.66 per share earned in the second quarter of this year compares to $0.70 in last year's quarter. Although the results for the quarter are slightly below 2004, I feel good about the quarter. I will explain on the next slide. It is worth noting that net income is up 17% through the first six months of 2005 compared to 2004. Matson, which shows up in our financial statements as Ocean Transportation, led the way with $38.7 million of operating profit in the second quarter. This represents a 23% increase over an already strong result in the second quarter of 2004. Let me publicly commend Matson for this exceptional performance.

Logistics Services, although it's still a small part of our transportation business, recorded another nice increase in profit, reaching $3.6 million versus 2.6 million in 2004, maintaining its solid operating momentum. Property leasing was $10.5 million of operating profit, better than 2004 by 14%. The only material part of the Company where results were down on a year-to-year basis was the property sales where operating profit of $4.8 million was significantly below the 13.4 million of 2004.

As I tried to describe in the earnings release on the quarter, the nature of this business segment makes it difficult to rely on quarter-to-quarter comparisons. Full year real estate results are the benchmark that we use internally and I want to reiterate now my confidence that the year 2005 will have a favorable result.

The only area of disappointment, and it's a minor one, is in Food Products where operating profit was $0.3 million.

Turning to Ocean Transportation. Let me move quickly through the individual business segments. Matson had an exceptional quarter and let's just turn to the metrics. Container and automobile volume were both very good. The increase in container volume of 10% is not typical even in good times and this level of increase was not forecast. Container volume had been up 4% in the first quarter, much more in line with Hawaii's economic growth and our internal forecast. The second quarter of increase does not appear to be sustainable.

The auto volume increase of 4% was also a bit of a surprise but one we certainly appreciated. This is true particularly in light of the first full quarter of operation by a new competitor, Pasha, with its auto carrying vessel.

The next slide, the Hawaii yield metrics, on the left part of the chart for Westbound Container, container rates benefited from a 3.5% rate increase earlier in the year, a small increase in handling charges and changes in the fuel surcharge, which you'll hear more about in a minute. Excluding the fuel surcharge, which is the means to recover increased fuel costs, the increase in rates is in the normal range certainly consistent with increased cost in the business.

Average auto rates did drop in the quarter from the prior year as we had expected and indicated to you that it would. It was $100 per auto decrease in privately owned vehicles representing about a 10% change there. There were also negotiated increases in confidential contracts with manufacturers which are embedded in the average auto rate decrease. Let me just say that there was a 10% decrease, I'm sorry, for the auto.

Fuel costs were really the big story in the quarter recognizing that oil prices reached $60 per barrel. Matson's fuel costs increased dramatically on a year-over-year basis. The average cost of fuel was $40.95 in the second quarter of 2005. The fuel surcharge was raised from 9.2 to 10.5% effective April 18th of 2005. Matson also announced the implementation of a new program where fuel costs will be reviewed on a quarterly basis with a fuel surcharge adjusted accordingly up or down once a quarter.

For the third quarter the fuel surcharge has been increased to 11.5% effective July 3, 2005. While the fuel surcharge is an effort to offset fuel cost increases, the larger impact of higher energy prices is a pervasive negative on our customers, the state of Hawaii and obviously our nation's economy.

Now looking at operating margin. The operating margin in the quarter was a very high 17.5%, a record in recent years. Certainly this margin level is not sustainable. Other than fuel costs, which were negative, just about everything else in the quarter was positive. The principal driver of the margin improvement was the unexpectedly high container volume where additional margin was earned. The decision has been made to breakout a nice (ph) vessel that I really -- to supplement the standard eight vessel configuration that we have serving Hawaii. To some extent, this will moderate the margin sufficiently. Incremental cost will now be incurred to meet additional customer requirements.

It should also be noted that our West Coast terminal venture, SSAT, contributed to the year-over-year increase in margin. It shows up in operating profit but not in revenue.

A last comment on operating margin and I have to say this kind of slowly which really doesn't tell the full story of our increased investment in new ships. The efficiency benefit of these new ships are reflected in operating profit but the associated interest expense has a negative impact below the operating profit and margin line.

Let me talk about a few particularly important events in the quarter. First, Matson did receive the third of four new ships in June. While the investment in these ships is substantial, the benefits of the new ships are also quite significant. These larger ships sale at a lower crew size and the diesel engines, which are replacing steam (ph) propulsion, are about 25% more efficient. An additional benefit is the enhanced environmental design on these ships. All in all, we're pleased with the major renewal of the Matson fleet.

Second item which we have talked about a number of times this year is our alliance with APL which ends in February of 2006 and our decision to replace that alliance with a new service to Guam and to China. We will be using these four new vessels plus one additional vessel to establish our new service in February of 2006. These ships will be on a 35 day loop from Long Beach to Honolulu, then to Guam, then onto China where Matson will serve the ports of Ningbo and Shanghai. The ships will then return to Long Beach.

The new ships will make it possible to serve a new market in China to maintain our Guam business and to generally improve our ability to serve the Hawaii market sufficiently.

Let me now just shift for a moment to our Guam/China service launch. Progress is being made here. Service agents are being chosen in both Shanghai and Ningbo. We are confident in the capabilities of the agents that we are looking at and we are spending considerable time in making these choices. Quite importantly, two executives have been chosen to lead the new China service. One, Jang Gao (ph), will be based in Shanghai. He is a Matson employee from Oakland who will be moving to Shanghai. The other, Dan Robinson, who is new executive joining the Company, will be based in Oakland. So we feel quite good about the people who are going to lead this effort. We are refining our schedule terminal container plans, which will become operational next February and of course, we're becoming much more deeply involved in market development work as Matson expects to eventually carry 50,000 containers from China annually with revenue in the $100 million range.

Matson is confident it will be able to offer premium service with competitive transit time in the China/Long Beach market. I would just note for your benefit that we plan to conduct our next quarterly webcast in October from Shanghai.

John, onto the auto comparative update. This slide was shown in the first-quarter webcast. Let me call your attention to one addition to this slide, our plan, and it is still a plan at this point, to convert two of C9 ships to combination railroad container vessels. The C9s are the largest vessels in our fleets and are diesel-powered making them more efficient. By adding garage capacity, these combination vessels will provide the most economical method of shipping vehicles.

This next slide is maybe oversimplified but the message here is that one of these converted C9s will provide the equivalent capacity of two of the smaller ships in service today. One last comment on our auto business. While a new competitor, Pasha, has entered the Hawaii market, Matson has continued to receive the support of virtually all of the major auto manufacturers. Matson recently reached new multiyear agreements with Ford and General Motors. Although the specifics of the agreements are confidential, they encompass service to all Hawaii, including our neighbor island ports.

Ocean Transportation, operating profit outlook for the rest of the year. The outlook for the remainder of the year is quite good. You should not expect to see again the level of operating margin that was achieved in the second quarter nor should you expect the large year-over-year operating profit increases that have been achieved in the first two quarters. However, cargo demand remains very good. Hawaii's economy is strong and is expected to remain strong for the remainder of the year. Fuel costs have increased dramatically. It is hoped that these increases can be mitigated through fuel surcharges. Finally, I would note the outlook for SSAT for the remainder of the year is good.

Moving quite quickly to Logistics Services. Another good quarter sizable increase in profit off of a small but a growing base. If you look at the operating metrics for the business they are quite positive. Matson-integrated logistics had a strong increase in its highway volume offset by a decrease in rail intermodal traffic. Rates are up across the board and margins are reaching a new level of 3%, excellent performance in all regards in this business. The outlook for the remainder of 2005, you know, volume is certainly mixed with the highway truck volume good but rail intermodal volume experiencing year-over-year decreases. Both of these trends are consistent with the broader industry. Rates continue to be favorable and we're benefiting from economies of scale via acquisition and internal growth.

Now onto food products. Raw sugar production, although HC&S is above 2004 in sugar production through the first half of the year, we have concluded that full-year production will be lower than 2004. Costs are up, principally fuel driven costs, which doesn't help this business and we are working to offset these negatives.

In terms of the outlook for the remainder of the year, the up shot of all this is the expectation of breakeven to modest profit in the second half of 2005.

Turning now to property leasing. Leasing had an excellent quarter with a 14% increase in profitability. This is the most stable of all of our businesses and it is nice to see this performance. In some ways, this is the most quiet part of the Company but one where we continue to believe that value is being created for our shareholders.

Turning to the metrics and property leasing. Occupancy levels are quite high in both the mainland and Hawaii. We recently acquired an attractively located property in Phoenix with 127,000 square feet of leasable space. Its occupancy level is 96%. We're also in the final stages of completing a small retail development on O, a 50,000 square feet plus several pad sites which will be 97% leased when it opens. This development will be described separately in a moment. The outlook for property leasing for the rest of the year, this is becoming repetitive. Although I would expect 14% year-over-year growth and operating profit to continue the outlook for the property leasing business is also positive for the remainder of the year.

Turning now to property sales. Our operating profit was down significantly from a very strong second quarter 2004. The outlook for the rest of the year, we are not concerned about the quarters. Results of this business can jump dramatically from one quarter to the next. I should note that we really don't organize our business on the basis of trying to normalize our sales activity in any particular quarter. We have the activity occur when it would naturally occur and when the economic value is highest for it to occur.

Market conditions, I have to say both in the residential and commercial area, are exceptionally strong in a Hawaii in virtually every part of the market. We certainly expect this to continue through the remainder of the year. To reiterate, we do continue to expect that forecast favorable full-year comparisons between 2005 and 2004.

Let me now review several of our larger development projects. The first is Lanikea at Waikiki, our 100-unit condo. Closings are occurring as we speak. All 100 units are expected to close in the third quarter. Profit margins on the residential component of this development are shown. Recall that approximately $2 million of income was also recorded in the first quarter in this year for the sale -- from the sale of a commercial parcel on this same property.

Turning now to Hokua, our joint venture is proceeding pretty close to schedule with construction expected to be completed by the end of this year. We are forecasting closings for the first quarter of 2006. Kai Malu at Wailea is another large project for A&B Properties. Our Kai Malu joint venture at Wailea with Armstrong Builders is off to a tremendous start. 122 of the 150 units have been released for sale. 118 of these 122 units are under binding contracts. The remaining 28 units that have not been offered will be released in August. Construction of Kai Malu has just begun. Groundbreaking took place a couple of weeks ago with the first tranche of closings planned to occur in the third quarter of 2006.

Kunia, I mentioned this small development a few minutes ago. The Company's Kunia Shopping Center is one of those small little investments that often can be overlooked. That doesn't mean it's not a good investment for the Company. At 97% occupancy, Kunia will be open in the fourth quarter of this year. Another Hawaiian name for you to pronounce, Keala'ula, some people say Keala'ula, but I think it is Keala'ula, which means tranquil lifestyle in Hawaiian. This 352-unit residential high-rise received governmental approval in July. Construction will start early next year and will take two years to complete. The project has a gap (ph) housing component that comprises about 60 of the units. The initial sales launch for the first 85 of the units, strictly nonbinding, was accomplished several days ago. There were more than 1100 registrants for a lottery for the first 85 units. We believe this project will be successful.

I would also note for you that a very well written article on the state of the housing markets on Oahu was contained in the July 3rd Honolulu Advertiser. That was the July 3rd Honolulu Advertiser. You may want to read this article just for background purposes. The news on Kukui'ula continues to be excellent. You also may see advertising like this in publications over the next few months.

As background, this is a summary of the project. Let me just leave it on the screen for just a few minutes. Once sale closings begin, estimated in late 2006, Kukui'ula will require 10 to 12 years to absorb its expected 1300 residential units.

A little more information on the initial sales rollout at Kukui'ula. We described the Founders Program during the first-quarter webcast. At that time, there were 123 units in the program. Since then, because of exceptional response, the number of units in the Founders Program has been increased to 270. Until we have a better gauge on the specifics of those 270 units in the Founders Program we are going to defer discussion on overall pricing. However, it is safe to say we are pleased with the initial response.

Before I turn the presentation over to Chris Benjamin, let me close with some overall comments. As some of you who followed A&B for years know, I don't win any awards for being specific on earnings guidance nor unduly optimistic. In that light, let me note that 2005 looks to be a very good year for the Company. I do want to reiterate the comment made in the second-quarter earnings release that, and I'm quoting, I would be somewhat cautious about 2006 since the Guam/China service is initiated and economic momentum in real estate may shift into a lower gear.

In regard to the economy in real estate, A&B Properties is on track to increase its income in 2006. But we do not expect a continuation of the extraordinary high rates of market appreciation in Hawaii real estate where, for example, residential prices have increased 30% to 40% in the last two years. On Guam/ China, we have twice previously this year provided in webcast the description of the new Guam/China service and its expected impact on 2006 and just wanted to reiterate the importance of you reviewing that as well. With that, let me turn the presentation over to Chris.

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

Thank you, Allen. As in past quarters, I'm going to run through the balance sheets, the cash-flow statement and capital expenditures before closing with a few financial matters of interest. On the balance sheets, we've had a sizable $211 million increase in our asset base since the end of 2004. Total assets are now approaching $2 billion for the Company. The largest contributor to this increase in the first half of the year is in property where, that is the property line item, where the May acquisition of the MV Mauna Lani added $144 million to property. Also in the property line, the acquisition of Deer Valley Financial Center in Arizona added another $22 million.

Current assets also increased fairly significantly by $70 million. Much of that is related to the shifting of the Lanikea condominium project from real estate developments, which you see here, has reduced -- has gone down to real estate held for sale. That is in anticipation of third-quarter sales of the project. Those sales did commence in early July as we expected. We also have had an increase in cash of $27 million through June as a result of very strong operating performance and limited ability to prepay debt.

Moving to the next slide. Our total debt has increased $101 million during the first half. This is due entirely to the $105 million financing of the new ship. We also assumed $11 million in secured debt in the second quarter associated with the real estate purchase that I just mentioned. This $11 million though was more than offset by other net repayments of debt during the first half. The other notable change in our liabilities was in our deferred tax line. The $49 million increase in deferred taxes is almost entirely due to the use of the capital construction fund to purchase the new vessel. As a reminder, all funds including new borrowings for the new vessel purchase are passed through the CCF in order to realize tax deferral benefits. With out $100 million increase in debt year-to-date, our leverage ratio, which we define as debt-to-debt plus equity, is now 27%. We continue to feel good about our ability to fund our investment program over the next few years, including the Guam/China service, the real estate development pipeline and the necessary investment in our auto carriage business.

We do anticipate our leverage increasing over the next couple of years as we implement our growth strategy but we expect to maintain a solid investment-grade capital structure.

Going to the cash-flow statement. Our cash balances increased, as I mentioned earlier, by $27 million in the first six months of 2005. That was a result of continued strong operating cash flows of $129 million and $90 million in new borrowing. The difference between the 90 million of new debt that's shown here and the $101 million that I referenced on the balance sheet is a result of the debt assumed with the real estate acquisition mentioned earlier, which of course doesn't show up the cash-flow statement. Offsetting these sources of cash were the capital expenditures of $174 million year-to-date primarily for the new vessel.

And speaking of capital expenditures, going to the next slide, as in past calls, it summarized our spending year-to-date. Total capital spending of 150 -- I'm sorry, total capital spending of 242 million through June 30th compares to $174 million shown on our cash-flow statement. The reconciliation of those two numbers is shown here. Transportation spending of 156 million primarily includes the vessel and as well as some container purchases of about $6 million. Real estate spending includes the acquisition of two properties for a combined $42 million with the balance being primarily construction activity at Lanikea, the Kunia Shopping Center and three joint venture developments. Estimated spending levels for the full year are just over $400 million which is down slightly from our April estimate.

Finally, just a few financial issues worthy of mention. First, we took a write-down during the quarter on our minority investment in C&H Sugar Company. We made a decision last year, along with our co-investors, to pursue a sale of C&H. Based on the process to date, we have concluded that it is unlikely that we will receive a cash distribution from the proceeds of the sale and we have chosen to write-down our investment to its net realizable value. This resulted in a $2.2 million adjustment to earnings.

I do want to comment though on the fact that though we have made a decision to sell our investment in C&H, it does remain an important strategic link to the Company by virtue of being the largest customer for our sugar. We believe that this sale will not adversely affect that relationship. In fact, we feel that under new ownership, C&H will be very strong and continue, which is of course important to our sugar business going forward.

Matson negotiated -- the second point here is that Matson negotiated and executed an agreement for $105 million secured revolving credit facility in the second quarter. This is for the financing of the fourth of our new ships from Philadelphia which will be delivered in mid 2006. And that is when that $105 million will be drawn. The facility will be reduced 10% each year beginning in June 2007 until it expires in 2015. The facility allows Matson to prepay without penalty but then also redraw against the facility in the future as needed up to that declining commitment level.

Finally, I'll mention that we do expect our tax rate to remain at 38% for the balance of the year. With that, I'll turn it over to John Kelly.

John Kelley - *Alexander & Baldwin - VP IR*

Thanks, Chris. I thought it might be beneficial to provide some context on several of the major variables that affect the Hawaii economy. Total visitor arrivals have been rising now on a year-to-year basis for seven consecutive quarters. Since this last report, which was first quarter, April was off about 3% due to the changing of the timing in the year of an Easter and spring break occurred. May bounced back at 4% and we're waiting the June numbers. Another facet of the business, hotel occupancies in Hawaii remain very high and rates are also up considerably. Hawaii's marketing programs are being refined, aiming to raise the quality of visitor and visitor experience particularly by targeting spending rates per visitor a day.

On a broader economic measure, payroll jobs in Hawaii have now risen for 11 consecutive quarters. There are beginning to be some practical concerns that with an unemployment rate in May of 2.7% which was the third month in a row below 3% and the third as the lowest -- the state with the lowest rate in the nation, job growth from this point will likely slowdown. Within the total job count, construction employment is quite important as an indicator of the activity in that segment. This measure has now been rising for 12 consecutive quarters. And then driving that number propels those construction jobs, or the total private building authorizations shown here in millions of dollars. As you can see, this series bounces around quarter-to-quarter but the upward sloping rightwards direction is certainly the operative message and it continues to do well.

Overall, the business cycle, or the economic cycle, has broadened. It began a few years back with, what I would call, somewhat euphemistically the boomer resort housing starts driven primarily from US West (ph) visitor increases. New factors have been added, particularly flights from both domestic origins and international and the uneven, but improving nonetheless, numbers of visitors from Japan. From the military side, we're seeing more people to be based here, particularly with the decision to put a striker brigade on Oahu and planes to support it. There is a major effort to refurbish and rebuild military housing.

So overall, what we're seeing is exceedingly strong period-to-period increases in housing prices that Allen referred to, ex that one factor, a broadening and moderate -- continuing with moderate growth for the state. And that I think we would like to close the formal presentation and open for questions. Operator, if you can remind the folks how to do that properly please. +++ q-and-a.

Operator

(OPERATOR INSTRUCTIONS). Jonathan Chappell with JP Morgan.

Jonathan Chappell - *JP Morgan - Analyst*

First question has to be on the Matson side of course. I wanted to see what your sense was for the port congestion in the fourth quarter. I know you have your own port on the West Coast. So from the shipping side, it shouldn't have too much of an impact. But what about the surface transportation? Any sense you get about the rail or the trucking capacity to meet fourth-quarter demand and to kind of alleviate any delays that could be caused during the peak season?

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

Probably be maybe more in the end of the third quarter and the beginning of the fourth quarter. Certainly there are indications that infrastructure is strained. There appears to be more optimism this year that the ports will be able to handle the increased container volume. But the question is how well will the rails, which have historically not done a very good job handling increased volume and trucking do. So there is, I would call it, a rather modest concern that there will be some inefficiency and some level of modest disruption associated with just all of the transportation infrastructure.

On the Portside, there aren't any indications at this point that it will be a major problem.

Jonathan Chappell - *JP Morgan - Analyst*

I know it's early but what about the China infrastructure situation? Have you taken a look yet as to their port capacity there? Any potential congestion issues there that may impact your initial forecast for volumes or revenue there?

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

That's one I can speak with some direct and recent experience. Jim Andrasick and I have -- actually, I made two trips to China since our last call and Jim and I made a pretty extensive visit to the Shanghai port. All I can say is it's pretty remarkable. I know that there are experiencing quite significant year-over-year increases in volume. But everything that we saw would indicate that they are quite forward-thinking and quite able to handle these increased volumes. So we don't have port capacity on our radar screen as a big issue.

Jonathan Chappell - *JP Morgan - Analyst*

If I could shift to the real estate side just real quickly with one question. There was an article out about a month ago in the Wall Street Journal about the political environment out there. Also there was a lot of gossip about three months ago regarding political rumors out there. Can you just address the political situation, where A&B stands as far as entitlements go? What is the big (ph) evolving political process out there?

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

Are you referring to the article on Hokulea or on the big Island?

Jonathan Chappell - *JP Morgan - Analyst*

That's correct.

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

That's a pretty special situation that has gotten a tremendous amount of publicity for a number of reasons, including the size of the investment made by the developer and the number of closings that took place on a project that hasn't been built and there is some question about whether it will be built or not. So I think you have to look at the context of that specific project separate from the overall environment in Hawaii. Sometimes we are involved in some other jurisdictions and we talk to a lot of other people and they tell us that a lot of the challenges and issues we have in Hawaii seem to be pretty much the same as you've got in California and New York and choose your location. So I am not going to say it is an easy process in Hawaii to go through the entitlement process for development. It's a very difficult and lengthy process. But you know what? It is a necessary process. I think it is important for this community to be very careful in its growth and its development activity. And we are just part of the community and we are also sensitive to the fact that we have a number of projects in a lot of land that over time, we hope will meet community needs.

Operator

Chaz Jones Morgan Keegan & Co.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

I'm just trying to understand the margin dynamics at Matson here a little bit. Is there any way you could maybe be a little more specific on how much of the margin improvement was specifically attributed to SSAT?

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

The increase was a little over $7 million on a quarter-to-quarter basis. Maybe I can just do it in dollar terms instead of in percent terms. The primary driver, as was indicated previously in the remarks, was volume. And that represented about four of the $7 million increase. There were a lot of other variables. The SSAT increase was about 1.3 million of the overall increase. So there are a number of other dynamics that deal with a little better prices. Matson had a good experience in operating cost, excluding fuel, in the quarter. The principal driver of the 7.3 million was approximately a $4 million increase in volume. And another factor, because you asked specifically about, was 1.3 million increase from SSAT.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

I know you guys are looking at it conservatively. But given that you basically have a fairly favorable outlook for SSAT and if volumes continue to remain strong for Matson, is a mid 15% to 17% operating margin? I mean is that completely out of the question?

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

Well, we did 17 % this quarter. So I guess (multiple speakers) the question.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

But you guys keep saying they are not sustainable. I guess that's what I'm getting at. If volumes are continuing to increase here I mean why wouldn't they be sustainable?

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

Well, for one reason, I just mentioned that we just broke out another ship to service. We kind of had an unexpectedly high increase in our volumes and it started to affect our customer service in the second quarter. So it's necessary to bring a ninth ship out. So that was a little bit of an anomaly relative to that specific circumstance. You can see, and if you look -- I don't know, you probably can't page back now to the slide that we showed you but you can look at it later on, you can see that there is also, in addition to seemingly normally a peak in the second and sometimes in the third quarter, you can see that there are also seasonal variations in the margins in the first and fourth quarter. So you have got to factor that into the equation as well. But I would reiterate and emphasize again that in the second quarter just about everything went right. In most operating businesses, that is not usually the case. Something always goes not right.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

You talked about pricing being down on the auto side of the business. Is that impacting your overall margin on the auto business?

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

We don't break out and we have not broken out our margins by auto and by containers. So we can't do that today.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

Can you comment directionally either if it's up or down?

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

No. What I can say is that on the cost side, going in the opposite direction from a reduction in rates, is the fact that the cars that the competitor has and the cars that we weren't shipping were cars that we formerly shipped at the highest possible cost. So they were sort at the margin, our highest cost way of shipping cars. So I'm just not able and not prepared for competitive reasons to break it out but there is definitely an offset against lower rates which is that we are having a higher percentage of our cars that we are carrying -- will be carrying or carried at a much more efficient means. And that is our strategy.

Chaz Jones - *Morgan Keegan & Co. - Analyst*

That's very helpful. I appreciate it, guys.

Operator

Jamelah Leddy with McAdams Wright Ragen.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

When you discuss making additional units available for Kukui'ula, did you say what the time frame was on that?

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

No. What we did say to all of us is we're going to go from 123 to 270. We don't have any plans about exactly -- we're not far enough along yet to know exactly what the distribution is of when those units would be sold and when the program would expand. But what we know is we've got 270 units that have been incorporated in what is called a Founders Program, which is up significantly from the number we had in the first quarter. That doesn't necessarily mean that the sales are going to be accelerated because it still takes the same amount of time to build them.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

That was the next question I was going to ask. Given your very high success rate with the initial 123 units, is there the opportunity to develop this property any faster or are you constrained by just physically the time it takes to actually develop it?

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

I would say over the first couple of years you are kind of constrained about just having the infrastructure in place and then building the first or having built the first several series of the homes. So I don't think you are going to see a major acceleration of the project. The timeline, which is now 10 to 12 years, could well be accelerated if the sales success is there. But I think for the first several years you have just got physical constraints on your ability to put infrastructure in and build homes.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Getting back to the second-quarter container volume, you said this is not sustainable. Was there anything in particular that you can point to that drove the growth this quarter that made it so large or was it just general positive economic activity?

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

I would say that if there was one overriding factor, it's construction.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

So if we have -- if the construction boom continues into the third quarter, you theoretically could have another very very strong container volume-quarter again?

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

Yes. I guess you could. We thought that 4% or 5% in the first quarter was pretty good. You just don't see double-digit volume increases in the business. So we will just have to wait and see what happens. We were surprised by it.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Just a quick question on your fuel surcharge. I know you mentioned that you were going to be adjusting that once a quarter. Currently, are you just adjusting it as needed regardless of the timing?

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

No. In fact, it really -- to try to make it easier for our customers to understand what with the rates are going to be, I think Matson listened to the customers and made a decision that the rates would be adjusted -- that they would be announced in the neighborhood of four to six weeks before a quarter begins. In effect, when the quarter begins, that rate -- the rate would be increased or decreased and that that increase or decrease would remain in effect for that quarter. So there would be no changes within a quarter.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

From a competitive standpoint, is Horizon (indiscernible) a similar thing?

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

I'm sorry. I didn't hear the question.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Is Horizon doing a similar rate adjustment or do you know what they are doing in terms of their fuel surcharge?

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

We know that -- we really don't know what their policy is right now on that. We have just decided to take the lead and make it a policy matter for us.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Just one last quick question on your logistics operation. Obviously, profitability was very impressive. But the overall revenue growth of 14%, just as a percentage, was down from the high-growth numbers that you have been able to achieve. I understand you're anniversaring (ph) some 60% growth quarters a year ago or so. I guess I'm just trying to understand what the opportunity is going forward and have you sort of sought the low hanging fruit or what kind of growth is reasonable going forward in logistics?

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

I think you're going to continue to see the business grow. What we really have got is we have done a couple of acquisitions in the last two years and the benefits of those are showing on the financial statements but the you start lap (ph) the acquisitions and the results that you got before. So I think you're going to continue to see good results there. That is certainly what we expect. You're going to continue to see growth in the business and to some extent, that growth will be not only a result of market factors but it will also be a result of our acquisition activity in the future.

Jamelah Leddy - *McAdams Wright Ragen - Analyst*

Thank you very much and congratulations on a good quarter.

Operator

Alex Barron (ph) with JMP Securities.

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

Alex, can you ask a question to Chris here?

Alex Barron - *JMP Securities - Analyst*

I wanted to focus a little bit on your Kai Malu project. I was hoping you could give us -- I think it might have been on the slide but it went a little fast, what the average prices are that you have been selling the homes for thus far?

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

It did go quite fast. The average price for the 118 units that are under binding contract are $1.2 million.

Alex Barron - *JMP Securities - Analyst*

Do you have some idea or guidance you can give us for what kind of operating profit you think you'll be making on those?

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

We're not able to do that right now. But it is going to be a very attractive return for us.

Alex Barron - *JMP Securities - Analyst*

What was the timing again on the sale of the last phase?

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

We are going to offer -- there are -- I believe the last phase has 28 units that will be released in August. So we will release those units to the market and in effect then, we will have released all 150 units.

Alex Barron - *JMP Securities - Analyst*

Would it be fair to say that those homes are the most attractive locations or views and therefore may be the -- that you can get higher pricing on those?

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

No. I would say they are not. They are just -- I don't know how that word average works but they are similar to several of the other phases before them.

Alex Barron - *JMP Securities - Analyst*

Then I guess on Kukui'ula, you guys are talking about the first closings being in late '06. So I was hoping you could help us understand I guess your thinking in terms of what percentage of your first phase, which I think was something like 500 and so units, how do you see the percentage of that breaking out into like '06 deliveries versus '07 versus '08?

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

I think, Alex, the best way to answer that question, and correct me if I misinterpreted it, is really to focus on the absorption rate that we talked about at Kukui'ula and the date at which we believe we will commence closings. We believe absorption will be about 100 to 120 units a year and that we will commence closings in the latter part of 2006. I think that is probably about the best guidance we can give you at this point in terms of the pace and phasing.

Alex Barron - *JMP Securities - Analyst*

Would it be equivalent to say that you expect 100 closings in '06 or not necessarily?

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

No because I'm talking about the pace or the rate at which we would do it which would be 100 to 120 a year. Of course, we wouldn't have a full year of closings.

Alex Barron - *JMP Securities - Analyst*

Okay. Okay

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

In the future, to the extent that we can, we will provide more specific guidance when we get a little closer in.

Alex Barron - *JMP Securities - Analyst*

Okay. That sounds good. Lastly, I guess on the logistics side, I just wanted to get an idea of -- obviously, you had great margin increase there. But I want to understand like if it was all trucking or whatever the segment is that gives you the highest margins, how high can margins theoretically go there?

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

Margins can go higher. It really will be based upon your mix of highway versus intermodal and also your competitive efficiency. So what we believe and part of our operating -- our model there, is that there are -- this is one business where when you get bigger, you should be more profitable; at least at the level we're at. So we believe that, and we would hope that as we are able to grow this business more and as we continue to shift into more highway, that over a period of several years that the margins will continue to get larger.

Alex Barron - *JMP Securities - Analyst*

Great job.

Operator

Nicholas Aberle with Caris & Co.

Nicholas Aberle - *Caris & Co. - Analyst*

Just wanted to follow up on the auto pricing trends. You said the pricing came down on that side about 10% during the quarter. Was that largely a function of Pasha competitively entering the market?

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

Yes.

Nicholas Aberle - *Caris & Co. - Analyst*

Would you say that there is scope for further downside in pricing going into the back half of the year?

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

I really can't say whether there is or there isn't.

Nicholas Aberle - *Caris & Co. - Analyst*

Separately, you guys have provided a little bit of analysis on what type of container shipments and revenues can be derived from the China/Guam business. Could you remind us what type of operating margins relative to the current Matson operating margins that that business will contribute?

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

I can't remind you because we haven't disclosed it.

Nicholas Aberle - *Caris & Co. - Analyst*

Any idea whether it's going to be above, below, inline or is it just too early to tell?

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

I'm sorry. Or it's just as --

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

Too early.

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

It's a component of our overall business mix. We have historically not broken out margins by the various segments of the business. So at this point, we're not prepared to do so. What we do know and what we have gone through quite carefully is we have looked at the additional capital and we have looked at the returns that we are going to be achieving on that capital. We feel good about the investment.

Nicholas Aberle - *Caris & Co. - Analyst*

Do you guys still see that business helping you guys to break even from the shortfall that is going to be derived from losing the APL charter next year?

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

Chris, I'll let you comment on that.

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

Well, certainly not in the near-term. As we've indicated, we expect, and again we've talked about two different things happening. One is the termination of an old relationship and the other is the initiation of a new relationship. We believe that on a net basis from an operating profit perspective that next year we will be down about 20 to $25 million and then there will also be interest expense associated with the new service with the vessels that are being purchased for the new service. So certainly next year, we don't expect break even from this service. I would say that we expect that it will take a few years to narrow that gap and we certainly hope, as we have indicated, that we will eventually exceed it. We can't say, just because there's so many variables, especially with respect to the market, we can't say exactly when that inflection point will be or how great -- how big a margin we will hopefully eventually exceed it. That is at least the near-term impact that we feel pretty confident about projecting.

Nicholas Aberle - *Caris & Co. - Analyst*

I wanted to quickly touch on the C9 roll on/roll off conversion strategy. Apparently you guys are trying to increase capacity. I was just curious whether you guys that there was enough increasing demand out there to fully utilize that enhanced capacity?

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

We do believe there is. We are still in the final stages of our evaluations. But it is really about -- you can carry the cars and containers for example or you can carry them on roll on/roll off and there is another way to carry them as well. But the issue is the ability to have the lowest possible cost means of carrying the cars and that is where the RO/RO capacity is superior. Right now, we're carrying the cars in containers, a number of the cars in containers. That is a very expensive means of transport. So a shift to RO/RO would be a lot more efficient means of doing that.

Nicholas Aberle - *Caris & Co. - Analyst*

Last question, I was just looking, total project costs on Kukui'ula, about 725 million. Is that higher than you guys previously thought when you first looked at the project and is there scope for those costs to continue to rise as you guys get deeper into the development?

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

The number is, I believe, the exact same number that we previously disclosed that was in our first-quarter webcast. So I don't think there has been any change there. I have got to believe that when we get into all the elements of this that the number is going to change. We are just trying to provide some reference point at the inception of kind of the whole scale of this thing. At this point, we haven't made any changes to our estimated total cost.

Nicholas Aberle - *Caris & Co. - Analyst*

Perfect. Thank you very much. Good luck in the back half.

Operator

Tom Spiro (ph) with Spiro Capital.

Tom Spiro - *Spiro Capital - Analyst*

Tom Spiro, Spiro Capital. Aloha.

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

Hi, Tom Spiro.

Tom Spiro - *Spiro Capital - Analyst*

Hi. Great quarter. I just had a couple of questions about the upcoming China service. Allen, you mentioned that we hope down the road to be transporting 50,000 containers a year. What's the capacity of the service or another way of asking is what would the utilization rate be if we were doing 50,000?

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

You would effectively almost fully utilize the vessels on the return. It would be at their effective if not theoretical capacity.

Tom Spiro - *Spiro Capital - Analyst*

To generate 100 million revenues, I guess that is $2000 a container. What does a container go for these days if I wanted to transport one today?

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

Anywhere from 2100 to maybe $2500.

Tom Spiro - *Spiro Capital - Analyst*

And there's not going to be anything unusual about the cargo that we carry that would cause our rates to vary dramatically from sort of the general market rates?

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

There are a lot of factors that could cause the rates to be either a little better or a little worse but I don't think the nature of what is being carried will determine that.

Tom Spiro - *Spiro Capital - Analyst*

Lastly, on the service side, I read articles that from time-to-time suggesting that there are lots of ships on the horizon coming and that some folks are a little concerned about what the rate environment may be, perhaps not in '06 but in '07 and beyond. What's your prospective on that? I'm sure you factored that into your thinking before embarking on this.

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

Yes, we did. One thing about ships being built, they don't just show up one day. You kind of have like a two to three-year timeline. So the intelligence that we had at the time the decision was made is materially the same intelligence that exists right now relative to the increase in capacity and it's substantial. You have to factor that in, however, against a continuing significant expansion in world trade, and in particular the China trade. So the numbers in aggregate look to be very large and they are. But at the same time, if you have got anywhere from 10 to 12% or more increase in compound growth of volume, that adds up over a couple of years. We did, without giving the specific numbers, we did -- we think, knowing that there are some things that are not knowable, we did try to be somewhat conservative in our future expectations for pricing and we've reflected that in our whole evaluation process.

Tom Spiro - *Spiro Capital - Analyst*

You mentioned that the current price range for shipping a container is between 2100 and 2500, did you happen to know roughly what it was three or four years ago?

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

Yes we do.

Tom Spiro - *Spiro Capital - Analyst*

Would you share that with us?

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

You can go back and look at it. It has gone from a low of about 1500 or so. It wasn't three or four years ago. It was about seven years ago, up to levels that are about where they are today.

Tom Spiro - *Spiro Capital - Analyst*

Thanks much and good luck.

Operator

Rob Madden (ph) with Schneider (ph) Capital.

Rob Madden - *Schneider (ph) Capital - Analyst*

I was just wondering if you could talk about what's next that why we, after Kai Malu, are there other parcels that would be suitable for another similar type development or you have something else in mind that you think would be coming behind that?

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

Yes. We have several other parcels that are in a planning mode right now and there will be some residential. We are also looking at some small kind of a town commercial complex there as well. So we think that as we -- pretty much consistent with what we initially said we wanted to have a certain amount of the parcels sold and in effect, to recover on a cash basis, most of our initial investment. Then after that, we wanted to have the ability over a ten-year period to kind of phase these projects in. So there has been no change in our objective or our strategy. Once we are in a position to tell you what are next specific project is, we will but we are pretty deep into the planning on several of them right now, Rob.

Rob Madden - *Schneider (ph) Capital - Analyst*

Okay. On Kukui'ula, I wasn't clear from your comments with the additional I guess 147 units, I wasn't sure whether those were identified or that was just a bulk number. My question was whether you had an idea if the mix was similar in terms of lots versus cottages and size of lots and that kind of thing.

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

Essentially, where the process is at, we don't want to get too far ahead of ourselves here. The lots have been plotted and you can go and you can look and there are little stakes in the ground for the individual lots. But what has not happened is they have not been priced. So what has essentially happened is that we, with our partner, have gone out to the marketplace and said there are these different categories of units, cottages, homesites, meaning land only, available at this price range to that price range and are you interested in becoming a part of this? So we haven't tied a specific price to a specific parcel for those 270. That is going to be something that is -- that is a process that is underway now. So we can't give you the individual composition of all these because we don't know yet. What we know is, because of the additional interest, we are looking at the -- how to price and how to configure these sales.

Rob Madden - *Schneider (ph) Capital - Analyst*

This is a slightly different version of an earlier question I think. In terms of timing, I know you are focused on building the infrastructure. I mean would the expectation be that you would probably close on the lots initially kind of all at once and then start building the vertical component after that or do those kind of happen all at once?

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

I don't think they're going to happen all at once. Clearly, the homes aren't going to be built all at once. This is a very small island with a limited labor capacity. What we are really focusing on now is getting the initial customer and homeowner interest solidified and also going through the approval of the myriad number of permits that are required to do all this. That is really -- it's quite an involved process. We have got I don't know somewhere in the neighborhood of about 18 to 20 different plans that need to get approved by the county of Kauai and some of them are on a critical track and some of them aren't. But we are putting a lot of focus on that effort as well right now. So the indications are very good on the marketing side. We have put our plans, for the most part, have provided them to the county of Kauai. We are getting comments back. There's usually a multiple comment response process that goes on. For us, the key is going to be to hit our timelines over the next six-month period to start getting some of these construction plans approved. So that's really -- that isn't quite the question you asked but that is a pretty big focus for us right now.

Rob Madden - *Schneider (ph) Capital - Analyst*

Would the vertical construction on the cottages even be able to start anytime in the near future or would you have to just focus on the infrastructure and getting the lots ready in the first phase and then move onto the --?

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

You are really looking at '07 for vertical. You could get some lot closings. That's what we're shooting for in '06. As I said, we are not exactly clear how many but the verticals are going to be later on.

Operator

Stewart Scharf with Standard & Poor's.

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

Just wanted to know your views on the revaluation of the juan and if there is any affect that you see?

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

We have looked at that. Chris?

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

I guess the first thing is that the initial action seems to be a relatively modest one and what we have done is we have taken a look -- obviously, there is the unanswerable question at this point in terms of any impact on trade and that sort of thing and obviously we can't comment on that any better than you can and that good certainly affect the market for shipping of goods. But I don't think that at this magnitude there will be a big impact there. What we have looked specifically at is those costs that we expect to incur that would be affected by the revaluation. Those include not only the costs associated with our China service but also other capital expenditures that we make that are in China, which is primarily dry-docking costs and other acquisitions of equipment that we buy from China. And we have taken a look at that and what I can tell you is that in round numbers, the numbers related to the China service, the impact is probably with a 10% revaluation or 10% increase in the value of the yuan is probably in the 1 to $1.5 million range. Then as far as our other expenses, our other capital expenditures unrelated to that service, it is probably in a similar range. So the economic impact on us at this point of 10% increase is fairly nominal.

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

Could you talk a little bit about Sarbanes-Oxley, pension expense, insurance? Is everything pretty much the same from the last call, SG&A going down and Sarbanes-Oxley along with it as part of the --?

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

Well, I'm certainly pleased to announce that our Sarbanes-Oxley costs are going down this year. As I think you know and we've stated we spent in total about $3.5 million last year between our preparation costs and our internal testing costs and our external audit fees. We expect a significant reduction in that for a number of reasons. One is that we have a lot less readiness work to do and we are getting -- just as we go through this, we are getting better at doing the testing internally and relying less on external resources. So that's a favorable. We have had a little bit of an increase year-over-year in our G&A for the first half and for the second quarter primarily associated with the amortization of some restricted stock grants and some other professional service related fees. Other than the restricted stock amortization, which we have made some decisions with the help of external consultants that have shifted some of our incentive compensation internally. So that is likely to be an ongoing item. Other than that, there are no trends in, negative trends, that I can see in our G&A. Certainly nothing with respect to pension costs or any insurance issues that concern us at this point.

Operator

We have no further questions.

John Kelley - *Alexander & Baldwin - VP IR*

We would like to thank everyone for participating and we appreciate your attendance and good questions. Aloha.

Operator

That does conclude today's conference. We thank you for your participation and have a great day.
