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CORPORATE PARTICIPANTS

John Kelley *Alexander & Baldwin - VP IR*

Allen Doane *Alexander & Baldwin - President, CEO*

Chris Benjamin *Alexander & Baldwin - CFO*

CONFERENCE CALL PARTICIPANTS

Nicholas Aberle *Caris & Co. - Analyst*

Justin Hughes *Jefferies & Co. - Analyst*

Tom Spiro *Spiro Capital - Analyst*

Diane Daggett *Vulcan - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to Alexander & Baldwin's second-quarter earnings conference call. As a reminder, this call 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*

Good morning. This is John Kelley in Honolulu. With me are Allen Doane, President and CEO of Alexander & Baldwin, and Chris Benjamin, CFO and Vice President of A&B.

As is typical in these calls, I will do a brief introduction, and Allen will give you an overview of the units' operating and financial performance and our outlook. Chris will then comment on financial matters. I will return with a quick review of the Hawaii economy and then we will open for your questions.

In today's call, our comments will be based on slides displayed on our Web site. This is the second time we've used slides and the first time we've done a virtual webcast. Please note if you have the option to enlarge the slides on your screen. This may help you to see some of the details of the photos. You may also print the slides using the PDF file listed under "Supporting Materials". It if you have reactions to this process, I would be pleased to talk to you about them after the call. (Operator Instructions).

Copies of the release are also on the A&B Web site and there will be a replay available for one week and I'm always available to take questions later on.

Statements in this call except for (indiscernible) expectations and protections are based on facts and situations known to us as of today, July 28, 2004. Actual results may differ materially due to risks and uncertainties such as those we describe on Page 21 of the Form 10-K of our 2003 annual report.

I'd also like to remind listeners of our corporate Web site, www.Alexander&Baldwin.com, and its links to economic information about Hawaii.

With that, I would like to ask Allen Doane to share his comments about the quarter and the outlook. Allen?

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

Thank you, John.

These stacked bars compare earnings per share for the fourth quarter of 2003 with those of the first half of 2004. This year's second-quarter EPS of 71 cents was 27 percent above the 56 cents we reported in the second quarter of 2003. Comparing both halves, we've earned $1.35 this year versus 99 cents in the first half of 2003.

In the second quarter, earnings continue to reflect some of the trends we first observed last quarter. Transportation results continue to be strong, above the targets we've set for the unit. Real estate results are considerably above target, and they came in much earlier in the year than we had projected. As we said in the release, those earlier closings will lower our expectations for the next two quarters.

Lastly, although food products is much smaller than the two I just mentioned, the negative financial effects of the shortfall of this year's sugar production did begin to show up in the second quarter's results.

This slide shows the composition of operating profit among the five businesses for the second quarters of '03 and 2004. Moving from the bottom of the blocks to the top in 2004, Matson provided more than half of the quarter's operating profit, 55 percent. Logistics services' contribution continues to grow nicely, now 5 percent. Property leasing was 16 percent. Property sales with very strong performance was 24 percent, and food products dropped to 1 percent.

I'm now going to take each business segment and talk about its performance in the quarter and then its outlook. Ocean transportation operating profit rose 35 percent to $31 million. This improvement was based upon a 4 percent increase in revenue and total expenses that were virtually identical to the second quarter of last year.

These charts show the primary volume metrics for the Hawaii service. On the left is quarterly total container volume in thousands of units; on the right is autos. Within this quarter, its 1 percent increase in total container volume was a 4 percent increase in Hawaii-bound cargo. This was driven by better overall economic conditions in the state and strong construction in particular. Autos were flat overall but volume continues to be at historically high levels.

These charts show two Hawaii service metrics that describe the revenue yield on cargo. The yield per Hawaii-bound container rose a total 6 percent. This increase comes from an overall level of freight rates, the terminal handling charge, the fuel surcharge and changes in mix of commodities carried. On mix, for example, refrigerated containers bring in more revenue per unit than do most dry containers. The yield for Hawaii-bound auto rose of total of about 3 percent. The fuel surcharge is intended as a direct cost offset -- well, the other revenue increases are utilized to offset wholly or in part increases in the other operating costs.

This chart of operating profit margin is intended to capture information about all categories of cost. In the past, we've said that Matson's operating margins usually are in the range of 10 to 12 percent. So you can see, reaching 15 percent this quarter represents unusually good performance. In fact, this is the best second-quarter margin in recent years.

Among the year-over-year positives in expense categories this quarter were the absence of a one-time excise tax provision last year, lower benefits and G&A costs. One factor contributing to the lower cost was Matson's recent relocation of its headquarters from San Francisco to Oakland.

Partially offsetting were higher cargo-handling costs, insurance costs and vessel depreciation. Of special note is fuel. We expensed fuel at nearly $30 a barrel this quarter versus $26.35 in the second quarter of 2003. With a fuel surcharge of 8 percent for most of the quarter, the added revenue kept pace with our increased fuel costs.

To help us look ahead to the second half of the year, here is a chart of the operating profit in millions of dollars, by quarter. At this point, with Hawaii's economy still looking strong, cargo demand looks good. We don't expect to take any additional rate increases this year and contractual longshore cost increases take place at mid-year, so these costs will be rising.

Taking all these factors together, we expect that Matson will continue to have good performance in the balance of the year, but its profit margins may not be as high as they were this quarter.

There are several other issues at Matson worthy of mention. We expect to take delivery of the second new vessel in Matson's fleet in August. The Maunawili follows the Manukai into service by less than a year. Also in early July, Matson switched container terminals in Oakland to a new facility dedicated just to its use.

As you know, we have had a vessel charter and operating alliance APL for our service to Guam. This agreement expires in February of 2006 and we now expect that it will not be renewed. As we described in our 10-Q filed today, Matson currently estimates that the annual operating profit reduction can be estimated at 10 to $20 million and possibly higher during the transition period following the agreement's expiration.

With 18 months until that expiration, Matson is focused on developing an optimal successor service to Guam. We plan to keep you apprised of our progress on developing that successor service.

After the end of the quarter, we learned that one of our partners in Sea star, a joint venture service at Puerto Rico, plans to exercise its option to purchase Matson's 19.5 percent interest during the third quarter. This purchase will generate a small gain and will relieve us of a guarantee of $11 million of venture debt. I would note that the guarantee was once $31 million.

Another company is constructing a car carrier service to Hawaii -- car carrier for service to Hawaii. The (indiscernible) reports that this vessel will be completed in the first half of 2005. Matson takes this potential competitive entry seriously and is working to provide the best competitive service to retain its current auto-shipping customers.

Lastly, the Carlyle Group, owner of our competitor in the Hawaii service called Horizon Lines, announced that it had sold that business to another private equity firm. Castle Harlan. We do not anticipate any negative effects on the Hawaii trade as a result of this change.

Moving onto the logistics service component of the transportation segment, Matson Integrated Logistics had great performance. Operating profits rose a strong 86 percent on a 63 percent increase in revenue.

This chart shows two of these operating metrics for Matson Integrated Logistics. On the left is the quarterly increase in total revenue; this is a proxy for overall level of activity in that unit. The improvements result both from an acquisition near the year end of 2003 and overall internal growth. On the right, you can see profit margin, which also shows good performance this quarter.

Our expectation is that, with strong management, the contribution from logistics services will continue to grow from its relatively small dollar base. As the U.S. economy continues to pick up and shipping traffic rose commensurately, we expect good year-over-year comparisons will continue.

Now, turning to food products, revenue in this quarter was off 18 percent. Operating profit declined 87 percent. This performance was primarily attributable to the expected lower sugar production for the year. This metric is easier to see in the stacked-bar format. Year-to-date sugar production at HC&S is off by 23,000 tons or 26 percent. This decline resulted from a combination of heavy rains, resulting in difficult factory conditions and malicious fires that have disrupted harvesting. In spite of solid cost controls, a production shortfall of this magnitude is just too great to make up, so our unit costs have been revised to match the expected annual production.

For the rest of the year, it appears that domestic sugar prices will be below our targets for the year. We now estimate that raw sugar production will be 5 to 7 percent below 2003 levels. Although operating costs will be lower than in 2003 for the full year, we expect that the segment will be marginally profitable.

Moving now to real estate results, property leasing had a 1 percent decline in revenue and a 2 percent decrease in operating profit in the quarter.

Looking at occupancy metrics that we have provided before, there will be -- there was a small year-over-year decrease in the quarterly rate for mainland occupancy, and Hawaii occupancies were flat.

Another cause for the decrease in operating profit were expenses relating to the repair of siding of an office building here in Honolulu.

This chart shows quarterly operating profit for last year and year-to-date, 2004. For the balance of the year, we expect that the entire portfolio will enjoy continued good occupancy levels and that lease rates will be stable. As a result, operating profit from the leased portfolio will likely have modest growth for the second half.

In the second quarter, we had $28 million of revenue in property sales, an increase of 7 percent. Operating profit from property sales rose 94 percent, however, to $13.4 million based upon higher-margin mix of sales. For this business, the best way to describe performance is on the basis of individual projects.

This is an aerial of Wailea. During the quarter, Wailea was the dominant contributor. Recall that we'd purchased 270 acres of that Maui resort late last year, consisting of 17 development parcels plus 29 home lots. About $18 million of the 28 million in revenue this quarter was from Wailea. Filled in in red, as you see on this slide, we sold two development parcels, a total of 19.8 acres outright and one parcel, 30 acres, on an installment basis in the quarter. In addition, we closed five houselots at Gulf Vistas, our residential subdivision. We also plan to announce shortly a joint venture to develop another parcel with a partner.

We started with 29 Gulf Vista houselots. They average roughly a third of an acre in size, 21 closed in the first quarter, 5 in the second. Prices have averaged $860,000. At the end of the quarter, there were three lots remaining.

Back on Oahu, Mill Town Center, our industrial subdivision, had 11 parcel sales in the quarter. Those 27-acre projects started a few years ago had a total of 61 lots. It is now very close to selling out. In fact, Mill Town Center was the very first of our Hawaii acquisitions we call Project X, investing in lands outside our core land holdings. We've done twenty of these investments to date in the last five-plus years. Selling prices to date at Mill Town have been in the high $20 per square foot. At the end of the quarter, the remaining nine lots had active interest.

Our office condominium in downtown Honolulu has one floor closing in the second quarter. Prices have averaged $1.1 million per floor. Since the end of the quarter, two floors have closed escrow. We have active and very active interest in all the remaining floors, even though the they are in loft or unfinished condition. In effect, with the closings that we've had through the first half of the year, we've gotten about $18 million back before taxes. We (indiscernible) on the sales for a little more than half of the property.

Lanikea at Waikiki -- although the next few projects did not contribute to revenue or profit in this quarter, I think it's good to go over them. Lanikea, our oceanview Waikiki condo construction is going well, 100 units except one penthouse under binding contracts, prices average 588,000 per unit. Hokua, our luxury high-rise construction, is also progressing well. We expect work there to finish late in 2005. All but 7 of the 247 units are under binding contract averaging $1 million per unit.

Mauna Lani Resort, you're hearing this one for the first time. We did have a release on this joint venture in the quarter. During the quarter, we announced a new joint venture at the Mauna Lani Resort on the Kona coast. There, we've partnered with Brookfield on a 30-acre site adjacent to a championship golf course. This is one of and in fact our first large effort on the big Island and we have a top-notch partner. Our final plans for this project are likely to offer a mix of single-family and multi-family homes as well as luxury houselots. We expect construction to begin about mid-year, 2005.

Property sales -- this chart shows just how strong our operating profit has been so for this year. The fact is the pace of property sales and pricing both have exceeded our expectations. As we look to the rest of year, given the pace of those earlier transactions, the mix of inventory that we have on hand and the time it takes to conclude these sales, it's clear that the pace of sales for the balance of this year will be much slower. If you recall and as you can see in this table on the slide, we have also had faster and earlier sales last year with the second half having considerably fewer sales.

Kukui'Ula -- we've partnered with D&B Associates on the development of a high-end MasterPlan resort community of (indiscernible) in the southern coast of Kauai called Kukui'Ula. The project will comprise 1200 to 1500 residential units, commercial areas and also an 18-hole championship golf course and other amenities. A major milestone was achieved on July 22 when the Kauai County Council gave final zoning approval for that project. When signed by the mayor of Kauai, this project will proceed with final design and construction. Besides contributing the land to the joint venture, A&B has the option to invest in future equity requirements for the project, which we will be evaluating very seriously over the next few months. Construction is expected to begin in 2005 with the first sale slated to occur in 2006. Within the next 6 to 12 months, we will provide a detailed development plan for the project in an earnings call. This is a very significant matter for the Company.

So, at this point, I'm going to turn it over to Chris Benjamin to make some comments on our financial position.

Chris Benjamin - *Alexander & Baldwin - CFO*

Thanks, Allen, and good afternoon to everybody listening in on the mainland.

I'm going to start with some general comments before I move to the financial statement. First of all, we have adjusted our 2004 effective tax rate estimate to 38 percent compared with the 37.5 percent I mentioned at the end of the first quarter. This increase simply reflects our latest estimates of earnings and tax credits for the year.

We repurchased 76,000 shares of stock in May at 29.95 a share; the total cost was $2.3 million. In December 2002, management was granted the authority to repurchase up to 2 million shares by our Board of Directors. This authority expires at the end of 2004, and following this most recent repurchase, it now stands at 1.9 million shares.

These are the first repurchases that we've undertaken since 2001, when we bought 105,000 shares at an average of $21.61. In 1999 and 2000, we bought a combined 3.9 million shares at an average of $21.07 a share.

Regarding new vessel financing, Allen mentioned the MV Maunawili a moment ago. Most of my comments today are going to focus on the financial statement implications of the financing of that vessel, as well as the subsequent retirement of Matson's commercial paper program.

The financing of the vessel itself is relatively straightforward. The cost of the ship is $101 million and Matson plans to withdraw $46 million from the capital construction fund to finance the purchase. The balance of $55 million will be financed through Title 11 guaranteed debt. The Title 11 debt will have an all-in interest rate of 6.6 percent and a 25-year final maturity.

On the commercial paper program, Matson's intent is to retire this commercial paper program following the purchase of the MV Maunawili. As you may recall, Matson has a $100 million of commercial paper outstanding and a corresponding $100 million in its capital construction fund, or CCF. This program has earned generous spreads between CCF returns and the interest on the commercial paper a total of over $21 million over the past 12 years. But due to declining spreads, Matson has decided to take advantage of the purchase of the Maunawili to end this program and will withdraw $100 million from the CCF to do so. The reason that the retirement of the commercial paper program is timed to take place after the delivery of the Maunawili is that Matson needs sufficient tax bases in its vessels to minimize the immediate tax impact of the withdrawal.

How it works is that rather than making a $100 million taxable withdrawal from CCF, Matson will reduce its tax bases in its vessels by that same amount and make the withdrawal itself non-taxable. By reducing the tax basis of the vessels, of course Matson's tax depreciation in 2004 and subsequent years will be reduced. The impact in 2004 will be about $11 million of deferred taxes becoming payable later in the year. We would expect that payment to be made in December.

So, on the next slide, to summarize the impact of these two events, the Maunawili purchase and commercial paper retirement, will have on the balance sheet, there are two things really. The first is that the recent decision to retire the commercial paper program triggers the reclassification of both the CCF and commercial paper balances to current assets and liabilities respectively. That's the only effect you will see for the second quarter.

Later in the year, however, the commercial paper and CCF balances will decline as shown in this table to 0 and $20 million respectively, with Title 11 debt increasing to $109 million.

So, with that background, the balance sheet explanation is relatively straightforward. Current assets increased to $385 million at quarter-end, primarily as a result of the reclassification of the CCF assets to current and also due to an increase in sugar inventory and in cash of about $15 million each.

Investments have increased $31 million. That's primarily as a result of the investments in construction at Hokua and investments in two other real estate-related joint ventures.

The noncurrent portion of the CCF you'll see is has been reduced by $100 million, and that I explained a moment ago. If you wonder why the $46 million of CCF money that we will be using to purchase the ship is not also reclassified, since it's going to be withdrawn, that's because it will be used to purchase a long-term asset, so it remains classified as long-term or noncurrent.

On the liability side, again we see the various effects of the reclassification of the commercial paper, the current with $100 million swap between the current and long-term debt. The balance of the current liabilities increase is several small items, including an increase in current taxes and an accrual for our upcoming dividend payment. The additional reduction in long-term debt over the $100 million reclassification reflects net repayments.

On the next slide, the total debt at quarter-end was $314 million. Barring any sizable acquisitions in the third quarter, we would expect that this balance would be further reduced as the commercial paper retirement more than offsets the new Title 11 debt associated with the vessel.

On the cash flow statement, we had very strong operating cash flows that enabled a $31 million net repayment of debt during the first half of the year. Capital Expenditures of 24 million in the first half represent only CapEx for property. By our internal definition, a big portion of the investment category here also is CapEx. That's cash committed to construction by our joint ventures, for example. In this case, it's almost entirely Hokua capital that's been put in during the first half.

The all-other category that you see is the $29 million figure there. About $20 million of that is from proceeds from property sales and $9 million of that is the result of new equity from options exercises.

The next slide shows our total CapEx for several periods. I introduced this slide in the previous quarter call with the 2004 projection and the 2003 actual CapEx figures. I've added here our year-to-date numbers. Total projected CapEx for the year remains around $250 million. Matson so far has had a most amount of container acquisitions and vessel and IT spending, and we will continue with both but its largest expenditure for the year remains the upcoming vessel purchase.

Finally, properties spending year-to-date consists primarily of its investments in the Hokua and Lanikea projects as well as some of the joint venture activity that I mentioned a moment ago.

You may recall that I mentioned, in the previous quarter, that the $81 million projection for this year does not include any acquisition capital or 10-31 reinvestments. As appropriate acquisitions are identified, this figure could increase materially.

With that, I would like to turn it over to John Kelley, who has some good news about the Hawaii economy. John?

John Kelley *- Alexander & Baldwin - VP IR*

Thanks, Chris.

In our last call, some of the data seemed to be showing deceleration. That hesitancy has since disappeared with growing confidence that the U.S. economy will continue to support higher visitor traffic and visitor spending.

Moreover, Japan's economy seems to have found traction since then. Hawaii's two distinct housing markets, visitor investments on the neighbor islands and local first-time buyers and those who trade up, especially on Oahu, have continued to keep residential construction and purchasing active. Last week, the July unemployment rate was announced at 3.1 percent, well below 4.4 percent a year ago and 5.6 percent nationwide in July. Economists noted that 12,000 jobs had been created since the year-ago period.

Funding is progressing for several big and long-term military housing refurbishment and replacement efforts and with a Striker Brigade and its supporting C-17 aircraft being deployed to Hawaii, the short-term effects of Iraq troop deployments should be just that, short-term. With higher costs of housing and energy, there almost certainly will be a pickup in inflation, but it's certainly forecasted at this point to be relatively modest.

Here are some quick trends in the visitor industry. Under visitor arrivals, May figures were 17 percent higher with international numbers now clearly lapping the Iraq and SARS month a year ago. Year-to-date through May also looked good with smoother, steadier international growth. The forecast presently by economists at the University of Hawaii is for this year to have a 6 percent-plus increase in visitors and about 5 percent-plus (inaudible) in '05. These strong visitor numbers show up similarly in hotel occupancy numbers for both May and year-to-date through May.

One last item on the consumer front, auto demand forecasts continue to edge up higher. We used this slide in the last quarter and the previous 7.2 percent projected retail sales growth rate have now been raised to 9.9 percent according to HADA, Hawaii Automobile Dealers Association.

With that, operator, we would like to move to ask for questions from our listeners.

QUESTIONS AND ANSWERS

Operator

Thank you. Our question-and-answer session will be conducted electronically. (OPERATOR INSTRUCTIONS). Nicholas Aberle.

Nicholas Aberle - *Caris & Co. - Analyst*

Good afternoon. Congratulations, guys. The first thing I was going to do was tip my hat to Jim but is he not around this afternoon?

Unidentified Company Representative

I think he's listening -- (Multiple Speakers).

Nicholas Aberle - *Caris & Co. - Analyst*

Matson obviously was a great performance in the quarter. I just wanted to quickly touch on the subject of Guam -- of the Guam Charter. How did the margins on the Guam Charter compare to the margins in the ocean transportation business between the U.S. mainland and Hawaii?

Chris Benjamin - *Alexander & Baldwin - CFO*

I think you can say, in general terms, that they would be higher. How much higher is a matter that depends on cost allocations that we do. The principle reason that they have been higher is due to the favorable Charter arrangement with APL that has been able to keep our transportation costs down.

Nicholas Aberle - *Caris & Co. - Analyst*

Could you provide a little bit more color with respect to exactly what happened in the negotiations and why the Charter is not going to be re-upped in 2006?

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

Yes, I can't provide too much color because there are continuing discussions, and I would say that these are somewhat of a confidential nature at this point, but we did find out, in late June, that APL had essentially changed its position and that we came to the conclusion, based upon this, these discussions and a meeting that took place in late June that more likely than not that the alliance was not going to be renewed on terms that would be economic to the Company.

Nicholas Aberle - *Caris & Co. - Analyst*

So it sounds like the developments were pretty unexpected in nature?

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

Well, we knew that the alliance was going to terminate in February of 2006. We have been in discussions for more than a year, on and off, although they haven't been regular -- with APL -- but it wasn't until this meeting at the end of June that we came to a conclusion that it was reasonable that we would not have a new alliance relationship with APL. (multiple speakers) -- extended beyond that -- or extended the present alliance.

Nicholas Aberle - *Caris & Co. - Analyst*

I got it. With respect to Horizon Lines and new ownership there, have you seen any changes in the competitive environment? Do you think that, going forward, you'll have a chance to perhaps gain market share there over their current share?

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

I wouldn't want to comment on our ability to increase our market share. We are always doing our best to provide good customer service and Matson does that and has done that. The change in ownership is very recent. We have not seen any material changes in the competitive environment at this stage.

Nicholas Aberle - *Caris & Co. - Analyst*

Wailea, 29 lots, 3 left at this point and then 17 parcels at the start -- how many parcels are left at Wailea?

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

Well, we have, at this stage, sold or on a complete basis or an installment basis, three. With another in the process of sale; we are looking, as we noted just a few moments ago in the call, at a venture relationship on a fifth parcel.

Nicholas Aberle - *Caris & Co. - Analyst*

Okay, so one more is going to be sold for sure. Is it safe to say that the rest is going to be under some type of development, or is that still up in the air as to exactly what's in store for the rest of the parcels?

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

Yes, we have development plans but they are subject to changes based upon market conditions. We felt that it was prudent to sell, in a very favorable market environment, some of the parcels in bulk, which dramatically is reducing our net basis in that investment. But you can expect that, going forward, there will be a future of sales of joint venture developments and perhaps development on our own for the remaining parcels.

Nicholas Aberle - *Caris & Co. - Analyst*

So we saw sales get pushed up more into the first half of the year. We shouldn't expect obviously the same results in the back half. If the environment remains as robust as it was in the first half, do you think that you could churn some of the property unexpectedly from what your standpoint is right now if the environment continues to be good?

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

The environment is good but we really don't have a lot of salable inventory that's ready to go and that could be closed this year. We've pretty much put in place and executed on most of the things that we had planned to do this year, so I doubt that we're going to have a material increase in our sales activity. In fact, as we said in the call, it's likely we're going to have a pattern for the second half of the year that's going to look a little like last year's second half. You might just want to go back and look at that slide, Nick. I know we went over it real fast today but that slide did show a very small amount of profit in the second half of the year in that segment.

Nicholas Aberle - *Caris & Co. - Analyst*

I got it. Then lastly, looking for a marginal profit on the food products segment in the second half, or for the full year -- I mean, worst-case scenario there, could we see this dip below and be a loss-making segment?

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

At this stage, we think it's going to be marginally profitable. There's a possibility that it could dip into the red.

Nicholas Aberle - *Caris & Co. - Analyst*

Thank you very much and congratulations.

Operator

Justin Hughes.

Justin Hughes - *Jefferies & Co. - Analyst*

First of all, on the shipping side, can you give us a little bit of guidance on the second half of this year? What kind of contribution we should see from the Maunawili -- maybe I'm pronouncing that wrong -- to operating income as well as you have a new route between the big island and the mainland.

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

Yes, by the way, that's good pronunciation of the ship -- (LAUGHTER) -- the Maunawili. It's coming into service at the end of the year; you're not going to see very much of an impact, since it should be in the service and get broken in in the fourth quarter of this year. Really, when you look at it, just to reiterate what was said very quickly, when you take all of the factors together in terms of the rate increases that have taken place in the first half of the year, the contractual increases and longshore costs that we're going to have at mid-year that will show up as costs in the second half of the year, we think that Matson is going to continue to have very good performance for this year but that its profit margin will not be as high as it was this quarter, which was as high as we've seen in quite a long time.

So, in terms of what we are projecting for the rest of the year, we're going to have a good year. We are just not going to be showing the type of margins that we experienced in the latest quarter for the second half of the year.

Justin Hughes - *Jefferies & Co. - Analyst*

Maybe I can just ask the question in a different way. Can you give us maybe an operating income contribution you could expect from this ship on an annual basis?

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

No, I really am not in a position to do that. I do -- in terms of the ship, though, I can say that, on a return-on-investment basis, we have gone through this. When we made the decision, the decision was made to acquire two vessels. The economics were favorable to the Company and as a result, the investment was made. One ship has been in service now for not a year but approaching a year. It has performed very well. The second ship will be in service in the next couple of months, and we expect good performance there.

So, I can answer the question this way -- that, based upon the original assumptions that were made on the operation of the ship, that it is performing at or above our expectations.

Justin Hughes - *Jefferies & Co. - Analyst*

Then on your -- in the Sea Star investment, how much cash will you be getting from that?

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

We should be getting about $7 million in cash and guarantee elimination on debt.

Justin Hughes - *Jefferies & Co. - Analyst*

Okay. Then on the development side on the Kauai project that you just talked about today when you got full approval for it, the 1200 to 1500 units, will you just be selling the lots or are those going to be fully developed?

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

We are in the process of preparing some final development plans that are being led by our partner, D&B Associates. We will be in a position to give our investors a much more detailed perspective on this project in the next 6 to 12 months. It could be a combination of both.

Justin Hughes - *Jefferies & Co. - Analyst*

Can you give us -- even if it's a huge range -- how much you think an individual lot could go for?

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

It's substantial. It's going to be a very substantial amount of money. The lots are going to be, depending upon the size of the lot and its location, this is going to be an upscale project but in terms of individual lot pricing, it's a bit premature on that -- (Multiple Speakers).

Justin Hughes - *Jefferies & Co. - Analyst*

It looks like it's actually in a better location, at least closer to the water than your Mauna Lani resort. So would that be at least a decent comp?

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

They are not quite comparable but I can say this, that both projects are very attractive. The different is that the Mauna Lani project is a subdivision of an existing, very successful development of Kona where the Kukui'Ula project is in effect an entirely new residential development.

Justin Hughes - *Jefferies & Co. - Analyst*

Are you still there? That's the one by the Four Seasons right? I think that you were talking about in the Mauna Lani?

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

Yes, it's a little bit away, a couple of miles distance.

Operator

(OPERATOR INSTRUCTIONS). Tom Spiro (ph).

Tom Spiro - *Spiro Capital - Analyst*

Tom Spiro, Spiro (ph) Capital. Aloha! That was some quarter. Congratulations. Particularly Matson's results were striking.

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

We will convey that to Matson and I know that some of our Matson management, including Jim Andrasick and his key staff members, are listing.

Tom Spiro - *Spiro Capital - Analyst*

I have a couple of questions. I will start with Matson. I noticed that, for the quarter, the Hawaiian container volume was up 1 percent. You mentioned that the Hawaiian-bound, I guess that's westbound containers, were up 4. The guess that means that eastbound was down something like 3 percent. I kind of curious, if my understanding is correct, why that should be.

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

Yes, the eastbound volume was down fairly significantly, and that's a result of a number of factors. It's more agriculturally driven activity than anything else, and it's also a lot lower-rated freight than westbound. The differential in container rates is pretty significant between westbound, where we sail pretty much full, and eastbound, where there is a lot more vacancy, so to speak, in our ships.

Tom Spiro - *Spiro Capital - Analyst*

Do you expect the eastbound weakness to continue?

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

I can't tell you that with any degree of precision. Really, the eastbound traffic has a lot to do with agricultural activity and cattle-related activity in the States. Those are the principle users of eastbound. In addition, we have military moves as well, which are fairly substantial.

I know that one factor -- and I can't at the moment give you the specifics on it -- but the Iraqi war has removed a number of combat personnel from Hawaii, but what is has done is it's also in effect stopped movements of many goods and household goods out of the state because basically people have been sort of frozen into their current posts and duty stations. (multiple speakers) -- happening.

Tom Spiro - *Spiro Capital - Analyst*

On the Guam situation, you've mentioned that the APL contract or I guess the termination of it may result in a diminution in our operating profits of roughly 10 to $20 million. I wasn't sure if that number was before our coming up with alternative arrangements or after that. That is to say, are there things that we can do to moderate that 10 to $20 million diminution or is that it?

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

It basically assumes that we have a successor service in place, and that is the net effect of the change on the Guam market.

As we said, and I will just read it for you -- I'm going to find it here in our 10-Q. You probably haven't had a chance to look at it yet, but I would also just note, in the Q, we say "Unrelated in the Guam service, Matson intends to further moderate the estimated reduction in operating profit in the Guam service described through a combination of cost reductions, organic growth acquisitions and yield management initiatives." So, the number you see is related to the APL Guam market. But unrelated to that, obviously the Company intends to do what it can to moderate the reductions.

Tom Spiro - *Spiro Capital - Analyst*

I see. Okay, thanks. Over on the real estate side, I think you mentioned, Allen, in a prior call, that the Hawaiian office market has been a little bit weak. Is it starting to strengthen as the Hawaiian economy strengthens?

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

Yes, that's a good question, Tom. We are seeing glimmers -- (LAUGHTER) -- of improvement. The vacancy rates are starting to drop and rates for leasing, if they are not going up dramatically at least have stabilized, so we are seeing some glimmers now of a slight shift in the office market place in Honolulu.

Tom Spiro - *Spiro Capital - Analyst*

Great. I'll ask one more and then I'll get back in queue. Staying with real estate, as you talked through some of the upcoming real estate projects and as I look at our 32 million, 34 million of operating profits so far this year, it looks to me like we are entering a period -- '04, '05, '06, '07 -- of unusually robust profits from real estate sales. I guess we are beginning to harvest those wise investments that you made in the prior five years. Is that a fair characterization of the period we are about to enter?

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

That is a dual-edged sword! (LAUGHTER) (indiscernible). Yes, we've timed our acquisition activity very well and I do really want to compliment our real estate people for a tremendous amount of positive effort. We've made these 20 investments outside of our company lands; we've stayed very disciplined in the process. We are in a harvest mode for some of those investments; some of them, we're not in a harvest mode but we will be in the next couple of years. Our challenge, Tom, is to continue to find good investments that are going to take us beyond the next year or two, into the next three to five-year period, and realize benefits for our shareholders on those. That's what we're doing. Mauna Lani is one example of that. The Kukui'Ula project, while it is on our Company lands, could well be a very significant contributor to the Company's income for a period of 10 years or more.

Tom Spiro - *Spiro Capital - Analyst*

Those 20 investments that you mentioned, in round numbers, how much did we pay to make those acquisitions? Do you have some sort of an aggregate number or is there some other way we can get a sense of how much capital we directed in that area?

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

We've really put in more than $400 million but it's a little deceptive because the total investment value is considerably higher than that. For example, the Hokua project, we're putting in $40 million. It's a $200 million cost deal that, if you multiply the number of units by $1 million, you know, it's got 250, $260 million of return on it. So, that will give you some perspective on our investment basis, but it's probably understated the value of these projects in aggregate.

Tom Spiro - *Spiro Capital - Analyst*

Thanks much. I will get back in queue.

Operator

Diane Daggett.

Diane Daggett - *Vulcan - Analyst*

Just a couple of quick questions -- in terms of shipping for the second half, can we expect operating margins to be in the 10 to 12 percent range that they've been in for several quarters prior to this 15 percent operating margin quarter?

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

We are not in a position to give specific forecasts on operating margin per quarter; we just haven't done that. I can just say that we just wanted to caution everyone that a 15 percent margin was an excellent margin for the second quarter. Usually, our third quarter is the highest; we expect to have a very good third quarter, and so we're going to have very good margins there. We will have good margins in the fourth quarter, we expect, but the fourth quarter is historically not that strong. So, you'll see good margins for the rest of the year, we believe. We're just offering a slight bit of caution that we had an exceptional second quarter.

Diane Daggett - *Vulcan - Analyst*

Okay. Just one question on the real estate side -- last year, there was approximately two-thirds of your property sales in the first half. Should we kind of think of it as that way for this year, or is it significantly different?

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

Actually, I wish we could go back to the slide that shows that on our presentation, but it's actually going to be a higher percentage than that and I can't give you a specific number. But for the year, we are going to be able to show a very nice increase on a full-year basis versus 2003, but we've done most of what we said we were going to do and which we had planned to do and which we had prepared to do in terms of salable inventory in the first half of the year.

Diane Daggett - *Vulcan - Analyst*

Right, okay, but it doesn't sound like it's going to be down from a year ago in the second half?

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

I can't comment on that.

Diane Daggett - *Vulcan - Analyst*

Okay. Well, good quarter. Thank you.

Operator

(OPERATOR INSTRUCTIONS). Tom Spiro.

Tom Spiro - *Spiro Capital - Analyst*

I was hoping to touch upon the subject of a corporate liquidity.

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

Good, because I'm tired of talking! I'm going to get Chris in here, maybe John!

Tom Spiro - *Spiro Capital - Analyst*

It seems to me, as a look at your financial statements and the Company's earnings, the prospects this year, that you guys are awash in liquidity. You don't have much in the way of debt. Your earnings are robust and my crystal ball is no better than yours but I imagine it will stay take quite strong. You generate lots of depreciation and I was kind of curious what you're going to do with all that cash. I saw you nibbled on some stock. I was very pleased that you did that and I hope you will continue, but what are your thoughts about liquidity?

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

Chris, why don't you just start in terms of the current financial position and then we will make a comment or two in response?

Chris Benjamin - *Alexander & Baldwin - CFO*

Sure. You are right; our cash balances have been increasing. We, at this point, decide the commercial paper program, which I've already mentioned, we will be retiring. We have very little, if any, floating-rate -- variable-rate debt at this time, so we are in a position of very strong liquidity.

I think it's our expectation and hope, although we have nothing immediately in the pipeline, that we will be undertaking additional investments this year, but of course, that's always difficult to predict.

To the extent that -- a subtext in your question is related to returning cash to shareholders. I think, at this point, we are, as always, certainly mindful of the various investment options we have, one of which is returning cash to shareholders, but at this point, we evaluate that as we always have before. Our focus right now is on development or identification of investment opportunities.

So, we are in a very strong financial position; we are right now at 27 percent debt-to-total capital. That will come down somewhat in the third quarter, as I mentioned earlier, and we are actively looking for investment opportunities. It's difficult to be predict exactly when and how big those will be but that's our perspective right now.

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

Tom, on the question of repurchases, you know, they represent a trade-off at any one moment between several possible uses of cash. You know, we look at the cash we have; we make a judgment on our ongoing needs in the business, the investments that we have to make in the future, the stock price, the cost level, the debt, the tax issues, and our dividends, and we make a determination. We have had a history, although not much of a recent history, of repurchasing stock. You know, we like to do what the market does. We like to buy it when it seems to be a good value and when that's the best alternative that we have. So, in terms of that stock-repurchase issue, we did make a nominal investment in the quarter and we haven't done that, as we noted, for several years.

In terms of our acquisition activity, our objective is not to place money but it's to make money. Right now, we are in a little bit of a seller's market and we are selling. We could be in a buyer's market, which means we're not going to sell as much but we would have some very good buying opportunities, which we did for several years. As Chris said, though, we're looking at several possibilities, not only in real estate but also at Matson, for some investments that are going to the accretive and beneficial to our shareholders. So, we're not sitting around counting the capital and cash in the treasury; we're looking at all the alternatives we have to utilize it.

Tom Spiro - *Spiro Capital - Analyst*

Well, I'm glad you're looking at all the alternatives. I applaud you for nibbling on the stock; I'm glad you did that. Given the change in the tax treatment of dividends that occurred not long ago, I hope you will give serious consideration to raising the dividend rate as well. But most importantly, I just wanted to congratulate you on the quarter.

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

Thank you and I will extend that again, Tom, to the operating people here who all made it -- they made it happen.

Operator

Another follow-up question from Diane Daggett.

Diane Daggett - *Vulcan - Analyst*

I was just wondering when you will be in a position to give us some guidance for 2005.

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

Probably when we put our 2005 operating plan together, which will be in the fourth quarter of this year.

Diane Daggett - *Vulcan - Analyst*

Okay, so probably on the fourth-quarter conference call?

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

Maybe later than that, but we will let you know when we can provide some sense of where we think 2005 is going to take us.

Diane Daggett - *Vulcan - Analyst*

Okay, thank you.

Operator

There are no further questions at this time. Gentlemen, I will turn the conference back over to you for any further or closing comments.

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

We thank you for your participation. Aloha, good day.

Operator

Once again, that does conclude today's conference call. We thank you for your participation. You may now disconnect.
