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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin fourth quarter 2005 earnings conference call. My name is Jen and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. [OPERATOR INSTRUCTIONS] As a reminder, this conference call is being recorded for replay purposes. I will now turn the presentation over to Mr. John Kelley, Vice President, Investor Relations. Please proceed, sir.

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

Thank you, Jen. Good day, everyone this is John Kelley in Honolulu. Representing the Company today are Allen Doane, President and CEO of A&B; Chris Benjamin, Senior VP and CFO of A&B. After this introduction, Allen will discuss the units' performance in the fourth quarter and the full year and the segment outlooks. Chris will then comment on financial matters and the consolidated outlook, and I'll close with an overview of the Hawaii economy, and then we'll open for questions.

In the slides displayed on the website, please note that you have the option to enlarge them on your screen, you also can print the slides using the PDF listed under supporting materials. A copy of the earnings release are available on our website, there will also be a replay of this conference call available on the web for one week. I'm available to take calls later on. Please note that at this time of the year Honolulu has a five-hour time difference with Eastern Standard Time.

Statements in the call that set forth our expectations or predictions are based on facts and situations that that are known to us as of today, February 2, 2006. 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 our other subsequent filings with the SEC. Statements in this call are not guarantees of future performance.

With that I'd like to introduce Allen Doane. Allen?

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

Thank you, John. Good afternoon, and good morning. These stack bars show on the left fully diluted earnings per share for the four quarters of 2004 and for the four quarters 2005 on the right. The $0.53 per share earned in the fourth quarter of this year compares favorably with the $0.42 in last year's fourth quarter. Net income was up 25% in the fourth quarter and , also, 25%for the full year, an excellent performance.

Shifting to operating profit, these stack bars show fourth quarter for both '04 and '05. Overall, consolidated operating profit was up strongly from about $40 million to over $47 million. You can see the predominate influence of transportation to segments in blue in both periods. If you recall there were no significant property sales during the fourth quarter of 2004, so shown on the right stack in orange you can see the contribution of this year's fourth quarter from property sales. Showing 2004 and 2005 on a full year basis, the more normal contribution to operating profit on both parts of real estate leasing end sales is more evident. 2005, again, was an outstanding year with total operating profit up from about $195 million to $241 million, with good growth in each segment. Let's review each segment now. John?

Matson's revenue, promotion transportation was up 3% and operating profit shown here up 18% for the full year. To illustrate some of the contributing factors, let's now discuss some of the primary operating metrics. Here are the quarterly volume numbers for the Hawaii service. On the left for the full year 2005, container volume was up about 4% with growth in both westbound and eastbound shipments.

Containers were off by 3% in the fourth quarter, however, with the greatest portion of that attributable to a one-week shorter accounting period in 2005. On the right, total 2005 auto carriage was off about 6%. As you can see, 2004's fourth quarter auto carriage was unusually high, an all-time record. In 2005 fourth quarter autos were off about 20%, the combined effects of the 2004 surge and this year's shorter accounting period and competitive forces. On the left here are average revenue yields, including fuel surcharge for westbound containers, cargo inbound to Hawaii.

The yields reflect the combination of factors including an increasing fuel surcharge 13% in the fourth quarter of this year, a 3.5% rate increase earlier in the year, an increase in the terminal handling charges, and of course, changes in cargo mix. As we have seen in prior quarters, aside from though fuel surcharge, which is the means of recovering higher fuel costs, the increase in rates is within a normal range, one that remains consistent with increased operating costs in the business. On the right side are the Hawaii auto yields. There's some seasonality mix that occurs in autos. Private and military autos are higher rated and mostly are transported in the summer.

Manufacturers cars are lower rated and predominate the other three seasons. On a year-to-year basis, recall that we responded in the second quarter to a competitor's 10% rate increase for private and military autos --

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

Decrease.

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

I'm sorry. John.

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

Decrease.

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

Some of the decrease also resulted from negotiated expansions of long term contracts with manufacturers. Ford's contract now goes to 2009 and GM to 2010. Rate concessions were part of that with most of the early incentives now behind us.

Fuel cost. This chart shows the cost of fuel expense in each quarter, an average of nearly $48.50 per barrel in the fourth quarter of 2005. As I indicated a month ago, Matson's fuel surcharge, which is adjusted quarterly, is intended to offset the increases. With a shift to only one regularly scheduled quarterly rate adjustment, which our customers prefer over our former practice of making rate adjustments whenever fuel prices dictated, we did give up some flexibility. For that reason, we did a better job of offsetting the 2004's fourth quarter than we did the 2005 fourth quarter increase in fuel cost. The surcharge was adjusted upward to 15%, effective January 1, 2006.

Operating margin. Matson's operating profit margin for all of 2005 was a strong 14.6%, well above the 12.7% recorded in 2004. A good portion of that improvement was attributable to performance of SSAT, Matson's stevedoring alliance on the West Coast. SSAT income is booked as investment income, so it boosts operating profit without raising revenue. As a result, it gives profit margins a kick upward. The profit margin was just over 10% in the fourth quarter versus 11% in the fourth quarter of 2004. As you will recall that I had indicated in earlier calls that the very high levels of second and third quarter operating profit margins were not going to be sustainable. When we get into a period of seasonable downturn as we do in the fourth quarter and we will see in the first quarter of next year.

We, again, had favorable Hawaii service metrics, and another good contribution from Matson's stevedoring unit in the fourth quarter-- joint venture in the fourth quarter of 2005. With those favorable factors, we were not able to overcome lower auto volume, lower auto rates and some higher costs, including fuel. A greater portion of the cargo going to neighbor islands and GMA that is part of the Guam-China startup. This shows the quarterly distribution of operating profit and compares 2004 with 2005. It's especially helps us to recall that there are some seasonalities, previously indicated in Matson's business.

After tracking ahead of 2004 in each of the first three quarters of 2005, we were slightly disappointed by the unfavorable comparison in the fourth quarter against last year. But keep in mind that the shorter accounting period played a part in this, as did fuel and other costs we have mentioned previously. 2006 outlook, overall the outlook for 2006 is pretty good for Ocean Transportation considering that we are ending an attractive alliance and starting a new business with the China-Long Beach Express. On the revenue side, Hawaii freight demand looks to be good, the result of the state's continuing positive economic picture and our competitive position.

Market conditions are stable in spite of the new auto carrier competition. Matson's carriage of autos remains quite strong-- and does remain quite strong especially with the long-term contracts mentioned earlier. Our planned 2006 rate program is already in place, including a first quarter fuel surcharge increase mentioned earlier. There are some potentially mitigating factors, however, in what is otherwise a favorable outlook. We have to absorb the cost of fleet deployments with the new service.

We have contractual cost increases for both longshore and seagoing unions, and we continue to watch carefully inflating costs of goods and services we purchase, with fuel being the biggest challenge. For example, fuel costs have continued to rise since the first quarter fuel charge that was put in place on January 1, and fuel surcharges in the trans-Pacific trade are part of the overall competitive rate structure, so we face more uncertainty on the recovery of fuel cost than in the Hawaii trade.

China start-up preparations have been completed successfully, and, in fact, the first ship in the new service sailed from Long Beach yesterday. Rates in that trade are very competitive thanks to new capacity. Our forecast assumed a reasonable decline in rates, but we won't know how rates will settle out until annual contracts turn over in May. In the meantime, normal seasonality and the existing contracts will suppress rates for the first couple months of the service.

SSAT should have a good year but the pace of growth will be lower than experienced in 2005. Also, keep in mind that the first quarter of 2005 included a $3.2 million prior period adjustment for SSAT.

Now on to logistic services. MIL, our logistic subsidiary, had a 62% increase in operating profit in the quarter on a 15% increase in revenue. Excuse me. Let me restate that, it had a 62% increase in operating profit for the year on a 15% increase in revenue.

Here are the operating metrics for logistic services. The revenue hike was a result of a 2% increase in total volume combined with a shift in business mix and broadly higher rates. International and domestic intermodal volume was lower but highway volume was up. Yields increased in all lines, especially due to fuel surcharges, as shown on the right the combination of growing higher margin, highway activity and higher yields kept margins above 3% with the fourth quarter being a new high.

This compares results of logistic services 2004 versus 2005. The trend that we experienced of good growth is quite apparent. The outlook for 2006, it is likely 2006 we'll see a slowing of profit growth. We do expect MIL, however, to continue to emphasize the expansion of the highway brokerage activity, where demand remains very strong and margins are higher than in rail intermodal. Recently aggressive rail rate increases have created volatility in the market and they could compress margins.

Turning to food products. This part of the business continues to play a small role overall in our financial results. With one-time weather related disaster relief payment of $5.5 million in 2005, 2005 operating profit was more than double the prior year. Raw sugar production, you can see that for full year we came in pretty much where we indicated we would in our last call at 193,000 tons.

The challenge for this part of the business is to get back to numbers at 200,000 or above as we move forward. We're earning more on energy sales to local utilities, but the cost of energy for supplemental boiler fuels for field work and other items, like fertilizer, have all risen, as well.

Domestic sugar prices. Recently, we received questions about the pricing of the 2006 crop because current stock prices have actually risen quite significantly. This chart illustrates the practical reality. The current stock price is not the whole story. We produce sugar from February into December. The pricing meets the matching availability with most of our summer production priced based upon the November and January contracts, we need to see these prices rise before we can get very much benefit. Food products outlook for 2006. Sugar and coffee have both suffered lower than expected sugar production in 2005. At this point, the solutions been identified for sugar that will be implemented in 2006. We think we're going to have good demand for specialty sugar. Power sales continue to be a positive. We have just approved an expansion of our specialty sugar production capacity, which should improve our profitability over the longer run. But for long run success, sugar definitely needs to find a new model, which I believe will be energy driven.

Turning now to real estate leasing, property leasing enjoyed a 13% increase in operating profit on a 7% increase in revenue, very good performance. The segment had some favorable investment story in the year and some good same-property growth. The most notable investment was the [die A] property, which is a good retail location in Honolulu with an outstanding yield, and incidentally good redevelopment potential.

Occupancy metrics, very high, both on the mainland and in Hawaii we're just about as high as we can get there. The portfolio is performing very well. Operating profit year-to-year, pretty predictable with very nice growth year-to-year. The outlook in real estate leasing for 2006, we believe that this part of the business will continue to perform very well with solid high occupancies and good rates.

It's been our practice, we continue to believe it will be our practice to reinvest the proceeds when we do sell properties. We do expect that we will have a few property sales in 2006, so the portfolio will continue to-- to evolve and-- and to grow slightly. We don't assume any material change, though, in the capital committed, and we do expect that this business will be a very good contributor.

Real estate sales, had a very good year, operating profit increased 27%. Let's just talk about a couple of our development sale projects. Kai Malu at Wailea, you just read the overview there. Construction is progressing well. As the photo shows we're now into the framing process on the first increment of this development.

We have on the next slide a number of other smaller projects in the pipeline at Wailea, and we'll talk more about those as we proceed through the your. At Kukui'ula, our joint venture with DMB, the venture is proceeding as planned. The long-term development will consist of about 1,200 units on 1,000 acres with enhancements to the plan, amenities and additional cost contingencies, we expect the cost will be about $850 million to develop the project. This is an increase from the $725 million projected earlier, but we do forecast greater revenue to cover the difference.

A fair amount of this increase is actually a contingency which has no identified elements associated with it, but I think, and I believe we're being conservative by increasing the costs. Progress at Kukui'ula, last Monday, I'm very pleased to report, I participated in the blessing and the ground breaking for the first of two major project roads. This is something that's very, very important to get the project going.

It's very satisfying to see the progress, the community support we have received, along with the buyer's enthusiasm which remains high. With the bypass road, permits in hand, and construction starter at three more important permits we need to receive in 2006 and we are acting to get those approvals in a timely manner. With those approvals, and the scheduled construction, we anticipate that the first lot closings can take place in the fourth quarter, as we have previously indicated, and we now believe that we will be able to close more lots this year.

But the schedule is schedule fluid and we will update the time line each quarter. Pricing of these initial lots will average about $1.2 million. Note that these sales will close well before all of the project's infrastructure and amenities will be in place. So they represent a reduced price incentive.

And because the project will be closing sales before all of the infrastructure is in place, we'll be using a percentage completion accounting which will allow us to recognize only a portion of the revenue on these lots. Chris Benjamin will describe this more fully in a few moments.

With strong initial non-binding sales progress, the marketing effort is now focused on retaining all of those who have signed up for our Founders and Discoverers programs, and to grow the awareness of the project overall. The next slide just provides a time line on the critical elements at Kukui'ula. Moving now on to another Kauai project, Port Allen. Just have a moment to read this. It's just down the road from Kukui'ula, we're building 60 single family homes and 75 condominiums. Construction is starting to begin and we expect that this project will be very successful.

Keola Lai is a Honolulu project near downtown. Sales are progressing on the high-rise shown in this artist's rendition. Like all of our high-rise projects there's an internal minimum number we need to reach before construction can proceed. This project offers a very pleasant short walk to work for people employed downtown, an increasingly desirable feature. Ka Milo, on the big island at Mauna Lani, give you a moment just to register on the facts here.

The joint venture with Brookfield Homes is proceeding on pace. Sales are moving along on this project and we have gotten good early response. Without going into detail, we have a number of other projects in the pipeline for the next few years, and this is just a reminder of a few of those.

Talk now for a moment about Kaka'ako Makai on Oahu. A&B was selected last September by a state agency to be the developer of its Kaka'ako waterfront project. After initial public response, the project scope has been revised to 150,000-square-foot of waterfront retail, two residential buildings with 625 condominium units, an amphitheater and other public amenities. In light of the significant community and political opposition, the 2006 Legislature is reviewing the project and as a result it may be altered or terminated.

We will respect the direction that the legislature chooses to take on this. Keep in mind that this project was never in our baseline plans, and we have a very healthy pipeline with and without it. Next, and-- and most, of immediate interest are Hokua joint venture with MacNaughton and Kobayashi. This project is completed and all 247 of the units, I believe, closed in one day. Something we have never seen in Hawaii before. Very successful project and this will be a-- a recorded in the first quarter in our P&L.

Not to talk about the next page, our development pipeline, but just let you know that there is a whole sequence of current and future developments that will be providing income to this part of the business. The real estate sales outlook for 2006, the market is stabilizing in the residential area at a high level. Permits, construction progress are pretty much the earnings variables for 2006. The quarters are going to be as-- as they always are, variable with a large benefit from the Hokua closing in the first quarter, and both Ka Milo and Kukui'ula starting to show up in the fourth quarter of this year. With that, I'm going to turn the presentation over to Chris Benjamin.

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

Thanks, Allen. And aloha to everybody listening. I'm going to as usual start with a quick review of our balance sheets for the full year. Investments are up $43 million, which includes retained earnings at SSAT and $30 million of contributions to our real estate joint ventures. Real estate developments are down slightly, and that reflects the sale of the Lanikea property, partially offset by a lot of new construction spending. Property is up primarily because of the MV Mauna Lani, the new ship that we took delivery of this year, while the CCF balance has been increased in anticipation of our next ship, the MV Mauna Lai, which will delivered later this year.

Our asset base grew by nearly $300 million in 2005 and is now is just over $2 billion. Liability changes are primarily driven by the vessel purchase-- actually both vessel purchases. Debt is up $82 million entirely due to the new $105 million term facility for the ship for just purchased and then deferred income taxes have increased $76 million, of which $61 million is a result of capital construction fund deposits. You may recall that about $100 million of the purchase price of the two vessels will be subsidized by tax deferrals. So far we have received about 60% of that cash flow benefit with the rest to come this year.

And, finally, our shareholders' equity rose $110 million in 2005, thanks primarily of net income of $126 million. On the next slide, our debt levels, as I noted, are up $82 million this year. We're at a 24% debt-to-debt plus equity level. We expect this increase-- this to increase in 2006 as a result of the capital budget that I'll describe in a moment, but we will still be at a very comfortable level at year end. As for cash flows, we have had very strong operating cash flows of $277 million, which were $104 million higher than 2004, primarily as a result of higher tax deferrals and higher net income.

CapEx I will talk about on the next slide. There were $69 million of net deposits into the CCF in 2005 with some big deposits partially offset by withdrawals for the purchase of the Mauna Lani. Finally, issuance of new debt in 2005 exceeded repayments by about $70 million, again because of the new vessel purchase.

As for capital expenditures both 2005 and 2006. For 2005 CapEx totaled $337 million, as I mentioned before this is our internal definition of CapEx and you can see how it differs from the GAAP definition by looking at the adjustments at the bottom of the slide. Matson expenditures included about $150 million for the new ship and other Guam-China equipment. The balance is made up primarily of other vessel improvements and container acquisitions.

At Property, spending included $55 million of income property acquisitions, including the Lanihau shopping center in Kona, which is part of our redevelopment of a development program. The balance of the spending funded the significant progress made on several real estate development pipeline projects including $25 million of construction at the now sold Lanikea condo.

Food product spending was typical of the maintenance and replacement needs of those businesses. For 2006, the outlook is for even more capital spending, but as always it includes what we call aspirational capital for the real estate business. Our actual spending will depend on our ability to find attractive investment opportunities. About two-thirds of the $210 million number that you see there for real estate is earmarked for construction progress on existing or identified projects, while about one-third is for as yet unidentified, undesignated acquisitions.

At Matson, the lion's share of the 2006 capital is related to the new ship in the China service, along with investments in roll-on, roll-off capacity on our container ships to further strengthen our auto operations. As Allen indicated a moment ago, we will be following the percentage completion method of revenue and margin recognition at Kukui'ula. Many of you are probably familiar with this approach if you follow other real estate developers. While revenue recognition is triggered by the sale of a lot, even before the lots are available for construction of a home, the portion of revenue that is recognized depends on the portion of project-wide costs that have been incurred.

For example, if total project costs are expected to be $100 million and $10 million have been spent through the end of an accounting period, then 10% of the revenue and margin would be recognized on any lots closed through that point. If at the end of the next accounting period $20 million of costs have been occurred then the next 10% for a total of 20% would have be recognized in that next period on those original sales. This does not create-- I'm sorry this does create some forecasting challenges for 2006 because we need to estimate both the total project cost and the cost to be incurred by the end of the year, and there's a lot of categorization of various costs that needs to take place.

At this point, it's too early to say exactly what percent of completion will be reached in 2006, but given that the infrastructure work will take several years, suffice it to say it will be a relatively small number probably in the 10% to 20% range for 2006. Next I'd like to make some comments about various consolidated and corporate matters. First, corporate expenses were up about $3.9 million in 2005 over 2004. The biggest factor was compensation, primarily the result of higher incentive compensation relating to our strong performance, and also mark-to-market adjustments on deferred stock resulting from stock price appreciation during the year.

Another factor was the contribution of $1.3 million to our charitable foundation, $1 million of which was in the the fourth quarter. We have not had to fund the foundation for several years because of a 2001 donation of appreciated bank stock, but we resumed funding in late 2005. The planned contribution for 2006 is much lower and will be spread throughout the year.

On the positive side on our corporate expenses we did see a nice reduction in our Sarbanes-Oxley related costs in 2005, which was our second year of 404 compliance. As for our corporate expense outlook for 2006, based on our budget we expect about a $3 million reduction compared to 2005. Moving on to other matters, we closed 2005 with a lower tax rate than previously projected, thanks to credits generated by the American Jobs Creation Act of 2004. For now we expect to return to a 38% tax rate in 2006, but will continue to evaluate that. We're ready for stock option expensing, as required by FAS 123R, and we expect about a $2 million after tax impact this year, which is consistent with what we have been reporting in our

10-K's in the past. Finally in light of the scrutiny many companys' pension plans are getting today I do want to mention that we're fully funded in our single employer plan, and had a very good year of asset appreciation for our pension fund.

Finally, I'm going to close my presentation-- my part of the presentation today with our present outlook for 2006, which is quite consistent with indications we have given in the past. As Allen mentioned, there are a number of positive factors in the '06 outlook with Hawaii's economic strength and both Matson and Properties' competitive positions high among them.

Although real estate markets may be moderating we don't expect this to have a major effect on 2006 earnings in real estate, nor do we see any softening in freight demand or Hawaii rates. Allen also has mentioned several other positive forces in our businesses. So we should have a very strong year operationally with these factors supporting the base levels of growth that we target. This core growth, however, will be more than offset by the termination of the APL-Guam alliance and the significant transition to our new Guam-China service. We continue to believe we will experience a year-over-year drop in consolidated earnings and at Matson, you may recall, that we estimated a $20 million to $25 million operating profit impact as a result of the Guam-China transition, and about a $12 million interest expense hit.

In aggregate, this $32 million to $37 million impact is still a good range, but the impact will be more pronounced at the operating profit line while interest expense should be lower.

Beyond the executional challenges of moving Guam-China and our real estate projects forward, we'll be watching various external factors such as market conditions and energy-related costs. So to be much more specific at this point isn't practical or prudent. With that I'd like to turn it over to John to conclude our presentation with an economic update.

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

Thanks, Chris. I'll start with the chart on visitor arrivals, which is a clear indicator of our benchmark visitor industry. On the chart is data through the fourth quarter of 2005 in which total arrivals were up 5.7% and that marked the 10th consecutive up quarter for visitor arrivals. Since year end news report indicates that arrivals continue to be strong. Here's the long term chart of visitor arrivals on a full year basis with the gold star over 2000, the old record, 6.95 million visitors. Domestic visitors are on the bottom of each bar with international arrivals on the top.

The preliminary total for 2005 was just released and it was 7.39 arrivals by air for a new all-time high, interestingly, in 2000 international visitors, primarily from Japan, were 36% of the total. In 2005, international visitors were just 29% of the total. And behind these numbers spending by visitors also reached a new record 11.5 billion, soundly surpassing the '04 record of 10.3 billion.

On the employment side, this chart shows the unemployment rate for Hawaii and the entire U.S. on a monthly basis. Hawaii's unemployment rate remains the lowest in the country at 2.8% in December versus 4.9% for the entire U.S. As you can see Hawaii has been below 3% in every month since March of 2005. Payroll jobs in Hawaii have risen now for 13 consecutive quarters and data on this series is not available for the fourth quarter yet. Similarly, construction employment remains important. That measure has now been rising for 14 consecutive quarters. And even though the quarterly data isn't out yet, December saw 300 new construction jobs and the full year had 3,600, an increase of 11.8%.

In residential resale markets, [Hawahu] where Honolulu is located is the largest market by far. In recent months the number of condo and single family home else sales has been coming down. On the right side chart pricing has been fairly steady to date at a high level. With smaller absolute numbers the Maui residential resale market moves around more but the trends are similar. Volume-- lower volume and still high prices. So the question is whether the smaller number of transactions will lead to lower prices or not, and if so, by how much. We'll keep showing this data in the calls, so we can track it over time. With that, operator, we'll end the formal remarks and open for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank, you, sir. [OPERATOR INSTRUCTIONS] Gentlemen, your first question comes from Jon Chappell with JP Morgan.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Good morning, guys.

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

Hey, John.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Pretty detailed update there. I just have a couple of quick questions on the Matson side. Allen, you mentioned a couple of times in your remarks about the competitive impact on the auto volumes. Is there any way to kind of quantify the impact that Pasha had versus the shorter accounting week?

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

Yes we-- you know, we're not prepared, obviously, to provide an accounting description of that relative to a competitor. We do believe that the accounting week is-- is pretty-- pretty simple. You take 1/14th of the result-- because it almost works out that way, John--

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Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Uh-huh.

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

-- and-- and the numbers actually would have flipped around the other way for containers had we had one more week as we did last year. On the auto carriage side, if you go back to that one chart you'll just see how remarkable the volume was in the fourth quarter of 2004.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Uh-huh.

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

And we just weren't able to-- and didn't expect to replicate that in the fourth quarter of this year, but kind of stepping back a bit, the-- the overall response that Matson has provided to the new auto competitor, we believe, has been very effective, and we think that-- that we're still doing quite well in that segment of the business.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Uh-huh.

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

And are actually proceeding now to, in effect, rebuild one of our C9 vessels, putting a garage on the back of it, which will allow us to carry a lot more cars in a much more cost efficient manner.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Uh-huh.

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

So we're planning on this being long term competition. We're also planning on continuing to perform at a very high level with this competitor.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

You mentioned the 10% pricing impact kind of right off the bat when they first started, has there been any other pricing pressures that you have seen through the the rest of '05 and '06?

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

The pricing impact was on a certain segment of the market, basically the non-manufacturer rental car market. So that took place earlier in the year. There's not been a change there in terms of the pricing level. There have been a number of confidential negotiations that we have had that have resulted in long-term contracts with Ford and GM.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Uh-huh.

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

Which we're not, of course, in a position to disclose.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Right.

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

But other than that, there's really been no significant-- there's just been no significant change, Jon, in the last quarter.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Okay. Before I forget, is there-- as you look to '06 are there any accounting irregularities as far as the number of weeks in each quarter, or will it be pure apples-to-apples?

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

When you say the word accounting irregularities-- [LAUGHTER]

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Well that's why I changed it really fast.

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

Yes, we probably could have done a better job-- you know we did-- we did say in our last call that Matson-- it was only Matson had this-- the way these calendars work every seven years you get an extra week and Matson benefited from that in 2004 and didn't benefit from it in 2005. So that's-- you know that's something that we talked about but maybe we should have highlighted a little more in our previous webcast. But in terms of-- of extra weeks or less weeks, Chris, I don't know of any-- any accounting-- accounting period issues, do you?

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

No, I don't. I think we have a 52-week year once again this year and each quarter should have 13 weeks in it.

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

I have asked Chris if there's a way we could have 53 weeks every year but he says it's possible.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Chris is important but not that important. One last thing, I understand why you do the fuel surcharges on the quarterly basis, but given the current fuel environment and the volatility of the market has there been any thought into updating that more frequently so as you're not always behind the eight ball in a rising price environment?

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

That's quite an appropriate question, but we had updated more regularly and we were really whipsawing our customers around with it. We feel like what we have now is a fair accommodation to both the customers and to the business. We do it quarterly.

We-- we were not as effective in the fourth quarter, given, sort of, this unprecedented volatility we've had recently in fuel prices at-- at recovering the-- the increase, but you know, it-- it's not a-- a-- it's not a serious issue, but there will be quarters when you'll-- when you'll-- based upon what your estimate is of the fuel price for the quarter, you'll do-- you'll recover a little more than you should and there are quarters you'll recover a little less, but we have been told in very strong terms that our customers really need-- because they need to pass things through, too-- that they need stability for a period of time and knowing what their freight rates are, so I think that-- that at the moment, we-- we tend to stay-- we're going to stay with what we've got.

Jonathan Chappell - *JP Morgan Chase & Co. - Analyst*

Okay. Thanks, Allen.

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

You're welcome.

Operator

Your next question is from Alex Baron with JMP Securities.

Alex Baron - *JMP Securities - Analyst*

Yes, thanks. Great job on the quarter, guys.

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

Thank you.

Alex Baron - *JMP Securities - Analyst*

And for the year as well. I wanted to focus my questions on the Kukui'ula project, if we could. First of all, I was trying to look through the slides, did you guys give an update of how many pre-sales you have done or whatever you call the number of homes or lots that you pre-sold in the Founders program?

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

Yes, we haven't provided that, but it's-- it's in the 270 range. I think that was the update that we provided at our last quarterly call. There's been no material change in that number.

Alex Baron - *JMP Securities - Analyst*

Okay. And those are still under a $50,000 refundable deposit?

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

Some of them are under $50,000 and some of them are under a-- a-- part of the program is called the Discoverers program and that has a lower-- a lower funding requirement.

Alex Baron - *JMP Securities - Analyst*

Okay. And I guess I was trying to understand what your comment about retention meant. What-- what does that mean?

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

Retention means that what we're going to do is keep the-- the enthusiasm and the excitement level and the investment value of-- of these-- these properties at a level where these people are going to want to convert to be a-- be an owner.

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

Yes, I think if I could jump in, Alex this is Chris. I think the bottom line there is that rather than a sales and marking effort, we had such -- we had such strong initial response that it's not a matter now of finding buyers, it's a matter of just making sure that these buyers stay interested in the project and stay-- stay on the hook so that's why we refer to it more as a retention program. So that's very good news for us.

Alex Baron - *JMP Securities - Analyst*

Okay. Good. I was thinking it implied that some people were thinking of backing out or something. That's why I wanted to clarify that.

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

Well, no-- you'll always have a percentage of fall off, but-- but at this point, there's no indication that we're having retention problems. There was a program that was established and we're not marketing to additional parties, we're just working with the people who are already in line.

Alex Baron - *JMP Securities - Analyst*

Okay. And then-- so the people who have already signed these initial letters of intent or whatever you call them, at what point do they convert to-- to contract and what percent do they have to put down at that point in time?

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

Yes, the-- actually we're going to-- they are going to be-- we have to have our subdivision approved and bonded preparatory to sales so that as early as the fourth quarter of this year, we'll be able to actually complete sales.

Alex Baron - *JMP Securities - Analyst*

Does that mean at that point they just put down, like, a 10% deposit and then-- or what-- what does that mean? Does that mean they actually get-- get lots? When-- when do the first people get the lots I guess-- ?

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

Yes, the 100-- the 80 to 120 that Allen referenced that we expect to close this year, that is actually a purchase of the lot. That is full funding the-- the risks and rewards of ownership transfer to the buyer at that point. They will not have access to the lot for purposes of constructing a home, because we still have infrastructure to do, but, no that's not a deposit that's full payment, and as you may recall from some of our earlier discussions that is a significant capital source for the project. A lot of cash flow will be generated by that process and that helps fund the infrastructure development.

Alex Baron - *JMP Securities - Analyst*

Okay. So I guess to understand this correctly, so at the time somebody closes a contract, they have to pay the whole amount?

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

That's right.

Alex Baron - *JMP Securities - Analyst*

Okay. And is that true just in certain lots or is that true for every unit that people buy?

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

That's true for everything they buy. Now keep in mind some of these lots will eventually have built product on them and some of them are just lots that the individual will build their own product, their own home and in those cases it's, of course, only the lot-- the lot value that they have to pay for up front, of course. But no they will be responsible for paying the full value of the lot upon closing, and again that's a significant part of the cash flow model here, and-- and we feel very good about the progress we're making on that front.

Alex Baron - *JMP Securities - Analyst*

Okay. And then, I guess, at what time do you estimate these people will be able to actually get the lot and start building their own house, or when will you guys deliver the first houses to them?

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

It's going be-- it's going to be a couple of years.

Alex Baron - *JMP Securities - Analyst*

Okay.

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

First occupancies are going to be, you know, 2.5 years, maybe 3 years off from today.

Alex Baron - *JMP Securities - Analyst*

Okay. And one last question on this project, you gave an update on the estimated development cost of 850 and I think the last I recall was 750 so I was kind of wondering what changed there.

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

Yes, a few things have changed. Let me first say that the-- that the costs have been inflated. The-- the revenue is actually sort of on a net value today basis, so there's an element of conservatism in our projections the way they are being done, but that about $45 million-- actually $125 million, about $45 million is an increase in contingency for unknown factors just to be a little more conservative. $37 million is for value enhancements, things that we're doing that weren't being done are being done better, and then only $25 million is, driven by underlying cost increases in the project. There's another approximately $18 or $19 million that's essentially totally driven by the-- the revenue model, which involves commissions and other costs that are variable with revenue. So it's to us a-- not a-- it's not a concern.

Alex Baron - *JMP Securities - Analyst*

Okay. Great. I have got other questions but I'll get back in the queue. Thanks.

Operator

Your next question come is from Jay Habermann with Goldman Sachs.

Jay Habermann - *Goldman Sachs - Analyst*

Hi, thank you. Just a quick question on the China business. I guess, looking at Matson results for full year '05, were in any way costs brought into '05 that you expect-- or previously expected to incur in 2006? The ramp-up costs does that factor into some of that performance in Q4?

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

Let me give you the-- the answer that-- that is the-- I think the accurate answer, is that we have-- we're not-- we did not push into 2005 costs that we had originally planned to incur in 2006. However, we did have some previously planned and anticipated 2005 ramp-up costs that were expensed primarily in the fourth quarter of this past year.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. How significant were those costs?

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

They were not that significant. They were over $1 million.

Jay Habermann - *Goldman Sachs - Analyst*

A million.

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

But-- but certainly a lot less-- less than 2, but they are more than a million dollars of cost.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. And I know it's difficult to, obviously, gauge the business, the ship just left yesterday, but what sort of key sign posts should we be looking for over the next few of months. I know you mentioned the contracts renew in May?

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

I don't think-- I don't think we're going to get a really good picture until we get into the-- into the May, June, time frame. The first couple months, where we're really going to be-- we're going to be getting into China on February 20, it's essentially at the end of February's accounting month. March and April are going to be this rump period with an old contract where everybody is pretty committed and we'll be getting some freight but not a significant amount of freight over the those first two months, so in May and June we'll start to get some better idea of how much traction we're getting on the-- on the sales side. And-- and we'll be-- we'll be in a position with our quarterly webcast to provide you updates on-- on how we're doing.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. Great. And then in addition-- just to break out the fuel costs, I know there were questions previously, but I guess what percentage of total operating cost does that represent?

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

It's-- you know, I'll have to get back to you in about 30 seconds here, once I get my calculator out, but it is a-- just hold on a minute and we'll get back to you, because I'll give you an exact number, rather than a -- than a number that is-- that is estimated that could be off by a percent or so. Could we just come back to that one in a few minutes?

Jay Habermann - *Goldman Sachs - Analyst*

Sure I just have a couple more. On the real estate sales did you give a projection for 2006, I guess comparing versus '05 where you had the $44 million.

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

We did give a projection, but I think the general tone is that we think we're going to have a better '06 than we had in '05.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. I just want to jump to Kukui'ula for a second. You mentioned, I know this was asked previously, the 17% increase in cost, but you only mentioned 25 of that related to really the construction itself and we have seen 15% to 20% increases on the real estate side of the business in the last year.

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

That's true.

Jay Habermann - *Goldman Sachs - Analyst*

Do you think you are being conservative enough there? Should you be taking more of an allowance?

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

I think we have been pretty conservative to begin, and you know, we hope-- we-- we've certainly-- we've actually got a lot of contingency in this budget. We increased the contingency by about $45 million so an implicit way to deal with something that you don't explicitly know is-- is to increase your contingency, so yes, we feel like we've-- we've-- we're capturing what-- what has been a pretty inflationary environment recently.

Jay Habermann - *Goldman Sachs - Analyst*

I guess you also mentioned higher costs, but also projecting higher revenues, can you just provide a little more color there, too?

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

Chris why don't you-- as I run my calculator here why don't you finish that one off.

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

I don't know how much color I can give other than the fact we have regular meetings with our joint venture partner, we review market enthusiasm for the project, we review the characteristics of each of the lots we're selling, and what's happening in competitive projects, and just overall we're feeling better about the-- about the prospects for the project, and so, I think that the revenue increase is just generally reflective of that. I can't give you, nor do I have, any more specifics other than just general strong reaction to the project and-- and what we see as a very favorable environment for this product and this island.

Jay Habermann - *Goldman Sachs - Analyst*

And then just lastly on that Kaka'ako Makai, what is the timing on that in terms of expecting to hear back?

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

Kaka'ako Makai?

Jay Habermann - *Goldman Sachs - Analyst*

Yes.

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

Sometime this quarter.

Jay Habermann - *Goldman Sachs - Analyst*

Okay.

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

Yes I'm-- I just have done my major calculations here and the percentage is 9.3%.

Jay Habermann - *Goldman Sachs - Analyst*

9.3%. That's it for me. Thank you.

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

Thanks, Jay.

Operator

Your next question is from Nicholas Aberle with Caris and Company.

Nicholas Aberle - *Caris & Company - Analyst*

Good morning.

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

Good morning, Nick.

Nicholas Aberle - *Caris & Company - Analyst*

So I guess-- I guess I understand the volume, you know why unit volumes were down given the last week in terms of accounting. I guess I'm more concerned about the margin and the sustainability of the margin over the long term. I was wondering if you could give a little more color excluding costs for redeployment and start-up of China business, and the loss of the high margin APL charter business, what is your outlook for the core Ocean Transportation margins, given more competition and rate concessions to some of your big auto customers?

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

Yeah, we-- I guess if we become too specific on our margins we're in effect providing a forecast and we-- we have not done that. You know, we're -- we have stated, and I stated it quite consistently that-- that the margins that have been achieved are, specially, the margins we have achieved in the 14% range that have gone up to 16% or 17% are really not sustainable, so you know, we clearly are-- are operating at a very high efficiency level when we're on an aggregate basis as we were in 2005 above 14% for the year.

So we're-- we see the rate environment being a-- a positive factor. We see the-- the cargo environment being a positive factor. We see the cost environment to be increasing with fuel costs being-- being a big variable, and to a lesser extent some of our-- our labor and other costs to be-- to be-- to be important, as well.

So there's no-- no big changes that we see coming in the environment that's going to dramatically alter our margins, excluding the-- the Guam-China portion of the business, but you-- you have to look at-- at 2005 as being an exceptionally good year for us.

Nicholas Aberle - *Caris & Company - Analyst*

All right. So-- so excluding the transitional items in '06 we would expect margins to come down a little bit from the high levels in 2005, is that-- is that right?

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

Well I don't want to have words put in my mouth, but I do really-- I'm very pleased-- in fact I went back and looked, somebody asked me-- we got asked the same question a year ago in this, and they-- the question was can you sustain margins at 14% or 15%? And my quote at that point a year ago was is I wouldn't bet on it, and yet we did this past year, so I'm going to kind of go back to where I was a year ago and say I wouldn't bet on it, but-- but I-- I don't see any-- any major deterioration, but I do see some cost pressures that are-- that are going to be-- going to have to deal with.

Nicholas Aberle - *Caris & Company - Analyst*

And then on the -- as we see the China trade began to ramp-up, you talked about that being a competitive environment in itself, so as that becomes a larger part of the overall mix for Ocean Transport will that have an effect on margins?

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

Sure. Yes.

Nicholas Aberle - *Caris & Company - Analyst*

On-- on the down side?

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

Not necessarily.

Nicholas Aberle - *Caris & Company - Analyst*

So it could-- it could possibly be a boost to margins?

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

Yes, but you know you realize this is multiyear ramp-up here that we have got.

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

Yes, that's where you really have to go back to what we said before which is that we do have a big loss from the expiration of APL and we have got a big transition cost and that over time, and we haven't been specific about that period of time, but that over time we hope to cross over and eventually exceed what we have been able to generate through the APL alliance, but exactly when that is and the extent to which it is, we haven't and really can't say because there are too many variables, and that really is going drive our margins.

Nicholas Aberle - *Caris & Company - Analyst*

Got it. And then on the property sales side, is there any way you could just qualitatively talk about what the permits you still need to get are and best case, worst case scenario and the timing and impact of those permits?

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

Well, we've -- we've got two of the-- the five permits. We have three to go. We're expecting to get those progressively over the next two quarters, and we were comfortable enough that we-- you know we had our ground breaking a week ago, and so we-- we-- we've undertaken, now what is a very significant step of having major on-site construction taking place as, well as some-- some off-site construction in addition.

So we're-- it-- it's always a little sticky, but I know there have been people that said we were never going to get any of these permits, and that it would take years and the people who said that are, obviously, wrong, and so we're-- we're-- we're moving ahead and we expect that we'll continue to move ahead and-- and-- and we have in our base plan the-- the-- being in a position by the end of the year to start achieving revenue.

So we'll keep you up-to-date on what happens. You can never be fully sure when you are dealing with-- with government agencies, that-- that you'll make your time lines, but so far, we have made our schedules.

Nicholas Aberle - *Caris & Company - Analyst*

And-- and than back to the retention issue that was talked about earlier, did you say that there were really no signs of any cancellations to this point for the project?

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

Yeah, and that's materially true. I'm-- I'm not close enough to ground to know that if-- you know there are a few people that-- that are-- that have-- in the last couple of weeks or so have made changes, but in terms of any material changes and all of the information we're getting, we haven't seen anything-- anything that would be-- everything has been positive.

Nicholas Aberle - *Caris & Company - Analyst*

All right. And last question, kind of more from a macro standpoint, kind of looking at the last couple of charts you guys provided in your presentation, Maui and Oahu-based unit sales down since August, our contact is saying that inventory is bumping up a little bit on some of those islands, as well. You know, is that concerning for you guys heading into a period, you know, '06, '07 when you intend on ramping up sales in the market?

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

Yes, you-- I don't think-- when you look across the state there's-- there's not a lot-- this is not San Diego or Las Vegas. There's not a lot of excess inventory. What you have got is the resale market is stabilizing, and resales are starting to slow, but there is a fairly large backlog of homes that-- that are to be built that have already been committed. So I want-- I wouldn't characterize it as a lot of inventory waiting for buyers. What you have got is on the resale market, a fairly typical-- after a very large increase in pricing, a slow-down in sales.

Nicholas Aberle - *Caris & Company - Analyst*

Perfect that's helpful. Good luck in '06.

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

Thank you.

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

I think we have time for just one or two more questions, operator.

Operator

Yes, sir. Your next question is from Jordan Hymowitz with Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Hello?

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

Hello.

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

Hi, Jordan.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Sorry about that, two quick questions you mentioned on the logistics segment very strong rail pricing. Can you help me draw the connection between the two?

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

Yes, what has happened is the railroads are increasing their-- their rates fairly significantly. We have already absorbed from one of the rail a 15% rate increase, which then gets, obviously, transferred to-- to the buyers of the services. So on the rail side there's been a-- a-- there is an evolving and a very changing landscape relative to rail-- the rates that the railroads charge. Of course shippers also has the option of-- of going via truck. And that part of the business still appears to-- to be-- to be very healthy. And we-- we just as sort of an in between broker and provider of services we just have to be very-- very careful that-- that everything that we do is reflective of the-- the current rate environment.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. And second question is you have graphs on Oahu and Honolulu-- I guess that's Oahu and Maui. I know there's no data on Kuai, but from what you are saying used to be clear is Kuai is not especially at the high end experiencing nearly the same level to any extent because it's such a small market, so to speak?

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

Yes, we'll give you-- actually we don't have it now, but John, could you provide when we have the information, the-- the Kuai information. We haven't been able to get it for this call, but we'll be able to provide that to you. There is a-- I think you'll find with Kuai, and I'm sort of guessing, but-- but I think it's true, that I think you're going to see a relatively similar pattern to Maui once we get the actual numbers, John?

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

Yes, and very, very small numbers I noticed on my Honolulu Board of Realtors keeps track of the listings, and I think there were something like 36 listings on the whole island, so you really have a lot of small numbers on Kuai for available supply, but we'll get that data.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. Thank you.

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

Thank you. If other people have questions let's follow-up with me later on and otherwise, I want to tell you how much we appreciate your participation and look forward to keeping you up-to-date on Alexander & Baldwin. Thank you.

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

Thanks.

Operator

Ladies and gentlemen, we thank you for your participation in today's conference call. This concludes the presentation, you may now disconnect. Have a great day.