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PRESENTATION

Operator

Good morning and welcome, ladies and gentlemen, to the Alexander & Baldwin, Inc. fourth-quarter and year end conference call. At this time I'd like to inform you that this conference is being recorded and that all participants are in a listen only mode. At the request of the company we will open the conference up for questions and answers after the presentation. I will now turn the conference over to John Kelley. Please go ahead, sir.

John Kelley - *Alexander & Baldwin - VP of IR*

Good morning. This is John Kelley in Honolulu. This morning our logistics are just a little bit different because the rest of the people on the call representing the Company are in Oakland, California, so this is the first one we're not in the same room. But in Oakland are Allen Doane, President and CEO of A&B; Jim Andrasick, Executive Vice President and CFO of ABN, President and CEO of Matson Navigation Company. And we're also very pleased to welcome our colleague, Chris Benjamin, who is newly appointed the CFO and Vice President of A&B effective February 9th. Chris will just be listening with us today but we're glad to have him.

As is typical in the call, I'll do this brief introduction and then Allen will give an overview of the financial performance and some words about the outlook; Jim will comment on the financials; I'll give a quick review of the Hawaii economy and then we'll open for your questions by click SKU (ph) polling. If anyone has trouble hearing the call, please dial star zero and the operator will help you out. Copies of our release are at the A&B website, and special invitees on the call who are able to ask questions should have been faxed or e-mailed copies of the release this morning. There will be a replay available on the Web for one week, and I'm always willing to take calls later on. There is a five hour time difference at this time of the year with Eastern time.

Statements in the call that set forth our expectations and predictions are based on faxed and situations that are known to us as of today, January 23, 2004. Actual results may differ materially due to risks and uncertainties such as those we describe on page 19 of the Form 10-K and our 2002 annual report. I would remind listeners of our corporate website, www.AlexanderBaldwin.com, and its links to our subsidiary's Websites. With that I would like to invite Allen Doane to make some comments about the quarter and the outlook. Allen.

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

Thank you, John. I would like to introduce again and congratulate Chris Benjamin on his appointment as Chief Financial Officer of A&B, and also note that our controller, Tom Wellman, has been named a Vice President of the company as well as treasurer. So we're quite pleased to have had these promotions and have the opportunity to have Chris with us today. So, welcome, Chris.

Chris Benjamin - *Alexander & Baldwin - CFO, Vice President*

Thank you.

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

I'd also like, just at the outset, express appreciation to Jim Andrasick who has one head but wears two hats for a period of time. He's done an exceptional job in the financial area for the Company and also, as you've seen here, produced some very good results at Matson Navigation. So Jim will be sailing off into the operating role at Matson here in the future. And it's a great assignment for him.

I would like to just talk briefly about the quarter and then to make a few comments about the full year and then our outlook for 2004. The quarter ended close to expectations, 44 cents per share earnings versus 43 in the prior year. We got there a little differently than we might have that we would at the beginning of the year, but nonetheless from an operating standpoint it was a good quarter overall.

Let me turn to the quarterly results and -- if I can for a moment, and I'll pause just briefly as we go through these various items. If you could go to the transportation -- ocean transportation segment, for the quarterly material, and it's page two in my release but it may look somewhat different for you. That is Matson Navigation. It's hard to make sense of the prior year versus 2003 due to the labor disruptions that occurred in 2002's fourth quarter. To some extent, because of that those very large increases in volume in containers and automobiles that you see can be discounted somewhat in the last quarter of 2003 because of the disruptive effects on volume in 2002.

Well, how do we see the quarter? We see it as a good quarter and kind of let me give you our perspective on it. If you start with the 32.4 million of operating profit, we did include a statement in our release about a onetime curtailment settlement gain on a pension plan. That is $16.7 million pretax. If you remove that 16.7 million from the 32 plus million of operating profit, and then let me just give you one more number, if you add back $6 million for two other non operating items that dealt with a nonqualified pension plan and other pension expense items. If you add that back as a $6 million item, essentially what that does is that gives you an operating profit in the quarter of about $22 million.

So you've reduced or you've taken out the gain that you got of 16.7 and then you've added back $6 million of expense items that were unusual in nature. If you take that 22 million and you divide it by $199 million of revenue in the quarter, that gives you an operating margin of about 11 percent. That is kind of a typical margin for the fourth-quarter for this business.

It's also important to note, while it doesn't show up directly on the P&L, there was a major fleet reconfiguration in the fourth quarter. We had a new vessel introduced to the service. It's the first time that's happened since 1992, and it was done successfully. We also had the first voyage of a newly leased auto carrier, they're called roro ships, that occurred in the quarter as well. So there was just a lot of changing in the fleet which had some onetime costs attendant to it in the quarter.

I would just then turn to the transportation logistics service quarterly results. And would note there that the numbers are small in terms of operating income, particularly the margins are relatively small versus revenue, but it's that kind of business, small but very good performance.

I would then ask you to turn to property development and management leasing, probably one-page further along. For the quarter we had operating profit of 9.8 million versus 8.4 million in last year's quarter. That's a 17 percent increase. That's not sustainable but we did have good occupancy rate stability on the mainland, a little bit of rate improvement in Hawaii, a few more properties and overall the results were quite good in the leasing segment.

I would then next turn to our property development and management sales segment. Their operating profit was 2.7 million versus 5.2 million in the prior year's quarter. I would suggest that you not be concerned about the drop in quarterly profitability there. This is the one segment of our business where quarterly results can be lumpy, episodic. Here it's better to look at the full year trendline versus any one quarter. And when you look at the full year you'll note that we have had very good results.

If you would then turn to our food products segment, and look at the quarter results there, .5, a half-million dollars of operating profit versus 5.8 million in the prior year's quarter. We had a disappointing end to 2003, we produced 49,000 tons of sugar versus 61 last year. You're really comparing a poor quarter to what had been a superb quarter in 2002 for the end of the year. We did have some malicious fires earlier in the year that really affected the production for the fourth-quarter, but it did not at all fully explain the drop in production. So that was not a good operating result for the quarter and, as we'll talk in a moment, for the year.

I would then like to go to a couple paragraphs down in the report, it's on page 6 of our report, but it's after the full year numbers for the food products segment. There's a comment about the Company writing down our investment in C&H Sugar. We did have a permanent impairment. The investment in that business was written down from $11.5 to $3.8 million. That was a hit to earnings of $7.7 million pretax. So that business is now on our books and the 36 plus percent ownership that we had in it is in at a value of $3.8 million.

In the interest of time I'm just going to make a few comments on the full year and on our outlook for 2004. And then I'll end with an update on a few of a real estate projects that last quarter I had been asked to do to give you an update on that now at this meeting.

For the full year Matson had excellent recovery. Matson is now operating pretty close to the level it should be at. It does get complicated, but again, if you were to remove the benefit of that onetime pension gain, and then also remove from operating results about a $10 million pension expense that had run through the year pretty much ratably on a quarterly basis, you'd come to the conclusion instead of having earnings of 92.8 million in the year that our running rate for Matson is more in the mid to high $80 million of operating income versus 93.

We do believe that we will have a very good year at Matson in 2004, but it's going to be more of an incremental improvement in income rather than the large recovery growth that we experienced in 2003. In the logistics business, if you look at our profit for the full year on the industry segment versus 2002, it was an excellent year. We had earnings of 4.7 million in operating profit versus 3.1 million the prior year. We expect that segment of the business to have continuing growth. We've got a capable and energetic management group there and a good growth strategy. So we expect that business to continue to grow.

Our leasing segment that's had $37 million of operating profit versus 32.9 million in the prior year, we don't expect to sustain the kind of growth in '04 that we had in '03. So you'll see low growth there after an excellent 2003. The development segment had almost $24 million of operating income versus 19.4 in 2002. You can expect to see continuing strong growth in that segment of the business in 2004.

And then with food products, the 5.1 million versus 13.8 million in the prior year, there's uncertainty in this business. We should have better production in 2004, but sugar prices have been trending down, and it's not likely you're going to see growth in that segment's income, and there is some prospect that it could decline.

I would just make an overall comment that for A&B that we expect to have, on an aggregate basis, a sustainable rate of growth in income in 2004, but we're not going to have the type of very large growth that we experienced in the year 2003. But we are expecting a good year.

Let me conclude by giving an update on several projects, all of which are in affect new investments for the company in the last year or less. The first is our Alakea office building in downtown Honolulu. It was acquired in March of 2003, 31 floors, small floor -- about 5500 square foot floor plates (ph). We bought it for $20 million. Of the 31 floors we did something very unusual, instead of leasing it out we're selling it as office condominiums.

We have at this point sold nine of the 31 floors for over $10 million. We have another 3.5 floors under binding contracts, and an additional five floors in the letter of intent stage so that essentially about 18 out of the 31 floors are either sold or committed. And with these transactions closed or closing we'll be getting close to recovering our initial investment value in the property. So the prospects there are very, very good, the results have been outstanding.

The second project is our Lanikea project in Waikiki. It's the first highrise in Waikiki in almost 15 years. We just turned the first earth over on that project in the last 30 days. We've also gone from a sales program to a point where we are now collecting binding contracts for the sale of the 100 units in this project. This is a 100 percent A&B owned development. We have 97 of the 100 units sold, 88 are on a binding basis. We at this point in time have sold them for an average of $574,000 a unit. We are meeting our very high expectations for this project. We will not have an income effect here until 2005 however when the project is completed and the actual transactions close.

The third project is our Hokua project in Honolulu. That is a 50-50 joint venture with the McNaughton Group and the Kobayashi Group, prominent local developers in Hawaii. This is a luxury 247 unit condominium in a very well located place. Of the 247 units, 235 are under contract, 226 of those 235 are under binding contracts. We have approximately $230 million of revenue under contract for this condominium. This is another project that, just in the last 30 to 45 days, has gone from a concept and a sales program to both having binding contracts, and earth has also been turned here.

This project is also meeting the very high expectations that had been set for it on an investment basis. We're investing $40 million as an equity owner. And we would expect that we could begin to see the results of this at the end of 2005, probably maybe in the fourth-quarter, but it's a little too early to say just yet. So there's no impact on that in '04, but you'll be seeing that one later on.

The last project, and certainly the most significant, was our acquisition of Wailea. This was completed early in the fourth-quarter of 2003 for $67 million. We expanded the transaction to you in the last call. It was a split off approach where we bought the undeveloped land, approximately 270 acres, and were able to arrange a simultaneous purchase with a partner -- of some very, very attractive golf course real estate.

We only have -- we have 17 parcels representing the 270 developable acres of residential land. We're only in a position at this point to sell one of these 17 parcels on in effect a subdivided basis. There are 29 lots in the first parcel that is -- actually the sales activity started midway through the fourth-quarter of 2003. Of the 29 single-family lots in this first subdivision, 19 have either been sold or are under -- 19 have actually been sold under binding contracts, and we have two additional non-binding sales. So that would be 21 of 29 single-family lots, average price of $790,000.

It's our first indication of market response to the new inventory at Wailea, inventory that hasn't been available for a number of years. We're getting positive results. And we do expect to achieve income -- a fairly substantial amount of income from these first single-family lot sales in 2004. In addition to that, of the 16 remaining subdivideable parcels, we're going through a process of really dividing them into three categories. We're going to sell some in bulk, we're going to joint venture some of the parcels, and then we'll also take parcels and develop them ourselves.

Because it's going to take two years and maybe even a little bit longer to get to the point where we're able to either joint venture or develop parcels on our own, that we're in the process of pursuing some bulk sales to other developers, and these could have income impacts and should have an income impacts in 2004 and 2005. We're not in a position to describe them in detail yet, but I can just give you assurance that the program that we're embarked on now was the very same program that we used to purchase the property and to make our initial plan.

So we're on track, a little bit ahead of where we thought we would be at this point with Wailea, and are very pleased with the initial results. So that I'm going to turn it over to you, Jim, in your last capacity today as the Chief Financial Officer of A&B.

Jim Andrasick - *Alexander & Baldwin - CFO, President & CEO of Matson Navigation co.*

Thank you, Allen, and thanks for the kudos you expressed earlier on behalf of Matson's thousand plus salary, and barring union employees I think I -- we owe it all to them for this fine performance during the last year. I would like to confine my comments to the industry segment data page initially, that starts with revenue by segment and operating profit, and go down to the income tax line.

Just to make a couple of quick comments on below the line items, our tax rates in 2003, it was 37 percent effective rate. That compares with 33 percent last year. So that's a 400 basis point increase. And the reason for that is we had a number of very large residential credits in '02 and also the settlement of a -- several state income tax audits which were favorable to the company, those did not repeat in '03. So I think a good proxy for those of you who try to estimate '04 and beyond would be a 37 percent effective rate for the company, that comports with our historical averages and I would say it's more likely to be lower than higher, but 37 percent is a good number to use.

On the very bottom of that industry segment page you'll see average shares outstanding have increased, and for the quarter they were up to 42 million. Most of that increase was due to option exercises throughout 2003, and in dollar terms that added a little more than $20 million to our shareholder's equity. About 850,000 shares were exercised during the year at an average price of a little over $24.

I'd like to make some brief comments about the balance sheet. This compares actual '03 versus actual '02 and just comment on the major highlights because there were a number of fairly significant changes. The first really is in our investment accounts, 68 million. That was up 35 million during the year. And you may recall that we contributed land to the KuKuiUla joint venture at a value of $28 million early in the year as well as one of the projects that Allen just mentioned, the Hokua project, 10 million in the calendar year. The combination of those to investments explains the entire amount of the increase of that account. I'd also note that the carrying value of C&H is -- on a written down basis -- is contained within that 68.4 million.

Our real estate development accounts were up sharply from 42 million to 77 million. But most of that, in fact all of that was the Wailea acquisition which closed on October 1st of this year -- in '03 rather, and that was offset by the KuKuiUla land which shifted basically from real estate developments to investments. So a net increase of about 35 million there. The property accounts also were up, and I'll save some of the explanation on our capital spending experience and what our forecast is when I discuss cash flow. But serve (ph) it to say that most of the increase in the property side was the vessel acquisition at Matson which accounted for 100 million of that $136 million increase.

In part to finance that vessel we drew down our capital construction fund by about $43 million net of earnings in the fund during the year. And our other asset accounts increased by about 30 million, and most of that was related to the various pension accounts including this onetime settlement gain that Allen has already described.

On the liability side, nothing noteworthy in current liabilities. Our long-term debt has increased as a result of our higher capital spending, and we fixed more depth during the year to take advantage of what we thought was a favorable interest rate environment. We put $53 million of title -- what's called title 11 debt against the new vessel, we also fixed an additional $50 million approximately in other long-term intermediate term borrowings. So debt levels increased 82 million since the end of 2002.

We took advantage of that rate environment to pay off some state revenue bonds in Hawaii, and that had been categorized in other long-term liabilities, so all of the decrease there was a result of paying off those revenue bonds and very small movements in our deferred tax accounts. Shareholders equity increased by more than earnings less dividends. As may of you know, comprehensive income is an accounting device where various changes in benefit accounts do not go through the P&L but rather get charged or credited directly to our shareholder's equity.

And in this case for 2003 we had a $20 million pickup because of favorable performance in our asset accounts relating to pension plans and several other activities. And this is also where 20 million plus in stock option exercises contributed. So overall net increase in shareholders equity was 87 million, and the book value per-share at the end of 2003 was $19.22, that was up $1.68 from the same value -- same measure at the end of 2002.

If I could just turn and make some quick comments on cash flow. Clearly operating cash flows were up smartly, most of that driven by increases in earnings performance from the various business units as well as some favorable current liability and tax payable positions at the end of the year. Capital expenditures at 214 million were obviously much higher than 2002 as planned and as expected. The new vessel purchase, as well as a number of different property acquisitions, accounted for that increase.

And just to give you some idea of how that compares by business segment, of the 214 million, the way that breaks down is properties was 66 million, which I'll explain further in a moment, ocean transportation was 133 million, and ag and other was about 13 million. But not included in the property spending in this account are amounts added to inventory which for the year 2003 totaled about $35 million, those are actually included in operating cash flows above. As well as properties purchased using tax-deferred proceeds on the sale of other assets, and those totaled 41 million during 2003.

So when you combine all of that in our properties group, total spending and commitments were 142 million during the year which was up substantially from the prior year. I would also comment on our outlook for spending in '04. We believe that ocean transportation will be at about the same levels because another vessel is under construction with expected delivery in the third or fourth quarter of 2004, as well as several normal equipment replacement and systems projects that we have on the boards.

And the properties area we expect spending to be about the same, although it's always difficult to predict given the episodic nature of a number of our projects. But the three projects Allen outlined, or four, will consume some capital during their development phases in '04 and most of the benefits to come in '05 and beyond. So, on the capital side we're looking at about the same levels in '04 as we experienced in '03.

With that, John, I would like to turn it over to John Kelley who will talk about some of the Hawaii factors which greatly influence all of our businesses. John.

John Kelley - *Alexander & Baldwin - VP of IR*

Thanks, Jim. I think just from an overview point of view, right now Hawaii is operating from a macroeconomic basis in what you might call its sweet spot, and that I would characterize is about a 3 to 4 percent real growth rate. And I think the point here is that in an island economy, growth can get out of whack relatively easily so it's very important to grow at a rate that prevents imbalances in infrastructure, and especially things that might affect the property development business. And I think we're now operating at that level and it looks to be sustainable.

Just from a couple statistics on the visitor industry because from a psychological point of view it's very important to the investment willingness of the local business community. The US visitors continue to grow at a fairly steady rate, and the international visitors are recovering, but the process month-to-month is somewhat bumpy. Looking at the third quarter, total visitors were up a little more than 1 percent, and the visitor day census was up just about 4 percent. And within that number the US component, almost 5 percent increase in visitors whereas international visitors from all countries were down about 7 percent.

Inside those numbers US West and US East contributed to growth and Japan was still off a bit on the international side. Moving forward in time, in November the total visitor count was up about .3 percent of which the US component was up 2 percent and the perennially strong US West was up almost 6 percent. And on the international side of that number the total was down 3, but for the first month since March Japan was up almost 2 percent and that was fairly nice and noteworthy. So it is a little bit bumpy but I think generally we still have sustained strength from US West and a gradual recovery from Japan on the international side since they are the largest driver.

As we look ahead, the forecast for the '03 add is about a 6/10 of 1 percent decline, and that would lead us to about 6.4 million visitors for the year, and the outlook is for about a 6 percent increase that would take us to 6.8 million in calendar year '04. And just for reference the high was 6.9 million in the year 2000. So the outlook looks fairly strong. And I think one contributing factor that's particularly noteworthy, in our last call we made a comment about the end at that point being about 110 to the dollar and of course as of yesterday it was less than 106. So, that's not certainly having helped investment trends, but it certainly will contribute to spending and numbers of visitors from the Far East, from Japan in particular.

On the hotel side occupancy continues to strengthen. In the third quarter occupancy levels rose about 500 basis points from about 72 percent to almost 78 percent. In the month of November, which is the most recent available, numbers were up about 300 basis points from about 66 to about 69 percent. And interestingly enough, Oahu generally tends to be the destination for visitors from Japan, and for one of the first months I can recall lately, Oahu led the numbers at about 73 percent occupancy, so there may be some retrend to Japanese group travel which would be of course very beneficial.

Average room rates are up about 4 percent, so there's a little less discounting going on. Interestingly enough on air seats, and there's some poor guy who takes the OAG and decomposes this into the numbers of seats, but the nonstop domestic seats rose almost 500,000 or 9 percent to 6 million, and that's a nonstop domestic record for Hawaii. Total seats inbound about 8.6 million, up almost 4 percent versus '02. And the outlook for '04 is that that trend on the domestic side is going to increase up about 14 percent in the first quarter and up a little more than 10 percent in the second. So I assume that airlines make intelligent business decisions and those seat commitments to Hawaii are an indication of the kind of bookings that they're expecting to receive.

Automobiles, which are another measure of consumer demand, were up about 15 percent in the first nine months of '03, and for the full year the forecast is that it will be about a 13 percent rise to about 60,000 new light vehicle sales. And the forecast for '04, which the industry has characterized is conservative, is for about another 2.5 percent, bringing the number of sales for light vehicles to about 62,000.

Construction activity continues in the state and it's kind of the icing on the cake as far as Matson's carriage is concerned, because it's a whole cyclical class of cargo. Some of the indicators have leveled off at a fairly high level. For example, the construction tax base in the third quarter edged down about 3 percent, but it still was operating at about a $1.2 billion level, which is not to be sneezed at. And in the same quarter, construction jobs rose 5 percent, and those numbers were up on all of the islands.

Residential authorizations as we look forward were up about 6 percent, with single-family in the lead up 22 percent. Multifamily is volatile and it was down about 19. But I think where we're seeing sustained demand, both in strength and selling prices as well as in volume of sales, is in single-family. Oahu, for example, in the most recent data -- in the most recent quarter was up almost 14 percent on selling price to a median of about 393,000. The number of sales were up 25 percent versus the prior year.

Lurking or looming in the background is a very substantial series of military housing replacement contracts. The Air Force is going to replace or refurbish 1400 homes, the Army 7700, and the Navy 7300, for a little more than 16,000 homes in total. This is a contract series that will total more than $3 billion. It's in addition to several additions to military units presently assigned to Hawaii, including some cargo aircraft and another destroyer.

From the downside military-wise, about 10,000 troops will be deployed from various bases and guard units here in Hawaii to overseas assignments. So there will be some decline in consumer spending in a couple of the communities here on Oahu especially. From an overall viewpoint, the real gross state product projection for '03 has been raised for the third time. It is now estimated at 2.9 percent, and the outlook for '04 is just a shade less at 2.8 percent. Inflation continues to be very low. So I think as I said at the start, we're operating at a very nice sweet spot for an island economy.

With that, Tiffany, I think it would be a good time to open for questions from our listeners.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Diane Daggatt with McAdams Wright Ragen.

Diane Daggatt - *McAdams Wright Ragen - Analyst*

I have a question on Matson. Can you talk about the rate environment, and what was the rate increase in '03 and what do you expect it to be in '04?

Unidentified Company Representative Jim Andrasick will respond to that question.

Jim Andrasick - *Alexander & Baldwin - CFO, President & CEO of Matson Navigation co.*

It's a good question. In '03, our rates were -- first of all, you have to understand we have a number of different components to rates, which is somewhat different than prior years. We have a terminal handling charge, we have general rate increases, and we have to account for our increases and decreases in our fuel costs through a separate charge as well. So, in combination of all those things, 2003 was very favorable for rates for Matson.

It was somewhat of a catch-up period, and average increases were probably 7.5 to 8 percent all-in, including the fuel. In 2004, we have just announced and implemented an annual increase that went into effect on January 11th of this month, which averaged 4.4 percent, depending on how you define averages because we have westbound, eastbound and obviously different tariffs for different quantities. But I think it's safe to say that those rates that we think are certainly defensible, certainly reflect various increases in costs and also in service improvements that we are providing to our customers or intend to provide during 2004. I hope that answers the question.

Diane Daggatt - *McAdams Wright Ragen - Analyst*

Yes it does, thanks.

Operator

Dara Edmonds (ph) with Alpine Mutual Funds.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

Hi, gentlemen. Maybe for John Kelley or Jim, can you help me match the numbers that you reported to what was on First Call because I'm having a hard time. You reported 44 cents, the mean estimate was 53. But yet Bloomberg put 55 cents down. Can you kind of clarify the numbers for me?

John Kelley - *Alexander & Baldwin - VP of IR*

I'll try. I don't subscribe to First Call so we don't have access to those numbers.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

Well, the two analysts out there, one was at 49, one was at 56.

John Kelley - *Alexander & Baldwin - VP of IR*

As far as I know the McAdams number was 49 for the quarter, and the Caris number was 56. Craig Sirois' Value Line was at 45 cents, and Standard & Poor's was at 54. So I'm not exactly sure --.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

Is the number 44 cents, John, or 55 which Bloomberg put on? In other words, are they taking out -- are the analyst taking out some one times that you're putting in the 44 cents?

John Kelley - *Alexander & Baldwin - VP of IR*

I'm afraid I don't know what adjustments Bloomberg is making to our numbers.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

It's very confusing, I have to tell you. But the 44 cents that you reported that was at with some of these pensions? Is that an all in number?

John Kelley - *Alexander & Baldwin - VP of IR*

It is an all in number.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

Okay. So some of those one times might be taken out. And then on the guidance for next year, I know you said the pace won't be as high as the '03 which is kind of a rebound year. But again, can you give us some idea? It sounds like the Hawaiian economy is doing just great, yet Matson's going to be down, leasing and food are flat, and the sales part of it is pretty tough to forecast, and logistics is pretty small. So can you kind of give us a sense of what the '04 year-over-year percentage gain (indiscernible) double-digits, can you just give us some idea?

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

We don't forecast our future earnings. What we'll give you and we have given you some qualitative guidance, we expect that we will have what we're calling sustainable growth next year. I believe that Matson will, if you start off from a base in the mid to high 80s, Matson is going to have a good year in 2004. Certainly our overall property segment, when you put leasing and sales together, is going to have also a very good year. We expect food products to be flat.

So overall I feel that -- it's hard when you have a rebound year where you've had 37 percent to disappoint people when you're going to have something that's going to be a lot smaller than that. But for us it's certainly encouraging because we're seeing with the economy, the state, and the strong performance of our two core groups, we're feeling good about the year, but it's not going to be -- be a huge overall increase in earnings.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

And you won't tell us if you think you're going to hit double-digit or not?

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

I'm not going to give a specific number.

Dara Edmonds - *Alpine Mutual Funds - Analyst*

Thank you very much.

Operator

Nicholas Aberle with Caris & Company.

Nicholas Aberle - *Caris & Company - Analyst*

Good morning, gentlemen. Just going back to the Matson operating profit real quick and the onetime events that you referred to earlier in the call. The 6 million in nonoperating expenses, Allen, can you give a little bit more detail into what those expenses were?

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

Yes, we had a onetime nonqualified pension expense of about $3.5 million, that would be characterized clearly as an unusual item. In addition to that, and this goes a little bit back in terms of history, but when we started the year we indicated that we were going to be absorbing about 25 cents a share of increased pension expense. And the majority of that went to Matson and we put it through the income statement, essentially about $10 million, about $2.5 million a quarter.

So we took the $2.5 million for that fourth-quarter, added it to the 3.5 million of the nonqual (ph) pension expense, and those two items totaled 6 million. And then we sort of removed that from our ongoing running rate and then of course also removed the impacts of that 16.7 million of a onetime curtailment gain. So it's a little bit confusing but it does suggest that the running rate of Matson is in mid high $80 million range rather than say 93 million.

Nicholas Aberle - *Caris & Company - Analyst*

Adjusting for the onetime events I'm getting a margin for the ocean transportation business of about 10.89 percent, which is still slightly down incrementally from Q2 and Q3 of this year. Is that just a seasonal affect or is it just topping off there?

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

That's a good question. The rate in the fourth-quarter when you take these adjustment is about 11 percent. A range of 10 to 12 percent is probably a reasonable. We have -- the third quarter is the best, the first quarter is the lowest quarter, and then be second and the fourth-quarter are sort of in between, so the margins will vary. You can pretty well be assured that our first quarter margins will be lower than the rest of the year for 2004, and that we'll get better as we get into the second and the third-quarter.

So no, from an operating standpoint, and obviously we're looking at lots and lots of information here, we had a good operating quarter in the fourth-quarter. But it was better of a -- what I would call a normal pattern absent the fleet reconfiguration and several of these onetimers that have been enumerated.

Nicholas Aberle - *Caris & Company - Analyst*

So we can look for Q1 ocean transportation margins to be at the lower end of the 10 to 12 percent range?

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

Yes.

Nicholas Aberle - *Caris & Company - Analyst*

Jim, can you talk a bit about or give us some commentary with respect to the initial customer response and cost implications of the new carriage (indiscernible) automobile service, roll on/roll off?

Jim Andrasick - *Alexander & Baldwin - CFO, President & CEO of Matson Navigation co.*

Certainly, Nicholas. I think they've been -- the customer response, and I'll just deal with I guess big three auto manufacturers, US-based has been very good to the overall program that we've announced. And we had really just started to implement segments of this, the biggest initial chunk was the charter end of the roro vessel that John mentioned. We've also established dedicated auto terminals both in Honolulu and in Oakland which is a change for the company, we've never done that before. And we are embarking on a massive redo of our information systems as it relates to autos and how they're tracked for our customers.

In every case these initiatives really have been customer driven. I would have to say that we are not done yet by any stretch, we have further improvements to make. And despite what we've described as very good operational metrics for Matson during the fourth-quarter, we did have some hiccups. The weather this time of year has been very choppy, there have been some other labor issues, productivity issues in Hawaii. But overall, I think the new auto and vehicle carriage program is being well accepted. But I would just repeat that we have more to do, and we plan to do more as the year 2004 progresses.

Nicholas Aberle - *Caris & Company - Analyst*

Sounds good. And lastly, I think investors have been in general anticipating some type of dividend increase this year. Allen, can you give us a little color as to potential timing or potential amount of increase the dividend could sustain?

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

Yes. I'm not in the position to really say too much about that. This is the province of our Board of Directors. I can tell you that we are going to be looking at our dividends in a very thorough manner and actually are now. And we'll be determining and making an evaluation which will be given to the Board of Directors later on this year. And we'll see what the result is. Clearly -- we met with a number of investors several months ago. The question that was asked at about every meeting was what do you think about dividends?

I have to tell you, there were a number of different responses that we got. There are cross current working many different ways. The one thing I got that came out of the meetings was don't spend your money stupidly whatever you do. Give it back to us in repurchases to make good investments in the company, increase your dividend but don't do anything stupid. But in terms of the dividend results, we got lots of different views. But frankly, with the changes in tax treatment and the improving prospects for the company, it's time for a periodic re-evaluation of the rate.

Nicholas Aberle - *Caris & Company - Analyst*

So if it did go through, when would be the earliest time it would be implemented?

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

I can't comment on that.

Nicholas Aberle - *Caris & Company - Analyst*

Fair enough. Thank you, guys.

Operator

(OPERATOR INSTRUCTIONS) Rob Maten with Schneider Capital.

Rob Maten - *Schneider Capital - Analyst*

I just had a couple questions on the Wailea development that you talked a little about. The one parcel where you're selling lots, how much of the overall 270 acres does that parcel represent?

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

It represents, let me see if I have my -- I'm going to find it here but you can extrapolate this one parcel and multiplied it by 17. I can tell you that right now. I think it has about 14 acres in it. I might be a little wrong there in terms of the acreage, but I believe it's about 14 acres or so. They're half acre lots, they're 29 so 14, 15 acres, out of 270.

Rob Maten - *Schneider Capital - Analyst*

That's pretty close to the average then.

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

Yes, it is.

Rob Maten - *Schneider Capital - Analyst*

And is that parcel, in terms of the desirability of the location or views or that kind of thing, fairly similar to the other parcels or is there any other differences?

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

The one difference, it's single-family -- it's single-family zoned, many of the other parcels are multi family. That's one difference. In terms of its overall view plane, it's slightly better than average but I'd characterize it more as an average location rather than one of the best or poorest.

Rob Maten - *Schneider Capital - Analyst*

Great, thanks a lot.

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

You're welcome.

Operator

There are no further questions in queue, Mr. Kelley.

John Kelley - *Alexander & Baldwin - VP of IR*

Okay. We would like to think everyone for participating. And if there are additional questions, we can take them off-line. We appreciate your participation. And aloha.

Operator

Ladies and gentlemen, this concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.