ALEXANDER & BALDWIN INC
Form 10-K
February 28, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

xANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number 0-565

ALEXANDER & BALDWIN, INC.

(Exact name of registrant as specified in its charter)

Hawaii	**99-0032630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

822 Bishop Street

Post Office Box 3440, Honolulu, Hawaii 96801

(Address of principal executive offices and zip code)

808-525 -6611

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	**NASDAQ**

Securities registered pursuant to Section 12(g) of the Act:

None

Number of shares of Common Stock outstanding at February 15, 2008:

41,307,295

Aggregate market value of Common Stock held by non-affiliates at June 30, 2007:

$2,231,299,861

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes **X** No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No **X**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **X**No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer **X**	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No **X**

Documents Incorporated By Reference

Portions of Registrant's Proxy Statement dated March 13, 2008 (Part III of Form 10-K)

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ALEXANDER & BALDWIN, INC.

FORM 10-K

Annual Report for the Fiscal Year

Ended December 31, 2007

PART I

ITEMS 1 & 2. BUSINESS AND PROPERTIES

Alexander & Baldwin, Inc. ("A&B") is a multi-industry corporation with its primary operations centered in Hawaii. It was founded in 1870 and incorporated in 1900. Ocean transportation operations, related shoreside operations in Hawaii, and intermodal, truck brokerage and logistics services are conducted by a wholly-owned subsidiary, Matson Navigation Company, Inc. ("Matson"), and two Matson subsidiaries. Property development and agribusiness operations are conducted by A&B and certain other subsidiaries of A&B.

The business industries of A&B are generally as follows:

A. *Transportation* - carrying freight, primarily between various U.S. Pacific Coast, Hawaii, Guam, other Pacific island, and China ports; chartering vessels to third parties; arranging domestic and international rail intermodal service, long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload, expedited/air freight services, and warehousing and distribution services; and providing terminal, stevedoring and container equipment maintenance services in Hawaii.

B. *Real Estate* - engaging in real estate development and ownership activities, including planning, zoning, financing, constructing, purchasing, managing and leasing, selling and exchanging, and investing in real property.

C. *Agribusiness* - growing sugar cane and coffee in Hawaii; producing bulk raw sugar, specialty food-grade sugars, molasses and green coffee; marketing and distributing roasted coffee and green coffee; providing sugar, petroleum and molasses hauling, general trucking services, mobile equipment maintenance and repair services, and self-service storage in Hawaii; and generating and selling, to the extent not used in A&B's operations, electricity.

For information about the revenue, operating profits and identifiable assets of A&B's industry segments for the three years ended December 31, 2007, see Note 13 ("Industry Segments") to A&B's financial statements in Item 8 of Part II below.

DESCRIPTION OF BUSINESS AND PROPERTIES

A. Transportation

(1) Freight Services

Matson's Hawaii Service offers containership freight services between the ports of Long Beach, Oakland, Seattle, and the major ports in Hawaii on the islands of Oahu, Kauai, Maui and Hawaii. Roll-on/roll-off service is provided between California and the major ports in Hawaii.

Matson is the principal carrier of ocean cargo between the U.S. Pacific Coast and Hawaii. Principal westbound cargoes carried by Matson to Hawaii include dry containers of mixed commodities, refrigerated commodities, building materials, automobiles and packaged foods. Principal eastbound cargoes carried by Matson from Hawaii include automobiles, household goods, refrigerated containers of fresh pineapple, canned pineapple and dry containers of mixed commodities. The majority of Matson's Hawaii Service revenue is derived from the westbound carriage of containerized freight and automobiles.

Matson's Guam Service provides containership freight services between the U.S. Pacific Coast and Guam and certain islands in Micronesia. Matson's Micronesia Service offers container and conventional freight service between the U.S. Pacific Coast and the islands of Kwajalein, Ebeye and Majuro in the Republic of the Marshall Islands and the islands of Pohnpei, Chuuk and Kosrae in the Federated States of Micronesia.

Matson replaced its prior Guam Service upon termination of its alliance with American President Lines, Ltd. ("APL") with an integrated Hawaii/Guam/China service that began in February 2006. The service employs five Matson containerships in a weekly service that carries cargo from the U.S. Pacific Coast to Honolulu, then to Guam. The vessels continue to China, where they are loaded with cargo to be discharged in Long Beach. Matson also serves the Commonwealth of Northern Marianas, Palau and Yap through connecting carriers calling at Guam.

Matson's Micronesia Service was improved and Matson's costs were reduced in August 2006 when Matson replaced its monthly barge service to Kwajalein, Ebeye, Majuro, Kosrae, Pohnpei and Chuuk with a bi-weekly ship service operating from Guam. Cargo originating on the Pacific Coast and in Hawaii is sent to Guam on the weekly Guam vessel and transferred to a ship chartered by Matson that sails every two weeks to these islands. Matson also carries cargo originating in Asia to these islands by receiving cargo transferred from other carriers in Guam.

See "Rate Regulation" below for a discussion of Matson's freight rates.

(2) Vessels

Matson's fleet consists of 10 containerships, excluding one containership time-chartered from a third party that serves Micronesia; three combination container/roll-on/roll-off ships; one roll-on/roll-off barge and two container barges equipped with cranes that serve the neighbor islands of Hawaii; and one container barge equipped with cranes that is available for charter. The 17 Matson-owned vessels in the fleet represent an investment of approximately $1.1 billion expended over the past 29 years. The majority of vessels in the Matson fleet have been acquired with the assistance of withdrawals from a Capital Construction Fund ("CCF") established under Section 607 of the Merchant Marine Act, 1936, as amended.

In February 2005, Matson entered into a right of first refusal agreement with Aker Philadelphia Shipyard, Inc. ("Aker"), which provides that, after the *MV Maunalei* was delivered to Matson, Matson has the right of first refusal to purchase each of the next four containerships of similar design built by Aker that are deliverable before June 30, 2010. Matson may either exercise its right of first refusal and purchase the ship at an 8 percent discount from a third party's proposed contract price, or decline to exercise its right of first refusal and be paid by Aker 8 percent of such price. Matson does not expect to exercise this right because Aker's order book is filled until 2010 by the construction of product tanker vessels that do not qualify for the discount. Notwithstanding the above, if Matson and Aker agree to a construction contract for a vessel to be delivered before June 30, 2010, Matson shall receive an 8 percent discount.

Vessels owned by Matson are described on page 4.

As a complement to its fleet, Matson owns approximately 26,300 containers, 12,700 container chassis, 1,000 auto-frames and miscellaneous other equipment. Capital expenditures incurred by Matson in 2007 for vessels, equipment and systems totaled approximately $57 million.

(3) Terminals

Matson Terminals, Inc. ("Matson Terminals"), a wholly-owned subsidiary of Matson, provides container stevedoring, container equipment maintenance and other terminal services for Matson and other ocean carriers at its 105-acre marine terminal in Honolulu. Matson Terminals owns and operates seven cranes at the terminal, which handled approximately 389,200 containers in 2007 (compared with 421,500 in 2006). The number of containers decreased primarily due to the drydocking of two neighbor island barges (the containers were handled by a third party) and the softening of the construction industry in Hawaii's economy. The terminal can accommodate three vessels at one time. Matson Terminals' lease with the State of Hawaii runs through September 2016. Matson Terminals also provides container stevedoring and other terminal services to Matson on the islands of Hawaii, Maui and Kauai, and for other vessels operators at ports on the island of Hawaii.

SSA Terminals, LLC ("SSAT"), a joint venture of Matson and SSA Marine, Inc. ("SSA"), provides terminal and stevedoring services at U.S. Pacific Coast terminal facilities to Matson and numerous international carriers, which include Mediterranean Shipping Company ("MSC"), COSCO, NYK Line and China Shipping. SSAT operates seven terminals: two in Seattle, three in Oakland/Richmond and two in Long Beach, one of which is operated by SSA Terminals (Long Beach), LLC ("SSAT (LB)"), a joint venture shared equally between SSAT and MSC.

Capital expenditures incurred by Matson Terminals in 2007 for terminals and equipment totaled approximately $11 million.

(4) Logistics and Other Services

Matson Integrated Logistics, Inc. ("Matson Integrated Logistics"), a wholly-owned subsidiary of Matson, is a transportation intermediary that provides rail, highway, air and other third-party logistics services for North American and international ocean carrier customers, including Matson. Through volume purchases of rail, motor carrier, air and ocean transportation services, augmented by such services as shipment tracking and tracing and single-vendor invoicing, Matson Integrated Logistics is able to reduce transportation costs for its customers. Matson Integrated Logistics is headquartered in Concord, California, operates seven regional operating centers, has sales offices in over 40 cities nationwide, and operates through a network of agents throughout the U.S. mainland.

In 2007, Matson Global Distribution Services, Inc. ("Matson Global") was formed as a wholly-owned subsidiary of Matson Integrated Logistics, expanding its service menu to include warehousing and distribution, freight forwarding and non-vessel operating common carrier (NVOCC) services. With the formation of Matson Global, Matson Integrated Logistics now provides customers with a full suite of domestic and international transportation services.

(5) Competition

Matson's Hawaii Service and Guam Service have one major containership competitor that serves Long Beach, Oakland, Tacoma, Honolulu and Guam. The Hawaii Service also has one additional liner competitor that operates a pure car carrier ship, specializing in the carriage of automobiles and large pieces of rolling stock such as trucks and buses.

Other competitors in the Hawaii Service include two common carrier barge services, unregulated proprietary and contract carriers of bulk cargoes, and air cargo service providers. Although air freight competition is intense for time-sensitive and perishable cargoes, inroads by such competition in terms of cargo volume are limited by the amount of cargo space available in passenger aircraft and by generally higher air freight rates.

Matson vessels are operated on schedules that make available to shippers and consignees regular day-of-the-week sailings from the U.S. Pacific Coast and day-of-the-week arrivals in Hawaii. Matson generally offers four sailings per week, though this amount may be adjusted according to seasonal demand. Matson provides over 200 sailings per year, which is greater than all of its domestic ocean competitors combined. One westbound sailing each week continues on to Guam and China, so the number of eastbound sailings from Hawaii to the U.S. mainland is three per week with the potential for additional sailings. This service is attractive to customers because more frequent arrivals permit customers to reduce inventory costs. Matson also competes by offering a more comprehensive service to customers, supported by the scope of its equipment, its efficiency and experience in handling containerized cargo, and competitive pricing.

MATSON NAVIGATION COMPANY, INC.

OWNED FLEET

						Usable Cargo Capacity								
				Maximum	Maximum	Containers						Vehicles		Molasses
	Official	Year		Speed	Deadweight					Reefer				
Vessel Name	Number	Built	Length	(Knots)	(Long Tons)	20’	24’	40’	45’	Slots	TEUs(1)	Autos	Trailers	Short Tons
Diesel-Powered Ships														
R. J. PFEIFFER	979814	1992	713’ 6”	23.0	27,100	48	171	988	--	300	2,229	--	--	--
MOKIHANA	655397	1983	860’ 2”	23.0	29,484	150	--	1,152	--	336	2,454	1,219	38	--
MANULANI	1168529	2005	712’ 0”	23.0	29,517	4	--	1,294	--	300	2,592	--	--	--
MAHIMAHI	653424	1982	860’ 2”	23.0	30,167	182	--	1,340	--	408	2,824	--	--	--
MANOA	651627	1982	860’ 2”	23.0	30,187	182	--	1,340	--	408	2,824	--	--	--
MANUKAI	1141163	2003	711’ 9”	23.0	29,517	4	--	1,359	--	300	2,592	--	--	--
MAUNAWILI	1153166	2004	711’ 9”	23.0	29,517	4	--	1,359	--	300	2,592	--	--	--
MAUNALEI	1181627	2006	681’ 1”	22.1	33,771	4	--	1,188	--	300	2,400	--	--	--
Steam-Powered Ships														
KAUAI	621042	1980	720’ 5-1/2”	22.5	26,308	--	210	779	--	300	1,626	44	--	2,600
MAUI	591709	1978	720’ 5-1/2”	22.5	26,623	--	458	538	--	300	1,626	--	--	2,600
MATSONIA	553090	1973	760’ 0”	21.5	22,501	50	94	771	--	201	1,712	450	56	4,300
LURLINE	549900	1973	826’ 6”	21.5	22,213	6	--	865	38	246	1,821	910	55	2,100
LIHUE	530137	1971	787’ 8”	21.0	38,656	286	276	681	--	188	1,979	--	--	--
Barges														
WAIALEALE (2)	978516	1991	345’ 0”	--	5,621	--	--	--	--	35	--	230	45	--
MAUNA KEA (3) (4)	933804	1988	372’ 0”	--	6,837	--	276	24	--	70	380	--	--	--
MAUNA LOA (3)	676973	1984	350’ 0”	--	4,658	--	144	72	--	84	316	--	--	2,100
HALEAKALA (3)	676972	1984	350’ 0”	--	4,658	--	144	72	--	84	316	--	--	2,100

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(1) “Twenty-foot Equivalent Units” (including trailers). TEU is a standard measure of cargo volume correlated to the volume of a standard 20-foot dry cargo container.

(2) Roll-on/Roll-off Barge.

(3) Container Barge.

(4) Formerly named “Islander.”

The carriage of cargo between the U.S. Pacific Coast and Hawaii on foreign-built or foreign-documented vessels is prohibited by Section 27 of the Merchant Marine Act, 1920, commonly referred to as the Jones Act. However, foreign-flag vessels carrying cargo to Hawaii from non-U.S. locations provide indirect competition for Matson's Hawaii Service. Asia, Australia, New Zealand and South Pacific islands have direct foreign-flag services to Hawaii.

Due to coordinated efforts by various interests to convince Congress to repeal the Jones Act, Matson is a member of Maritime Cabotage Task Force, which supports the retention of the Jones Act and other cabotage laws that regulate the transport of goods between U.S. ports. Repeal of the Jones Act would allow foreign-flag vessel operators, which do not have to abide by U.S. laws and regulations, to sail between U.S. ports in direct competition with Matson and other U.S. operators, which must comply with such laws and regulations. The Task Force seeks to inform elected officials and the public about the economic, national security, commercial, safety and environmental benefits of the Jones Act and similar cabotage laws.

Simultaneous with the phase-out of the APL alliance, Matson commenced its China Long Beach Express Service on February 1, 2006. Matson provides weekly containership service between the ports of Ningbo and Shanghai and the port of Long Beach. Enroute to China, the ships carry cargo to the ports of Honolulu and Guam. Each ship continues to the ports of Ningbo and Shanghai, and returns directly to Long Beach. Major competitors in the China Service include well-known international carriers such as Maersk, COSCO, Evergreen, Hanjin, APL, China Shipping, Hyundai, NYK Line and Yang Ming. Matson competes by offering the fastest and most reliable freight availability from Shanghai to Long Beach, providing fixed Sunday arrivals in Long Beach and next-day cargo availability, offering a dedicated Long Beach terminal providing fast truck turn times, an off-dock container yard and one-stop intermodal connections, using its newest and most fuel efficient U.S. flag ships and providing state-of-the-art technology and world-class customer service. Matson opened offices in Shanghai and Ningbo in October 2005, and has hired agents and has contracted with terminals in both locations.

Matson Integrated Logistics competes for freight with a number of large and small companies that provide surface transportation and third-party logistics services.

(6) Labor Relations

The absence of strikes and the availability of labor through hiring halls are important to the maintenance of profitable operations by Matson. In the last 37 years, only once-in 2002, when International Longshore and Warehouse Union ("ILWU") workers were locked out for ten days on the U.S. Pacific Coast-has Matson's operations been disrupted significantly by labor disputes. See "Employees and Labor Relations" below for a description of labor agreements to which Matson and Matson Terminals are parties and information about certain unfunded liabilities for multiemployer pension plans to which Matson and Matson Terminals contribute.

(7) Rate Regulation

Matson is subject to the jurisdiction of the Surface Transportation Board with respect to its domestic rates. A rate in the noncontiguous domestic trade is presumed reasonable and will not be subject to investigation if the aggregate of increases and decreases is not more than 7.5 percent above, or more than 10 percent below, the rate in effect one year before the effective date of the proposed rate, subject to increase or decrease by the percentage change in the U.S. Producer Price Index ("zone of reasonableness"). Effective January 28, 2007, Matson decreased its fuel surcharge in its Hawaii and Guam services from 18.75 percent to 17.5 percent due to a decline in bunker fuel prices. Increases in bunker fuel prices and other energy-related costs caused Matson to raise its fuel surcharge in its Hawaii and Guam services to 19.5 percent, effective March 11, 2007 to 20.75 percent, effective May 6, 2007; to 22.5 percent, effective May 27, 2007; to 24 percent, effective August 19, 2007; to 29 percent, effective December 14, 2007; and to 31.5 percent, effective February 4, 2008. Effective January 1, 2007, Matson increased its rates in its Hawaii service by $100 per westbound container and $50 per eastbound container, and its terminal handling charge by $150 per westbound container and $75 per eastbound container. Matson raised its rates in its Hawaii and Guam services, effective January 6, 2008 and January 27, 2008 respectively, by $75 per westbound container and $40 per eastbound container and its terminal handling charges by $125 per westbound container and $60 per eastbound container. Matson's new China Service is subject to the jurisdiction of the Federal Maritime Commission ("FMC"). No such zone of reasonableness applies under FMC regulation.

B. Real Estate

(1) General

As of December 31, 2007 A&B and its subsidiaries, including A&B Properties, Inc., owned approximately 89,480 acres, consisting of approximately 89,120 acres in Hawaii and approximately 360 acres on the mainland, as follows:

Location	No. of Acres
Maui	68,585
Kauai	20,510
Oahu	25
TOTAL HAWAII	89,120
California	80
Texas	165
Washington	15
Arizona	30
Nevada	20
Colorado	15
Utah	35
TOTAL MAINLAND	360

As described more fully in the table below, the bulk of this acreage currently is used for agricultural, pasture, watershed and conservation purposes. A portion of these lands is used or planned for development or other urban uses. An additional 2,910 acres on Maui and Kauai are leased from third parties, and approximately 1,000 acres on Kauai have been transferred to a joint venture, consisting of A&B and DMB Associates, Inc., an Arizona-based developer of master-planned communities, for the development of a master-planned resort residential community. Such acreage is not included in the table above.

Current Use	No. of Acres
Hawaii	
Fully entitled Urban (defined below)	585
Agricultural, pasture and miscellaneous	59,265
Watershed/conservation	29,270
U.S. Mainland	
Fully entitled Urban	360
TOTAL	89,480

A&B and its subsidiaries are actively involved in the entire spectrum of real estate development and ownership, including planning, zoning, financing, constructing, purchasing, managing and leasing, selling and exchanging, and investing in real property.

(2) Planning and Zoning

The entitlement process for development of property in Hawaii is both complex, time-consuming and costly, involving numerous State and County regulatory approvals. For example, conversion of an agriculturally-zoned parcel to residential zoning usually requires the following approvals:

- amendment of the County general plan to reflect the desired residential use;
- approval by the State Land Use Commission ("SLUC") to reclassify the parcel from the Agricultural district to the Urban district; and
- County approval to rezone the property to the precise residential use desired.

The entitlement process is complicated by the conditions, restrictions and exactions that are placed on these approvals, including, among others, the construction of infrastructure improvements, payment of impact fees, restrictions on the permitted uses of the land, provision of affordable housing and mandatory fee sale of portions of the project.

A&B actively works with regulatory agencies, commissions and legislative bodies at various levels of government to obtain zoning reclassification of land to its highest and best use. A&B designates a parcel as "fully entitled" or "fully zoned" when the above-mentioned land use approvals described above have been obtained.

(3) Residential Projects

A&B is pursuing a number of residential projects in Hawaii, including:

Maui:

(a) *Wailea.* In October 2003, A&B acquired 270 acres of fully-zoned, undeveloped residential and commercial land at the Wailea Resort on Maui, planned for up to 1,200 homes, for $67.1 million. A&B was the original developer of the Wailea Resort, beginning in the 1970s and continuing until A&B sold the Resort to the Shinwa Golf Group in 1989.

In 2004 and 2005, A&B sold 29 single-family homesites at Wailea's Golf Vistas subdivision and four bulk parcels: MF-4 (10.5 acres), MF-15 (9.4 acres), MF-5 (8.4 acres) and MF-9 (30.2 acres). In 2004, A&B contributed the 25-acre MF-8 parcel to a joint venture for the development of the Kai Malu project described below. In 2006, A&B continued planning, design and permitting work on three parcels (30.3 acres): MF-11 (10.4 acres), MF-19 (6.7 acres) and MF-7 (13.0 acres). In 2006, a three-acre business parcel at MF-11 was sold. In 2007, a 4.6-acre portion of the 15.6-acre B I & II parcel was sold and construction commenced on 12 single-family lots at MF-11 and on nine half-acre estate lots at MF-19. Work progressed on the MF-7 parcel, planned for 75 multi-family units, including design and engineering and affordable housing requirements.

(b) *Kai Malu at Wailea.* In April 2004, A&B entered into a joint venture with Armstrong Builders, Ltd. for development of the 25-acre MF-8 parcel at Wailea into 150 duplex units, averaging 1,800 square feet per unit. Vertical construction commenced in October 2005 and 22 units closed in 2006. A total of 86 units closed in 2007.

(c) *Haliimaile Subdivision.* A&B's application to rezone 63 acres and amend the community plan for the development of a 150- to 200-lot residential subdivision in Haliimaile (Upcountry, Maui) was approved by the Maui County Council in September 2005. In 2006, construction drawings were submitted to County agencies and preliminary large lot subdivision approval was granted in August 2006. In 2007, A&B continued to work with the County in the processing of subdivision and construction plans and the identification and development of a potable water source needed for the project.

(d) *Kane Street Development*. Aina 'O Kane is planned to consist of 103 residential condominium units in five four-story buildings, with 20,000 square-feet of ground-floor commercial space, in Kahului. A preliminary condominium report was obtained in April 2006, enabling sales and marketing to commence. Construction documents were completed and building permit applications were submitted to the County in August 2006. Permit approvals are expected in 2008.

(e) *Kahului Town Center*. The redevelopment plan for the 19-acre Kahului Shopping Center block reflects the creation of a traditional "town center," consisting of approximately 440 residential condominium units, as well as approximately 240,000 square feet of retail/office space. In April 2007, the Environmental Assessment and SMA permit were approved for the project, allowing Phase I construction document preparation to commence. In July 2007, Phase I (86,000 square feet of commercial space) building permit applications were submitted to the County. Permit approvals are expected in 2008.

Kauai:

(f) *Kukui`ula.* In April 2002, A&B entered into a joint venture with an affiliate of DMB Associates, Inc. for the development of Kukui`ula, a 1,000-acre master planned resort residential community located in Poipu, Kauai, planned for approximately 1,000 to 1,200 high-end residential units. In 2004, A&B exercised its option to contribute to the joint venture up to 40 percent of the project's future capital requirements. Offsite construction commenced in 2005, while onsite infrastructure work commenced in 2006. The project's mass grading permit was obtained in April 2007, allowing grading to commence on the project's golf course and other amenity areas. Construction also progressed on roadways, subdivision improvements, water systems, and the project's commercial center. A total of 67 lots have closed through year-end 2007. The capital contributed by A&B to the joint venture as of year-end 2007 was $48 million, excluding land and capitalized interest. Based on construction and operating costs to be incurred over the next three years, and revenue from lot sales, A&B's additional contribution of capital to the joint venture could range from $70 million to $90 million over the next three years, a portion of which could be financed by construction financing obtained by the venture.

(g) *Port Allen*. This project covers 17 acres in Port Allen, Kauai, and is planned for 75 condominium units and 58 single-family homes. In 2007, 26 homes closed, with the remaining 32 homes projected to close in 2008. Vertical construction of the condominium units is expected to commence in 2008, with completion of the initial units scheduled in 2009.

Oahu:

(h) *Keola La`i.* In 2006, A&B commenced construction of a 42-story condominium project near downtown Honolulu, Oahu, consisting of 352 residential units, averaging 970 square feet. As of February 15, 2008, 325 units were under binding contracts. Closings commenced in February 2008, with most of the sales expected to close in the first half of 2008.

(i) *Waiawa.* In August 2006, A&B closed a joint venture agreement with an affiliate of Gentry Investment Properties, for the development of a 1,000-acre master-planned residential community (530 residential-zoned acres) in Central Oahu. The venture proposes to be the master developer for the project, planned for 5,000 primary residential units, and intends to sell parcels to homebuilders. In 2007, construction plans for the first phase of the project were submitted for permits, with approvals expected in 2008. Construction costs are substantially higher than originally projected, and the venture will be evaluating the impact of these higher costs on project feasibility in 2008.

Big Island of Hawaii:

(j) *Ka Milo at Mauna Lani.* In April 2004, A&B entered into a joint venture with Brookfield Homes Hawaii Inc. to acquire and develop a 30.5-acre residential parcel in the Mauna Lani Resort on the island of Hawaii. The project is planned for 37 single-family units (averaging 2,330 square feet) and 100 duplex townhomes (averaging 2,040 square feet). In 2007, construction continued on the first phase of 27 units, and six units closed.

Mainland:

(k) *Santa Barbara Ranch.* In November 2007, the Company entered into a joint venture with Vintage Communities, LLC, a developer of high-end lifestyle communities headquartered in Newport Beach, California, which intends to acquire and develop 1,040 acres for an exclusive large-lot subdivision, located 12 miles north of the City of Santa Barbara. Planning and entitlement work is underway. As of February 15, 2008, A&B's capital investment was $10.8 million, and collateralized by certain real estate assets. Future funding of equity is subject to Vintage satisfying certain conditions established by A&B.

(4) Commercial Properties

An important source of property revenue is the lease rental income A&B receives from its portfolio of commercial income properties, currently consisting of approximately 6.5 million leasable square feet of commercial building space.

(a) *Hawaii Properties*

A&B's Hawaii commercial properties portfolio consists of retail, office and industrial properties, comprising approximately 1.4 million square feet of leasable space. Most of the commercial properties are located on Maui and Oahu, with smaller holdings in the area of Port Allen, on the island of Kauai. The average occupancy for the Hawaii portfolio was 98 percent in 2007, unchanged from 2006. In September 2007, A&B sold its leasehold interest in Fairways Shops, a 35,000-square-foot retail center in Kaanapali, Maui; Napili Plaza, a 45,200-square-foot retail center in Napili, Maui; and 801 Kaheka Street, a 4.0-acre ground leased parcel in Honolulu, Oahu. In November 2007, A&B closed a condemnation sale for 4.0 acres at the Kahului Harbor to the State of Hawaii. This parcel included two small buildings- 101 Kaahumanu, a 6,900-square-foot office building, and Old Kahului Store, a 17,000-square-foot commercial building.

The primary Hawaii commercial properties owned as of year-end 2007 are as follows:

Property	**Location**	**Type**	**Leasable Area (sq. ft.)**
Maui Mall	Kahului, Maui	Retail	191,300
Mililani Shopping Center	Mililani, Oahu	Retail	180,300
Pacific Guardian Complex	Honolulu, Oahu	Office	143,300
Kaneohe Bay Shopping Center	Kaneohe, Oahu	Retail	126,400
P&L Warehouse	Kahului, Maui	Industrial	104,100
Port Allen	Port Allen, Kauai	Industrial/Retail	87,900
Hawaii Business Park	Pearl City, Oahu	Industrial	85,200
Triangle Square	Kahului, Maui	Retail	65,600
Wakea Business Center II	Kahului, Maui	Industrial/Retail	61,500
Kunia Shopping Center	Waipahu, Oahu	Retail	60,600
Kahului Office Building	Kahului, Maui	Office	56,700
Kahului Town Terrace	Kahului, Maui	Residential	56,700
Kahului Shopping Center	Kahului, Maui	Retail	55,100
Kahului Office Center	Kahului, Maui	Office	32,900
Stangenwald Building	Honolulu, Oahu	Office	27,100
Judd Building	Honolulu, Oahu	Office	20,200
Lono Center	Kahului, Maui	Office	13,100

Other commercial projects under development in Hawaii are discussed below:

(i) *Maui Business Park II.* In April 2004, A&B filed a zoning change application with the County of Maui for the re-zoning of 179 acres in Kahului, Maui, representing the second phase of its Maui Business Park project, from agriculture to light industrial. Hearings before the Council's Land Use Committee were held in July

2007 and January 2008. The application was approved by the Committee in February, and will now be considered by the full Council. A final zoning decision is expected from the Council in 2008.

(ii) *Kukui`ula Village.* In August 2007, the Company entered into a joint venture with DMB Kukui`ula Village LLC, for the development of Kukui`ula Village, a planned 91,700-square-foot commercial center located at the entrance to the Kukui`ula project. Mass grading commenced in July 2007 and the center is projected to be completed in early 2009.

(b) ***U.S. Mainland Properties***

On the U.S. mainland, A&B owns a portfolio of commercial properties, acquired primarily by way of tax-deferred exchanges under Internal Revenue Code Section 1031. In October 2007, A&B completed the sale of Vista Controls, a 51,100-square-foot industrial/office center in Valencia, California. In March 2007, A&B acquired Royal MacArthur Center, a 43,600-square-foot retail center in Dallas, Texas. In November 2007, A&B acquired Heritage Business Park, a 1,316,400-square-foot seven-building industrial/logistics facility in Dallas, Texas. As of year-end 2007, A&B's Mainland portfolio included approximately 5.2 million square feet of leasable area, comprising seven retail centers, nine office buildings and six industrial properties, as follows:

Property	Location	Type	Leasable Area (sq. ft.)
Heritage Business Park	Dallas, TX	Industrial	1,316,400
Ontario Distribution Center	Ontario, CA	Industrial	898,400
Sparks Business Center	Sparks, NV	Industrial	396,100
Centennial Plaza	Salt Lake City, UT	Industrial	244,000
Valley Freeway Corporate Park	Kent, WA	Industrial	228,200
1800 and 1820 Preston Park	Plano, TX	Office	198,500
Ninigret Office Park X and XI	Salt Lake City, UT	Office	185,200
Boardwalk Shopping Center	Round Rock, TX	Retail	184,600
San Pedro Plaza	San Antonio, TX	Office	171,900
2868 Prospect Park	Sacramento, CA	Office	162,900
Arbor Park Shopping Center	San Antonio, TX	Retail	139,500
Concorde Commerce Center	Phoenix, AZ	Office	140,700
Deer Valley Financial Center	Phoenix, AZ	Office	126,600
San Jose Avenue Warehouse	City of Industry, CA	Industrial	126,000
Southbank II	Phoenix, AZ	Office	120,800
Village at Indian Wells	Indian Wells, CA	Retail	104,600
2450 Venture Oaks	Sacramento, CA	Office	103,700
Broadlands Marketplace	Broomfield, CO	Retail	97,900
Marina Shores Shopping Center	Long Beach, CA	Retail	67,700
2890 Gateway Oaks	Sacramento, CA	Office	58,800
Wilshire Center	Greeley, CO	Retail	46,500
Royal MacArthur Center	Dallas, TX	Retail	43,600

A&B's Mainland commercial properties maintained an average occupancy rate of 97 percent in 2007, compared to 98 percent in 2006.

In 2002, A&B began development activities in Valencia, California, a fast growing region north of Los Angeles with favorable demographics and strong economic growth. In 2006 and 2007, A&B expanded its development activities into Bakersfield and Palmdale, California. The following joint venture developments are planned or ongoing:

(i) *Crossroads Plaza*. In June 2004, A&B entered into a joint venture with Intertex Hasley, LLC, for the development of a 61,000-square-foot mixed-use neighborhood retail center on 6.5 acres in Valencia, California. The property was acquired in August 2004. The sale of a pad site building closed in 2007, and construction of the remainder of the center is expected to be completed in 2008.

(ii) *Centre Pointe Marketplace.* In April 2005, A&B entered into a joint venture with Intertex Centre Pointe Marketplace, LLC for the development of a 105,700-square-foot retail center on a 13.0-acre parcel in Valencia, California. Vertical construction commenced in 2007, and the sale of several pad site buildings closed in 2007 and the remainder of the center is expected to be sold in 2008.

(iii) *Bridgeport Marketplace*. In July 2005, A&B entered into a joint venture with Intertex Bridgeport Marketplace, LLC for the development of a 27.8-acre parcel in Valencia, California. The parcel was subdivided into a 5-acre parcel for a public park, a 7.3-acre parcel sold to a church in 2007, and a 15.5-acre parcel for the development of a 131,000-square-foot retail center. Vertical construction of the center commenced in the first quarter of 2007 and the center is expected to open in late-2008.

(iv) *Bakersfield - Panama Grove*. In November 2006, A&B entered into a joint venture with Intertex P&G Retail, LLC, for the development of a 550,000-square-foot retail center on a 57.3-acre commercial parcel in Bakersfield, California. The parcel was acquired in November 2006. Planning, permitting and pre-leasing activities are ongoing.

(v) *Palmdale Trade & Commerce Center*. In December 2007, A&B entered into a joint venture with Intertex Palmdale Trade & Commerce Center LLC, for the development of a 315,000-square-foot mixed-use commercial office and light industrial condominium complex on 18.2 acres in Palmdale, California, located 60 miles northeast of Los Angeles and 25 miles northeast of Valencia. Planning and development work are ongoing.

(vi) *Savannah Logistics Park.* In October 2007, A&B entered into an agreement to purchase a 1.0 million-square-foot industrial facility consisting of two warehouse buildings located on 63 acres in Savannah, Georgia, approximately 12 miles from the Port of Savannah, the second largest U.S. container port on the east coast. A&B closed the acquisition of both buildings in February 2008. The property will be treated as a development property until the completion of tenant improvements by A&B and the delivery of the space to one or more tenants.

C. Agribusiness

(1) Production

A&B has been engaged in the production of cane sugar in Hawaii since 1870, and the production of coffee in Hawaii since 1987. A&B's current agribusiness and related operations consist of: (1) a sugar plantation on the island of Maui, operated by its Hawaiian Commercial & Sugar Company ("HC&S") division, (2) a coffee farm on the island of Kauai, operated by its Kauai Coffee Company, Inc. ("Kauai Coffee") subsidiary, and (3) its Kahului Trucking & Storage, Inc. ("KT&S") and Kauai Commercial Company, Incorporated ("KCC") subsidiaries, which provide all types of trucking services, including sugar and molasses hauling on Maui and Kauai, mobile equipment maintenance and repair services on Maui, Kauai, and the Big Island, and self-service storage facilities on Maui and Kauai.

HC&S is Hawaii's largest producer of raw sugar, producing approximately 164,500 tons of raw sugar in 2007, or about 80 percent of the raw sugar produced in Hawaii for the year (compared with 173,600 tons, or about 81 percent, in 2006). The decrease in production was due to a number of reasons, including adverse weather conditions, the age of the crop, and various farming practices. HC&S harvested 16,895 acres of sugar cane in 2007 (compared with 16,950 in 2006). Yields averaged 9.7 tons of sugar per acre in 2007 (compared with 10.2 in 2006). As a by-product of sugar production, HC&S also produced approximately 51,700 tons of molasses in 2007 (compared with 55,900 in 2006).

In 2007, approximately 21,200 tons of sugar (compared with 15,500 tons in 2006) were processed by HC&S into specialty food-grade sugars that were sold under HC&S's Maui Brand® trademark or repackaged by distributors under their own labels. A multi-phase expansion of the production facilities for these sugars commenced in 2006 and will be complete in early 2008.

During 2007, Kauai Coffee had approximately 3,000 acres of coffee trees under cultivation. The 2007 harvest yielded approximately 2.5 million pounds of green coffee, compared with 2.7 million pounds in 2006. The mix of green coffee resulted in a slightly higher percentage of specialty and commodity green beans and a lower percentage of mid-grade green beans than in 2006.

HC&S and McBryde Sugar Company, Limited ("McBryde"), a subsidiary of A&B and the parent company of Kauai Coffee, produce electricity for internal use and for sale to the local electric utility companies. HC&S's power is produced by burning bagasse (the residual fiber of the sugar cane plant), by hydroelectric power generation and, when necessary, by burning fossil fuels, whereas McBryde produces power solely by hydroelectric generation. The price for the power sold by HC&S and McBryde is equal to the utility companies' "avoided cost" of not producing such power themselves. In addition, HC&S receives a capacity payment to provide a guaranteed power generation capacity to the local utility. See "Energy" below for power production and sales data.

(2) Marketing of Sugar and Coffee

Approximately 87 percent of the bulk raw sugar produced by HC&S in 2007 was purchased, refined and marketed by C&H Sugar Company, Inc. ("C&H"), in which A&B divested its equity position in 2005. C&H processes the raw cane sugar at its refinery at Crockett, California, and markets the refined products primarily in the western and central United States.

The remaining 13 percent of the raw sugar is used by HC&S to produce specialty food-grade sugars, which are sold by HC&S to food and beverage producers and to retail stores under its Maui Brand® label, and to distributors that repackage the sugars under their own labels. HC&S's largest food-grade sugar customers are Cumberland Packing Corp. and Sugar Foods Corporation, which repackage HC&S's turbinado sugar for their "Sugar in the Raw" products.

Hawaiian Sugar & Transportation Cooperative ("HS&TC"), a cooperative consisting of two sugar cane growers in Hawaii (including HC&S), has a supply contract with C&H, ending in December 2008. Pursuant to the supply contract, the growers sell their raw sugar to C&H at a price equal to the New York No. 14 Contract settlement price, less a discount and less costs of sugar vessel discharge and stevedoring. This price, after deducting the marketing, operating, distribution, transportation and interest costs of HS&TC, reflects the gross revenue to the Hawaii sugar growers, including HC&S. Notwithstanding the supply contract, HC&S arranged directly with C&H for the forward pricing of a portion of its 2007 harvest, as described in Item 7A ("Quantitative and Qualitative Disclosures About Market Risk") of Part II below.

At Kauai Coffee, coffee marketing efforts are directed toward developing a market for premium-priced, estate-grown Kauai green bean (unroasted) coffee. Most of the coffee crop is being marketed on the U.S. mainland as green bean coffee. In addition to the sale of green bean coffee, Kauai Coffee produces and sells roasted, packaged coffee under the Kauai Coffee® trademark. Kauai Coffee's customers include specialty and commodity brokers, hotels, and large regional roasters.

(3) Sugar Competition and Legislation

Hawaii sugar growers produce more sugar per acre than most other major producing areas of the world, but that advantage is offset by Hawaii's high labor costs and the distance to the U.S. mainland market. Hawaiian refined sugar is marketed primarily west of Chicago. This is also the largest beet sugar growing and processing area and, as a result, the only market area in the United States that produces more sugar than it consumes. Sugar from sugar beets is the greatest source of competition in the refined sugar market for the Hawaiian sugar industry.

The U.S. Congress historically has sought, through legislation, to assure a reliable domestic supply of sugar at stable and reasonable prices. The current protective legislation is the Farm Security and Rural Investment Act of 2002 ("2002 Farm Bill"). The two main elements of U.S. sugar policy are the tariff-rate quota ("TRQ") import system and the price support loan program. The TRQ system limits imports by allowing only a quota amount to enter the U.S. after payment of a relatively low tariff. A higher, over-quota tariff is imposed for imported quantities above the quota amount.

The 2002 Farm Bill reauthorized the sugar price support loan program, which supports the U.S. price of sugar by providing for commodity-secured loans to producers. A loan rate (support price) of 18 cents per pound for raw cane sugar is in effect for the 2003 through 2007 crops. The supply agreement between HS&TC and C&H provides for a floor minimum price that is based on the loan rate. The 2002 Farm Bill expires on September 30, 2008, and Congress is currently in deliberations on a new Farm Bill.

In 2005, the U.S. approved a trade pact with Central America and the Dominican Republic, known as the Central America-Dominican Republic-United States Free Trade Agreement (“CAFTA-DR”). In 2006, the first year of the agreement, additional sugar market access for participating countries amounted to about 1.2 percent of current U.S. sugar consumption (107,000 metric tons), which will grow to about 1.7 percent (151,000 metric tons) in its fifteenth year.

Implementation of the North American Free Trade Agreement (NAFTA) began in 1994. This agreement removed most barriers to trade and investment among the U.S., Canada and Mexico. Under NAFTA, all non-tariff barriers to agricultural trade between the U.S. and Mexico were eliminated. In addition, many tariffs were eliminated immediately, while others were phased out over periods of 5 to 15 years with full elimination beginning January 1, 2008. In 2008, Mexico can ship an unlimited quantity of sugar duty-free to the U.S. each year, even though the U.S. sugar market is already oversupplied.

U.S. domestic raw sugar prices remain suppressed. A chronological chart of the average U.S. domestic raw sugar prices, based on the average daily New York No. 14 Contract settlement price for domestic raw sugar, is shown below (not adjusted for inflation):

Liberalized international trade agreements, such as the General Agreement on Tariffs and Trade, or GATT, include provisions relating to agriculture that can affect the U.S. sugar or sweetener industries materially. Negotiations under the U.S.-Central America Free Trade Agreement, or CAFTA, as well as other trade discussions, have resulted in lower U.S. sugar prices.

(4) Coffee Competition and Prices

Kauai Coffee competes with coffee growers located worldwide, including in Hawaii. Coffee commodity prices have recovered from near record lows and, in late 2007, rebounded to their highest levels in ten years. The market for specialty coffee in the United States is very competitive. Because of its quality and branding, Kauai Coffee has been successful at selling most of its coffee at a premium, above commodity market prices. Kauai Coffee has long-term, repeat customers that account for the bulk of its sales, though there is strong competition and the contracts are subject to renegotiation each year.

Approximately one-fifth of Kauai Coffee’s production is off-grade coffees, which are loosely tied to world commodity market prices. Kauai Coffee engages in short-term contracts with established customers to ensure that it receives the best price possible for these coffees. These prices are subject to price adjustments on an annual basis.

Kauai Coffee’s green bean coffee production volume and unit costs vary each year depending upon growing and harvesting conditions. The unit cost per pound impacts the cost of goods for Kauai Coffee’s wholesale roasted and retail programs.

(5) Properties and Water

The HC&S sugar plantation, the largest in Hawaii, consists of approximately 43,300 acres, including a small portion of leased lands. Approximately 34,600 acres are under cultivation, and the balance is leased to third parties, is not suitable for cane cultivation, or is used for plantation purposes such as roads, reservoirs, ditches and plant sites.

On Kauai, approximately 3,000 acres are cultivated by Kauai Coffee.

The Hawaii Legislature, in 2005, passed Important Agricultural Lands ("IAL") legislation to protect agricultural lands, promote diversified agriculture, increase the State's agricultural self-sufficiency, and assure the availability of agriculturally suitable lands. The Legislature is currently considering a package of incentives whose passage is necessary to trigger the IAL system of land designation. A&B continues to work with the Legislature, as well as other farmers and landowners, to ensure a satisfactory package of agricultural incentives is provided for IAL.

It is crucial for HC&S and Kauai Coffee to have access to reliable sources of water supply and efficient irrigation systems. A&B's plantations conserve water by using a "drip" irrigation system that distributes water to the roots through small holes in plastic tubes. All but a small area of the cultivated cane land farmed by HC&S is drip irrigated. All of Kauai Coffee's fields are drip irrigated.

A&B owns 16,000 acres of watershed lands in East Maui, which supply a portion of the irrigation water used by HC&S. A&B also held four water licenses to another 30,000 acres owned by the State of Hawaii in East Maui, which over the years has supplied approximately two-thirds of the irrigation water used by HC&S. The last of these water license agreements expired in 1986, and all four agreements were then extended as revocable permits that were renewed annually. In 2001, a request was made to the State Board of Land and Natural Resources (the "BLNR") to replace these revocable permits with a long-term water lease. Pending the conclusion by the BLNR of this contested case hearing on the request for the long-term lease, the BLNR has renewed the existing permits on a holdover basis. A&B also holds rights to an irrigation system in West Maui, which provides approximately one-tenth of the irrigation water used by HC&S. For information regarding legal proceedings involving A&B's irrigation systems, see "Legal Proceedings" below.

D. Employees and Labor Relations

As of December 31, 2007, A&B and its subsidiaries had approximately 2,255 regular full-time employees. About 965 regular full-time employees were engaged in the agribusiness segment, 1,130 were engaged in the transportation segment, 65 were engaged in the real estate segment, and the remaining were in administration. Approximately 49 percent were covered by collective bargaining agreements with unions.

At December 31, 2007, the active Matson fleet employed seagoing personnel in 275 billets. Each billet corresponds to a position on a ship that typically is filled by two or more employees because seagoing personnel rotate between active sea duty and time ashore. Approximately 22 percent of Matson's regular full-time employees and all of the seagoing employees were covered by collective bargaining agreements.

Historically, collective bargaining with longshore and seagoing unions has been complex and difficult. However, Matson and Matson Terminals consider their relations with those unions, other unions and their non-union employees generally to be satisfactory.

Matson's seagoing employees are represented by six unions, three representing unlicensed crew members and three representing licensed crew members. Matson negotiates directly with these unions. Matson's agreements with the Seafarer's International Union and shore-based units of the Sailors Union of the Pacific ("SUP") and the Marine Firemen's Union ("MFU") were renewed in mid-2005 through June 2008 without service interruption. In addition, the contracts that Matson has with the shipboard-based units of the SUP and MFU expire on July 1, 2008 for Matson's ships built prior to 2003. Negotiations on the seagoing contracts have customarily commenced in May.

SSAT, the previously-described joint venture of Matson and SSA, provides stevedoring and terminal services for Matson vessels calling at U.S. Pacific Coast ports. Matson, SSA and SSAT are members of the Pacific Maritime Association ("PMA") which, on behalf of its members, negotiates collective bargaining agreements with the ILWU on the U.S. Pacific Coast. The current six-year PMA/ILWU Master Contract, which covers all Pacific Coast longshore labor, will expire on July 1, 2008. Matson Terminals provides stevedoring and terminal services to Matson vessels calling at Honolulu and on the islands of Hawaii, Maui and Kauai, and for customer vessels on the island of Hawaii. Matson Terminals is a member of the Hawaii Stevedore Industry Committee ("SIC"), which negotiates with the ILWU in Hawaii on behalf of its members. The ILWU contract in Hawaii expires on June 30, 2008. Negotiations on both of these agreements are expected to begin in spring of 2008.

During 2007, Matson renewed its collective bargaining agreement with ILWU clerical workers at Long Beach through June 2010 without service interruption.

During 2007, Matson contributed to multiemployer pension plans for vessel crews. If Matson were to withdraw from or significantly reduce its obligation to contribute to one of the plans, Matson would review and evaluate data, actuarial assumptions, calculations and other factors used in determining its withdrawal liability, if any. In the event that any third parties materially disagree with Matson's determination, Matson would pursue the various means available to it under federal law for the adjustment or removal of its withdrawal liability. Matson Terminals participates in a multiemployer pension plan for its Hawaii ILWU non-clerical employees. For a discussion of withdrawal liabilities under the Hawaii longshore and seagoing plans, see Note 9 ("Employee Benefit Plans") to A&B's financial statements in Item 8 of Part II below.

Bargaining unit employees of HC&S are covered by two collective bargaining agreements with the ILWU. The agreements with the HC&S production unit employees and clerical bargaining unit employees covering approximately 640 workers, expired on January 31, 2008, and are being renegotiated. The bargaining unit employees at KT&S also are covered by two collective bargaining agreements with the ILWU. The agreement with the bulk sugar employees will expire June 30, 2008 and is being renegotiated, while the agreement with all other employees was renegotiated in 2006 and will expire March 31, 2009. There are two collective bargaining agreements with KCC employees represented by the ILWU. The agreements covering the production unit, as well as clerical employees, expired on April 30, 2007, and are being renegotiated. A tentative agreement was reached with the KCC production unit in February 2008. The clerical unit negotiations will start in February 2008. The collective bargaining agreement with the ILWU for the production unit employees of Kauai Coffee was renegotiated and will expire on January 31, 2010.

E. Energy

Matson and Matson Terminals purchase residual fuel oil, lubricants, gasoline and diesel fuel for their operations. Residual fuel oil is by far Matson's largest energy-related expense. In 2007, Matson vessels used approximately 2.3 million barrels of residual fuel oil (compared with 2.2 million barrels in 2006).

Residual fuel oil prices paid by Matson in 2007 started at $41.51 per barrel and ended the year at $80.10. The low for the year was $41.51 per barrel in January and the high was $87.44 in December. Sufficient fuel for Matson's requirements is expected to be available in 2008.

As has been the practice with sugar plantations throughout Hawaii, HC&S uses bagasse, the residual fiber of the sugar cane plant, as a fuel to generate steam for the production of most of the electrical power for sugar milling and irrigation pumping operations. In addition to bagasse, HC&S uses coal, diesel, fuel oil, and recycled motor oil to generate power during factory shutdown periods when bagasse is not being produced. HC&S also generates a limited amount of hydroelectric power. To the extent it is not used in A&B's factory operations, HC&S sells electricity. In 2007, HC&S produced and sold, respectively, approximately 218,000 MWH and 94,000 MWH of electric power (compared with 208,000 MWH produced and 98,000 MWH sold in 2006). The decrease in power sold was due to drought conditions, which hindered hydro power produced and increased the use of power for irrigation pumping. HC&S increased its use of oil from 28,500 barrels in 2006 to 31,100 barrels in 2007, most of which was low-cost, recycled motor oil. Coal used for power generation was 68,100 short tons, about 8,400 tons more than that used in 2006.

In 2007, McBryde produced approximately 31,800 MWH of hydroelectric power (compared with approximately 35,100 MWH in 2006). The decline was due to an extended drought. To the extent it is not used in A&B's coffee operations, McBryde sells electricity to Kauai Island Utility Cooperative. Power sales in 2007 amounted to approximately 21,200 MWH (compared with 27,100 MWH in 2006).

F. Available Information

A&B files reports with the Securities and Exchange Commission (the "SEC"). The reports and other information filed include: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports and information filed under the Securities Exchange Act of 1934 (the "Exchange Act").

The public may read and copy any materials A&B files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding A&B and other issuers that file electronically with the SEC. The address of that website is www.sec.gov.

A&B makes available, free of charge on or through its Internet website, A&B's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The address of A&B's Internet website is www.alexanderbaldwin.com.

ITEM 1A. RISK FACTORS

The business of A&B and its subsidiaries (collectively, the "Company") faces numerous risks, including those set forth below or those described elsewhere in this Form 10-K or in the Company's filings with the SEC. The risks described below are not the only risks that the Company faces, nor are they necessarily listed in order of significance. Other risks and uncertainties may also impair its business operations. Any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. All forward-looking statements made by the Company or on the Company's behalf are qualified by the risks described below.

GENERAL

An economic decline or decrease in market demand for the Company's services and products in Hawaii, the U.S. mainland, Guam or Asia may adversely affect the Company's operating results and financial condition.

A weakening of the economic drivers in Hawaii, which include tourism, military spending, construction starts, personal income growth, and employment, or a decrease in market demand may adversely impact the level of freight volumes and real estate activity in Hawaii. A decline in the overall economy or market demand in the U.S. mainland may reduce the demand for goods from Hawaii and Asia, travel to Hawaii and domestic transportation of goods, adversely affecting inland and ocean transportation volumes and/or rates, the sale of Hawaii real estate to Mainland buyers, and the Hawaii real estate markets generally. A change in the cost of goods or currency exchange rates may decrease the freight volume and/or rates from Asia to the United States.

The Company may face new or increased competition.

The Company’s transportation segment may face new competition by established or start-up shipping operators that enter the Company’s markets. The entry of a new competitor or the addition of ships or capacity by existing competition on any of the Company’s routes could result in a significant increase in available shipping capacity that could have an adverse effect on the Company’s business. See also discussion under “Business and Properties - Transportation - Competition” above.

For the Company’s real estate segment, there are numerous other developers, managers and owners of commercial and residential real estate and undeveloped land that compete or may compete with the Company for management and leasing revenues, land for development, properties for acquisition and disposition, and for tenants and purchasers for properties. Such competition could have an adverse effect on the Company’s business.

The Company’s significant operating agreements and leases could be replaced.

The significant operating agreements and leases of the Company in its various businesses expire at various points in the future and could be replaced, thereby adversely affecting future revenue generation. For example, the Company’s agribusiness segment sells substantially all of its bulk raw sugar through the cooperative HS&TC, which has a supply contract with C&H Sugar Company, Inc., ending in December 2008. Replacement of this supply contract on less favorable terms to the Company may adversely affect the Company’s sugar business.

The reduction in availability of mortgage financing and the volatility and reduction in liquidity in the financial markets may adversely affect the Company’s business.

During 2007, the mortgage lending industry experienced significant instability due to, among other things, defaults on subprime loans and a resulting decline in the market value of such loans. In light of these developments, lenders, investors, regulators and other third parties have questioned the adequacy of lending standards and other credit requirements for several loan programs made available to borrowers in recent years. This has led to tightened credit requirements, reduced liquidity and increased credit risk premiums. A deterioration in credit quality among subprime and other nonconforming loans has caused almost all lenders to eliminate subprime mortgages and most other loan products that are not conforming loans, FHA/VA-eligible loans or jumbo loans (which meet conforming underwriting guidelines other than loan size). Fewer loan products and tighter loan qualifications may make it more difficult for some borrowers to finance the purchase of homes in the Company’s residential projects. In addition, the tightening of credit in the commercial markets may adversely affect the Company’s ability to secure construction and other financing for the Company’s residential and commercial projects. Furthermore, any protracted contraction of liquidity in the commercial markets may adversely affect the Company’s ability to renew its committed lines of credit in the future on equal or more favorable terms. These developments may adversely affect the Company’s operations and financial results.

Rising fuel prices and availability may adversely affect the Company’s profits.

Fuel is a significant operating expense for the Company’s shipping and agribusiness operations. The price and supply of fuel is unpredictable and fluctuates based on events beyond the Company’s control. Increases in the price of fuel may adversely affect the Company’s results of operations based on market and competitive conditions. Increases in fuel costs also can lead to other expense increases, through, for example, increased costs of energy, petroleum-based raw materials and purchased transportation services. In the Company’s ocean transportation and logistics segments, the Company is able to utilize fuel surcharges to partially recover increases in fuel expense, although increases in the fuel surcharge may adversely affect the Company's competitive position and may not correspond exactly with the timing of increases in fuel expense. Changes in the Company's ability to collect fuel surcharges may adversely affect its results of operations. Increases in energy costs for the Company's leased real estate portfolio are typically recovered from lessees, although higher operating cost reimbursements impact the ability to increase underlying rents. Rising fuel prices may also increase the cost of construction, including delivery costs to Hawaii, and the cost of materials that are petroleum-based, thus affecting the Company's development projects. Finally, rising fuel prices will impact the cost of producing and transporting sugar.

Changes to federal, state or local law or regulations may adversely affect the Company's business.

The Company is subject to federal, state and local laws and regulations, including government rate regulations, land use regulations, government administration of the U.S. sugar program, environmental regulations including those relating to air quality initiatives at port locations, and cabotage laws. Changes to the laws and regulations governing the Company's business could impose significant additional costs on the Company and adversely affect the Company's financial condition. For example, if the Jones Act and the regulations promulgated thereunder were repealed, amended, or otherwise modified, non-U.S. competitors with significantly lower costs may consequently enter any of the Jones Act routes or the Company's business may be significantly altered, all of which may have an adverse effect on the Company's shipping business. In addition, changes in federal, state and local environmental laws impacting the shipping business may require costly vessel modifications, the use of higher-priced fuel and changes in operating practices that may not all be able to be recovered through increased recovery from customers. The real estate segment is subject to numerous federal, state and local laws and regulations, which, if changed, may adversely affect the Company's business. The agribusiness segment is subject to the federal government's administration of the U.S. sugar program, such as the Farm Bill that the U.S. Congress is working on, and the Company may be affected by any changes.

Work stoppages or other labor disruptions by the unionized employees of the Company or other companies in related industries may adversely affect the Company's operations.

As of December 31, 2007, the Company had approximately 2,255 regular full-time employees, of which approximately 49 percent were covered by collective bargaining agreements with unions. The Company's transportation, real estate and agribusiness segments may be adversely affected by actions taken by employees of the Company or other companies in related industries against efforts by management to control labor costs, restrain wage increases or modify work practices. Strikes and disruptions may occur as a result of the failure of the Company or other companies in its industry to negotiate collective bargaining agreements with such unions successfully. For example, in its real estate segment, the Company may be unable to complete construction of its projects if building materials or labor is unavailable due to labor disruptions in the relevant trade groups.

The loss of or damage to key vendor and customer relationships may adversely affect the Company's business.

The Company's business is dependent on its relationships with key vendors, customers and tenants. The ocean transportation business relies on its relationships with freight forwarders, large retailers and consumer goods and automobile manufacturers, as well as other larger customers. Relationships with railroads and shipping companies are important in the Company's intermodal business. For agribusiness, HC&S's relationship with C&H Sugar Company, Inc. is important. The loss of or damage to any of these key relationships may affect the Company's business adversely.

Interruption or failure of the Company's information technology and communications systems could impair the Company's ability to operate and adversely affect its business.

The Company is highly dependent on information technology systems. For example, in the transportation segment, these dependencies primarily include accounting, billing, disbursement, cargo booking and tracking, vessel scheduling and stowage, equipment tracking, customer service, banking, payroll and employee communication systems. All information technology and communication systems are subject to reliability issues, integration and compatibility concerns, and security-threatening intrusions. The Company may experience failures caused by the occurrence of a natural disaster, or other unanticipated problems at the Company's facilities. Any failure of the Company's systems could result in interruptions in its service or production, reducing its revenue and profits and damaging its reputation.

The Company is susceptible to weather and natural disasters.

The Company’s transportation operations are vulnerable to disruption as a result of weather and natural disasters such as bad weather at sea, hurricanes, typhoons, tsunamis, floods and earthquakes. Such events will interfere with the Company’s ability to provide on-time scheduled service, resulting in increased expenses and potential loss of business associated with such events. In addition, severe weather and natural disasters can result in interference with the Company’s terminal operations, and may cause serious damage to its vessels, loss or damage to containers, cargo and other equipment, and loss of life or physical injury to its employees, all of which could have an adverse effect on the Company’s business.

For the real estate segment, the occurrence of natural disasters, such as hurricanes, earthquakes, tsunamis, floods, fires, tornados and unusually heavy or prolonged rain, could damage its real estate holdings, resulting in substantial repair or replacement costs to the extent not covered by insurance, a reduction in property values, or a loss of revenue, and could have an adverse effect on its ability to develop, lease and sell properties. The occurrence of natural disasters could also cause increases in property insurance rates and deductibles, which could reduce demand for, or increase the cost of owning or developing, the Company’s properties.

For the agribusiness segment, drought, greater than normal rainfall, hurricanes, earthquakes, tsunamis, floods, fires, other natural disasters or agricultural pestilence may have an adverse effect on the sugar and coffee planting, harvesting and production, and the agribusiness segment’s facilities, including dams and reservoirs.

Heightened security measures, war, actual or threatened terrorist attacks, efforts to combat terrorism and other acts of violence may adversely impact the Company’s operations and profitability.

War, terrorist attacks and other acts of violence may cause consumer confidence and spending to decrease, or may affect the ability of tourists to get to Hawaii, thereby adversely affecting the Company. Additionally, future terrorist attacks could increase the volatility in the U.S. and worldwide financial markets. Acts of war or terrorism may be directed at the Company’s shipping operations or real estate holdings, or may cause the U.S. government to take control of Matson’s vessels for military operation. Heightened security measures are likely to slow the movement of freight through U.S. or foreign ports, across borders or on U.S. or foreign railroads or highways and could adversely affect the Company’s business and results of operations.

Loss of the Company’s key personnel could adversely affect its business.

The Company’s future success will depend, in significant part, upon the continued services of its key personnel, including its senior management and skilled employees. The loss of the services of key personnel could adversely affect its future operating results because of such employee’s experience and knowledge of its business and customer relationships. If key employees depart, the Company may have to incur significant costs to replace them and its ability to execute its business model could be impaired if it cannot replace them in a timely manner. The Company does not expect to maintain key person insurance on any of its key personnel.

The Company is involved in joint ventures and is subject to risks associated with joint venture relationships.

The Company is involved in joint venture relationships, and may initiate future joint venture projects. A joint venture involves certain risks such as:

- the Company may not have voting control over the joint venture;

- the Company may not be able to maintain good relationships with its joint venture partners;
- the venture partner at any time may have economic or business interests that are inconsistent with the Company's;
- the venture partner may fail to fund its share of operations and development activities, or to fulfill its other commitments, including providing accurate and timely accounting and financial information to the Company; and
- the joint venture or venture partner could lose key personnel.

In connection with its real estate joint ventures, the Company is sometimes asked to guarantee completion of a joint venture's construction and development of a project, or to indemnify a third party serving as surety for a joint venture's bonds for such completion. If the Company were to become obligated under such arrangement, the Company may be adversely affected.

The Company is subject to, and may in the future be subject to, disputes, or legal or other proceedings, that could have an adverse effect on the Company.

The nature of the Company's business exposes it to the potential for disputes, or legal or other proceedings, relating to labor and employment matters, personal injury and property damage, environmental matters, construction litigation, and other matters, as discussed in the other risk factors disclosed in this section or in other Company filings with the SEC. In addition, Matson is a common carrier, whose tariffs, rates, rules and practices in dealing with its customers are governed by extensive and complex foreign, federal, state and local regulations, which may be the subject of disputes or administrative and/or judicial proceedings. These disputes, individually or collectively, could harm the Company's business by distracting its management from the operation of its business. If these disputes develop into proceedings, these proceedings, individually or collectively, could involve or result in significant expenditures or losses by the Company, or result in significant changes to Matson's tariffs, rates, rules and practices in dealing with its customers, all of which could have an adverse effect on the Company's future operating results, including profitability, cash flows, and financial condition. For a description of significant legal proceedings involving the Company, see "Legal Proceedings" below.

TRANSPORTATION

The Company is subject to risks associated with conducting business in a foreign shipping market.

In February 2006, Matson launched its Hawaii/Guam/China service. The Company is subject to risks associated with conducting business in a foreign shipping market, which include:

- challenges in operating in a foreign country and doing business and developing relationships with foreign companies;
- difficulties in staffing and managing foreign operations;
- legal and regulatory restrictions, including compliance with Foreign Corrupt Practices Act;
- decreases in shipping rates;
- competition with established and new shippers;
- currency exchange rate fluctuations;
- political and economic instability; and
- challenges caused by cultural differences.

Any of these risks has the potential to adversely affect the Company's operating results.

Acquisitions may have an adverse effect on the Company's business.

The Company's growth strategy includes expansion through acquisitions. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of the Company's capital and its management's attention from other business issues and opportunities. The Company may not be able to integrate companies that it acquires successfully, including their personnel, financial systems, distribution, operations and general operating procedures. The Company may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company.

The Company’s logistics services are dependent upon third parties for equipment, capacity and services essential to operate their business, and if they fail to secure sufficient third party services, their business could be adversely affected.

The Company’s logistics services are dependent upon rail, truck and ocean transportation services provided by independent third parties. If they cannot secure sufficient transportation equipment, capacity or services from these third parties at a reasonable rate to meet their customers’ needs and schedules, customers may seek to have their transportation and logistics needs met by other third parties on a temporary or permanent basis. As a result, the Company’s business, consolidated results of operations and financial condition could be adversely affected.

The loss of several of the Company’s logistics services major customers could have an adverse effect on the Company’s revenue and business.

The Company’s logistics services derive a significant portion of their revenues from their largest customers. For 2007, the Company’s logistics services’ largest ten customers accounted for approximately 37% of the Company’s logistics services’ revenue.A reduction in or termination of the Company’s logistics services by several of their largest customers could have an adverse effect on the Company’s revenue and business.

REAL ESTATE

The Company is subject to risks associated with real estate construction and development.

The Company’s development projects are subject to risks relating to the Company’s ability to complete its projects on time and on budget. Factors that may result in a development project exceeding budget or being prevented from completion include:

- an inability of the Company or buyers to secure sufficient financing or insurance on favorable terms, or at all;
- construction delays, defects, or cost overruns, which may increase project development costs;
- an increase in commodity or construction costs, including labor costs;
- the discovery of hazardous or toxic substances, or other environmental, culturally-sensitive, or related issues;
- an inability to obtain zoning, occupancy and other required governmental permits and authorizations;
- difficulty in complying with local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities and water quality as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats;
- an inability to have access to reliable sources of water or to secure water service or meters for its projects;
- an inability to secure tenants necessary to support the project;
- failure to achieve or sustain anticipated occupancy or sales levels;
- buyer defaults, including defaults under executed or binding contracts; and
- an inability to sell the Company’s constructed inventory.

Any of these risks has the potential to adversely affect the Company’s future operating results.

A decline in leasing rental income could adversely affect the Company.

The Company owns a portfolio of commercial income properties. Factors that may adversely affect the Company’s profitability include:

- a significant number of the Company’s tenants are unable to meet their obligations;
- non-recoverable operating and ownership costs are materially higher than anticipated;

- the Company is unable to lease space at its properties when the space becomes available;
- the rental rates upon a renewal or a new lease are significantly lower than expected; or
- the discovery of hazardous or toxic substances, or other environmental, culturally-sensitive, or related issues.

Governmental entities have adopted or may adopt regulatory requirements that may restrict the Company’s development activity.

The Company is subject to extensive and complex laws and regulations that affect the land development process, including laws and regulations related to zoning and permitted land uses. Government entities have adopted or may approve regulations or laws that could negatively impact the availability of land and development opportunities within those areas. For example, in December 2006, Maui County adopted a Residential Workforce

Housing Policy, which requires developers of residential developments of five or more units to sell or rent 40% to 50% of the total number of units at below market rates, or pay significant fees or contribute property to the County for low-income housing. These requirements could make the cost of developing new projects prohibitive. It is possible that increasingly stringent requirements will be imposed on developers in the future that could adversely affect the Company's ability to develop projects in the affected markets or could require that the Company satisfy additional administrative and regulatory requirements, which could delay development progress or increase the development costs of the Company. Any such delays or costs could have an adverse effect on the Company's revenues and earnings.

AGRIBUSINESS

The unavailability of water for agricultural irrigation could adversely affect the Company.

It is crucial for the Company's agribusiness segment to have access to reliable sources of water for the irrigation of sugar cane and coffee. As further described in "Legal Proceedings" below, there are administrative hearing processes challenging the Company's ability to divert water from streams in Maui. If the Company is not permitted to divert stream waters for its use, it would have an adverse effect on the Company's sugar operations.

A decline in raw sugar or coffee prices will adversely affect the Company's business.

The business and results of operations of the Company's agribusiness segment are substantially affected by market factors, principally the domestic and international prices for raw cane sugar. These market factors are influenced by a variety of forces, including prices of competing crops, weather conditions, and United States farm and trade policies. If the price for sugar or coffee were to decline, the Company's agribusiness segment would be adversely affected. See also discussion under "Business and Properties - Agribusiness - Competition and Sugar Legislation" above.

The Company is subject to risks associated with raw sugar and coffee production.

The Company's raw sugar and coffee production are subject to risks, which include:

- weather and natural disasters;
- disease;
- weed control;
- uncontrolled fires, including arson;
- poor farming practices;
- government restrictions on farming practices due to cane burning;
- increases in costs, including, but not limited to fertilizer, fuel, and drip tubing;
- water availability (see risk factor above regarding unavailability of water);
- equipment failures in factory or power plant; and
- labor, including labor availability (see risk factor above regarding labor disruptions).

Any of these risks has the potential to adversely affect the Company's future agribusiness operating results.

OTHER

Earnings on pension assets, or a change in pension law and on key assumptions, may adversely affect the Company's financial performance.

The amount of the Company's employee retirement benefit costs and obligations are calculated on assumptions used in the relevant actuarial calculations. Adverse changes in any of these assumptions due to economic or other factors, or lower returns on plan assets, may adversely affect the Company's operating results, cash flows, and financial condition. In addition, a change in federal law, including changes to the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums, may adversely affect the Company's single-employer and multiemployer pension plans and plan funding.

The Company may have exposure under its multiemployer plans in which it participates that extends beyond its funding obligation with respect to the Company's employees.

The Company contributes to various multiemployer pension plans. In the event of a partial or complete withdrawal by the Company from any plan that is underfunded, the Company would be liable for a proportionate share of such plan's unfunded vested benefits. Based on the limited information available from plan administrators, which the Company cannot independently validate, the Company believes that its portion of the contingent liability in the case of a full withdrawal or termination may be material to its financial position and results of operations. In the event that any other contributing employer withdraws from any plan that is underfunded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then the Company, along with the other remaining contributing employers, would be liable for its proportionate share of such plan's unfunded vested benefits. In addition, if a multiemployer plan fails to satisfy the minimum funding requirements, the Internal Revenue Service will impose certain penalties and taxes.

The Company is required to evaluate its internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in the Company's financial reports and have an adverse effect on the Company's stock price.

Section 404 of the Sarbanes-Oxley Act requires that publicly reporting companies cause their managements to perform annual assessments of the effectiveness of their internal controls over financial reporting. Although the Company has concluded that its internal controls over financial reporting were effective as of December 31, 2007, there can be no assurances that the Company will reach the same conclusion at the end of future years. If the Company is unable to assert that its internal control over financial reporting is effective, or if the Company's auditors are unable to express an opinion on the effectiveness of the Company's internal controls, the Company could lose investor confidence in the accuracy and completeness of its financial reports, which would have an adverse effect on the Company's stock price.

The foregoing should not be construed as an exhaustive list of all factors that could cause actual results to differ materially from those expressed in forward-looking statements made by the Company or on its behalf.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 3. LEGAL PROCEEDINGS

See "Business and Properties - Transportation - Rate Regulation" above for a discussion of rate and other regulatory matters in which Matson is routinely involved.

On September 14, 1998, Matson was served with a complaint filed by the Government of Guam with the Surface Transportation Board (the "Board"), alleging that Sea-Land Services, Inc., APL and Matson had charged unreasonable rates in the Guam trade since January 1991. Matson did not begin its Guam Service until February 1996. On February 2, 2007, the Board issued a decision, setting a briefing schedule to determine whether there is effective competition in the Guam trade, as requested by Matson. On August 30, 2007, the Board denied the petitions for reconsideration of its February 2, 2007 decision filed by the Government of Guam and intervenor Caribbean Shippers Association. In light of this decision, the Government of Guam filed a motion to dismiss its complaint on September 18, 2007. On October 12, 2007, the Board dismissed the complaint and discontinued the proceeding.

A&B owns 16,000 acres of watershed lands in East Maui that supply a portion of the irrigation water used by HC&S. A&B also held four water licenses to another 30,000 acres owned by the State of Hawaii in East Maui, which over the years has supplied approximately two-thirds of the irrigation water used by HC&S. The last of these water license agreements expired in 1986, and all four agreements were then extended as revocable permits that were renewed annually. In 2001, a request was made to the State Board of Land and Natural Resources (the "BLNR") to replace these revocable permits with a long-term water lease. Pending the conclusion by the BLNR of this contested case hearing on the request for the long-term lease, the BLNR has renewed the existing permits on a

holdover basis. If the Company is not permitted to divert stream waters from State lands in East Maui for its use, it would have a material adverse effect on the Company's sugar-growing operations.

In addition, on May 24, 2001, a petition was filed by a third party, requesting that the Commission on Water Resource Management of the State of Hawaii ("Water Commission") set interim instream flow standards in 27 East Maui streams that feed the Company's irrigation system. The Water Commission's deliberations regarding the appropriateness of amending the current interim instream flow standards for the East Maui streams are currently ongoing, and the Company continues to object to the petition. The Water Commission's setting of such interim instream flow standards could result in some quantity of water being returned to the streams, rather than being utilized for irrigation purposes, which may have a material adverse effect on the Company's sugar-growing operations. The Water Commission has not set a timeframe for setting an interim instream flow standard.

On June 25, 2004, two organizations filed with the Water Commission a petition to amend interim instream flow standards for four streams in West Maui. The West Maui irrigation system provides approximately one-tenth of the irrigation water used by HC&S. The Water Commission's deliberations regarding the appropriateness of amending the current interim instream flow standards for the West Maui streams are currently ongoing, and the Company continues to object to the petition. The Water Commission's amending of such interim instream flow standards could result in some quantity of water being returned to the streams, rather than being utilized for irrigation purposes, which may have a material adverse effect on the Company's sugar-growing operations. A decision by the Water Commission is not expected until the second half of 2008.

On November 16, 2006, the Shipbuilders Council of America, Inc. and Pasha Hawaii Transport Lines LLC filed a complaint against the U.S. Department of Homeland Security, the U.S. Coast Guard and the National Vessel Documentation Center in the U.S. District Court for the Eastern District of Virginia. The complaint sought review of a ruling by the National Vessel Documentation Center that work to be performed on Matson's C9 vessels in foreign and U.S. shipyards would not result in loss of coastwise trading privileges of the vessels. On April 6, 2007, the Court dismissed the complaint because the preliminary ruling challenged in the complaint was not a final agency action and, therefore, was not ripe for judicial review. On October 23, 2007, the Coast Guard issued a final ruling that C-9 vessel *Mokihana* had not been rebuilt abroad and issued a certificate of documentation with coastwise endorsement for the vessel. On December 10, 2007, the Shipbuilders Council and Pasha filed another complaint against the same government entities, seeking review of the issuance of the certificate of documentation with a coastwise endorsement. Matson has intervened in the action. In a separate but related matter, the same plaintiffs have asked Marad to investigate the continued eligibility of nine of Matson's vessels, including the three C9 vessels, to participate in the Capital Construction Fund and cargo preference programs as a result of modifications performed, or to be performed, in foreign shipyards. On November 7, 2007, Marad sought public comment on what standards it should apply when making determinations of foreign reconstruction of U.S.-built vessels that participate in the Capital Construction Fund and foreign rebuilding of U.S.-built vessels that participate in the cargo preference program. Matson believes that it has conducted its activities in compliance with the law, long-standing precedents, policies and regulations of the Coast Guard and Marad.

A&B and its subsidiaries are parties to, or may be contingently liable in connection with, other legal actions arising in the normal conduct of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material adverse effect on A&B's results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

For the information about executive officers of A&B required to be included in this Part I, see section B ("Executive Officers") in Item 10 of Part III below, which is incorporated herein by reference.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

A&B common stock is listed on The Nasdaq Stock Market and trades under the symbol "ALEX." As of February 15, 2008, there were 3,370 shareholders of record of A&B common stock. In addition, Cede & Co., which appears as a single record holder, represents the holdings of thousands of beneficial owners of A&B common stock.

A summary of daily stock transactions is listed in the NASDAQ Global Market Issues section of major newspapers. Trading volume averaged 264,577 shares a day in 2007, compared with 301,612 shares a day in 2006 and 292,950 in 2005.

The quarterly intra-day high and low sales prices and end of quarter closing prices, as reported by The NASDAQ Stock Market, and cash dividends paid per share of common stock, for 2007 and 2006, were as follows:

	Dividends	**Market Price**		
	Paid	**High**	**Low**	**Close**
2007				
First Quarter	$ 0.25	$ 51.45	$ 44.20	$ 50.44
Second Quarter	$ 0.29	$ 55.55	$ 50.51	$ 53.11
Third Quarter	$ 0.29	$ 59.42	$ 47.23	$ 50.13
Fourth Quarter	$ 0.29	$ 58.30	$ 47.55	$ 51.66
2006				
First Quarter	$ 0.225	$ 54.86	$ 46.60	$ 47.68
Second Quarter	$ 0.250	$ 51.06	$ 40.50	$ 44.27
Third Quarter	$ 0.250	$ 45.01	$ 39.29	$ 44.37
Fourth Quarter	$ 0.250	$ 47.70	$ 42.73	$ 44.34

Although A&B expects to continue paying quarterly cash dividends on its common stock, the declaration and payment of dividends in the future are subject to the discretion of the Board of Directors and will depend upon A&B's financial condition, results of operations, cash requirements and other factors deemed relevant by the Board of Directors. A&B has paid cash dividends each year since 1903. The most recent increase in the quarterly dividend rate was effective the second quarter of 2007, and was increased from 25 cents per share to 29 cents per share. In 2007, dividend payments to shareholders totaled $48 million which was 34 percent of reported net income for the year. The following dividend schedule for 2008 has been set, subject to final approval by the Board of Directors:

Quarterly Dividend	Declaration Date	Record Date	Payment Date
First	January 31, 2008	February 15, 2008	March 6, 2008

Second	April 24, 2008	May 8, 2008	June 5, 2008
Third	June 26, 2008	August 7, 2008	September 4, 2008
Fourth	October 23, 2008	November 6, 2008	December 4, 2008

A&B common stock is included in the Dow Jones U.S. Transportation Average, the Russell 1000 Index, the Russell 3000 Index, the Dow Jones U.S. Composite Average, and the S&P MidCap 400.

The Company has share ownership guidelines for non-employee Directors. At present, all Directors own A&B stock, and it is expected that each Director will meet the guidelines within the specified five-year period. Stock ownership guidelines also are in place for senior executives of the Company.

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A&B has a Shareholder Rights Plan, designed to protect the interests of shareholders in the event an attempt is made to acquire the Company. The rights initially will trade with A&B's outstanding common stock and will not be exercisable absent certain acquisitions or attempted acquisitions of specified percentages of such stock. If exercisable, the rights generally entitle shareholders (other than the acquiring party) to purchase additional shares of A&B's stock or shares of an acquiring company's stock at prices below market value. The Shareholder Rights Plan expires December 2008.

Securities authorized for issuance under equity compensation plans as of December 31, 2007, included:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders	1,622,527	$37.62	2,196,313*
Equity compensation plans not approved by security holders	--	--	--
Total	1,622,527	$37.62	2,196,313

* Under the 2007 Incentive Compensation Plan, 2,196,313 shares may be issued either as restricted stock grants, restricted stock units grants, or stock option grants.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Oct 1 – 31, 2007	32,890	48.70	32,890	1,704,228
Nov 1 – 30, 2007	375,956	48.35	375,956	1,328,272
Dec 1 – 31, 2007	--	--	--	--

(1) In October 2006, A&B's Board of Directors authorized A&B to repurchase up to two million shares of its common stock. The authorization will expire on December 31, 2008.

During 2007, the Company repurchased 671,728 shares of its common stock for $33 million, or an average price of $48.62 per share. During 2006, the Company repurchased 1,653,795 shares of its stock for an average price of $43.34. There were no shares of A&B common stock repurchased by the Company during 2005. In October 2006, A&B's Board of Directors authorized A&B to repurchase up to two million shares of its common stock. The authorization expires on December 31, 2008. The shares repurchased in 2006 were made under a previous share repurchase authorization that expired on December 31, 2006. As of December 31, 2007, 1,328,272 shares remain available for repurchase under the 2006 authorization.

During the first quarter of 2007, 7,371 shares were returned to the Company in connection with the exercise of options to purchase shares of the Company's stock. The fair value of these shares averaged $47.42 per share.

From January 1, 2008 through February 15, 2008, the Company repurchased an additional 1,124,449 shares of its common stock at an average price of $44.24 per share. The repurchases were made under an October 2006 share authorization that expires December 31, 2008.

On January 31, 2008, the Board of Directors authorized A&B to repurchase up to 2 million additional shares of its common stock. The new authorization will expire on December 31, 2009. As of February 15, 2008, 2,203,823 shares remained available for repurchase, including 203,823 shares subject to an authorization that expires December 31, 2008 and 2 million shares subject to an authorization that expires December 31, 2009.

ITEM 6. SELECTED FINANCIAL DATA

The following financial data should be read in conjunction with Item 8, "Financial Statements and Supplementary Data," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" (dollars and shares in millions, except per-share amounts):

	2007	2006	2005	2004	2003
Revenue:					
Transportation:					
Ocean transportation	**$ 1,006.9**	$ 945.8	$ 878.3	$ 850.1	$ 776.3
Logistics services	**433.5**	444.2	431.6	376.9	237.7
Real Estate:					
Leasing	**108.5**	100.6	89.7	83.8	80.3
Sales	**117.8**	97.3	148.9	82.3	63.8
Less amounts reported in discontinued operations[1]	**(100.6)**	(101.2)	(66.6)	(16.3)	(51.8)
Agribusiness	**123.7**	127.4	123.2	112.8	112.9
Reconciling Items[2]	**(9.2)**	(14.2)	(8.4)	(6.5)	--
Total revenue	**$ 1,680.6**	$ 1,599.9	$ 1,596.7	$ 1,483.1	$ 1,219.2
Operating Profit:					
Transportation:					
Ocean transportation	**$ 126.5**	$ 105.6	$ 128.0	$ 108.3	$ 93.2
Logistics services	**21.8**	20.8	14.4	8.9	4.3
Real Estate:					
Leasing	**51.6**	50.3	43.7	38.8	37.0
Sales	**74.4**	49.7	44.1	34.6	23.9
Less amounts reported in discontinued operations[1]	**(54.4)**	(46.7)	(22.2)	(7.2)	(23.7)
Agribusiness	**0.2**	6.9	11.2	4.8	5.1
Total operating profit	**220.1**	186.6	219.2	188.2	139.8
Write-down of long-lived assets[3]	**--**	--	(2.3)	--	(7.7)
Interest expense, net[4]	**(18.8)**	(15.0)	(13.3)	(12.7)	(11.6)
General corporate expenses	**(27.3)**	(22.3)	(24.1)	(20.3)	(15.2)
Income from continuing operations before income taxes	**174.0**	149.3	179.5	155.2	105.3
Income taxes	**(65.5)**	(55.8)	(67.2)	(58.9)	(38.7)
Income from continuing operations	**$ 108.5**	$ 93.5	$ 112.3	$ 96.3	$ 66.6

1 Prior year amounts restated for amounts treated as discontinued operations.

2 Includes inter-segment revenue, interest income, and other income classified as revenue for segment reporting purposes. Amounts for 2003 were not material.

[3] The 2005 and 2003 write-downs were for an “other-than-temporary” impairment in the Company’s investment in C&H. The Company’s investment in C&H was sold on August 9, 2005 at the then approximate carrying value.

[4] Includes Ocean Transportation interest expense of $13.9 million for 2007, $13.3 million for 2006, $9.6 million for 2005, $5.7 million for 2004, and $2.6 million for 2003. Substantially all other interest expense was at the parent company.

	2007	2006	2005	2004	2003
Identifiable Assets:					
Transportation:					
Matson Ocean Transportation	**$ 1,215.0**	$ 1,185.3	$ 1,113.0	$ 896.9	$ 936.5
Logistics services	**58.6**	56.4	70.3	56.5	45.4
Real Estate:					
Leasing	**595.4**	525.5	478.6	436.5	451.2
Sales	**408.9**	295.0	227.3	224.5	161.6
Agribusiness	**174.6**	168.7	159.0	152.8	154.4
Other	**26.6**	20.3	22.7	11.0	10.5
Total assets	**$ 2,479.1**	$ 2,251.2	$ 2,070.9	$ 1,778.2	$ 1,759.6
Capital Additions:					
Transportation:					
Matson Ocean Transportation	**$ 65.8**	$ 217.1	$ 173.9	$ 128.6	$ 133.2
Logistics services[5]	**2.0**	1.7	1.3	0.1	0.2
Real Estate:					
Leasing[6]	**124.5**	93.0	78.8	10.2	49.7
Sales[7, 8]	**0.3**	1.3	0.2	0.7	58.0
Agribusiness	**20.5**	15.0	13.0	10.2	12.6
Other	**0.3**	1.5	1.4	1.4	1.7
Total capital additions	**$ 213.4**	$ 329.6	$ 268.6	$ 151.2	$ 255.4
Depreciation and Amortization:					
Ocean Transportation:					
Matson Ocean Transportation	**$ 63.2**	$ 58.1	$ 59.5	$ 56.8	$ 51.0
Logistics services	**1.5**	1.5	1.4	1.2	0.9
Real Estate:					
Leasing[1]	**15.7**	14.1	12.4	12.2	11.2
Sales	**0.2**	0.1	0.1	0.1	0.1
Agribusiness	**10.7**	10.1	9.4	9.0	8.2
Other	**1.3**	0.9	0.5	0.4	0.3
Total depreciation and amortization	**$ 92.6**	$ 84.8	$ 83.3	$ 79.7	$ 71.7

5 Excludes expenditures related to Matson Integrated Logistics' acquisitions, which are classified as Payments for Purchases of Investments in Cash Flows from Investing Activities within the Consolidated Statements of Cash Flows.

6 Represents gross capital additions to the leasing portfolio, including gross tax-deferred property purchases that are reflected as non-cash transactions in the Consolidated Statements of Cash Flows.

[7] Excludes capital expenditures for real estate developments held for sale which are classified as Cash Flows from Operating Activities within the Consolidated Statements of Cash Flows. Operating cash flows for capital expenditures related to real estate developments were $110 million, $69 million, $34 million, $30 million, and $35 million for the years ended December 31, 2007, 2006, 2005, 2004, and 2003, respectively.

[8] Capital expenditures for the real estate sales segment in 2003 primarily represents expenditures related to the acquisition of the Wailea resort development lands, which consisted of 270 undeveloped acres comprised of 17 individual development parcels entitled for residential and commercial uses.

	2007	2006	2005	2004	2003
Earnings per share:					
From continuing operations:					
Basic	**$ 2.55**	$ 2.16	$ 2.57	$ 2.26	$ 1.60
Diluted	**$ 2.52**	$ 2.14	$ 2.55	$ 2.23	$ 1.59
Net Income:					
Basic	**$ 3.34**	$ 2.84	$ 2.89	$ 2.37	$ 1.95
Diluted	**$ 3.30**	$ 2.81	$ 2.86	$ 2.33	$ 1.94
Return on beginning equity	**13.8 %**	12.1 %	13.9 %	12.4 %	11.2 %
Cash dividends per share	**$ 1.12**	$ 0.975	$ 0.90	$ 0.90	$ 0.90
At Year End					
Shareholders of record	**3,381**	3,506	3,628	3,792	3,959
Shares outstanding	**42.4**	42.6	44.0	43.3	42.2
Long-term debt – non-current	**$ 452**	$ 401	$ 296	$ 214	$ 330

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The Company, from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, SEC filings, such as the Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet Web sites (including Web sites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. These include, for example, all references to 2008 or future years. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of this Form 10-K, which section is incorporated herein by reference. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a discussion of the Company's financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company's financial statements from year to year, the primary factors that accounted for those changes, and how certain accounting principles, policies and estimates affect the Company's financial statements. MD&A is provided as a supplement to, and should be read in conjunction with, the consolidated financial statements and the accompanying notes to the financial statements. MD&A is presented in the following sections:

- Business Overview
- Critical Accounting Estimates
- Consolidated Results of Operations
- Analysis of Operating Revenue and Profit by Segment
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, Contingencies and Off-Balance-Sheet Arrangements
- Business Outlook
- Other Matters

BUSINESS OVERVIEW

Alexander & Baldwin, Inc. ("A&B"), founded in 1870, is a multi-industry corporation headquartered in Honolulu that operates in five segments in three industries—Transportation, Real Estate, and Agribusiness.

Transportation: The Transportation Industry consists of Ocean Transportation and Logistics Services segments. The Ocean Transportation segment is an asset-based business that derives its revenue primarily through the carriage of containerized freight between various U.S. Pacific Coast, Hawaii, Guam, China and other Pacific island ports. The Ocean Transportation segment also has a 35 percent interest in an entity that provides terminal and stevedoring services at U.S. Pacific Coast facilities to Matson and numerous international carriers.

The Logistics Services segment is a non-asset based business that is a provider of domestic and international rail intermodal service (“Intermodal”), long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload, expedited/air freight services, and warehousing and distribution services (collectively “Highway”). As a non-asset based business, the Logistics Services segment does not own transportation assets. Rather, the Logistics Services segment generates its revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. By concentrating its buying power and/or consolidating shipments from multiple customers, the Logistics Services segment is able to negotiate favorable rates from the direct carriers, while at the same time offering lower rates than customers would otherwise be able to negotiate themselves.

The Transportation Industry accounted for 80 percent, 54 percent, and 52 percent of the revenue, operating profit, and identifiable assets, respectively, in 2007 on a consolidated basis before discontinued operations.

Real Estate: The Real Estate Industry is comprised of two segments. The Real Estate Sales segment generates its revenues through the development and sale of commercial, residential, and other properties. The Real Estate Sales segment seeks to diversify its investments and create value by entering into long-term, large projects as well as shorter-term development projects, partnering with other developers, developing newly purchased landholdings in Hawaii and on the U.S. mainland, and entitling and developing the Company’s core landholdings in Hawaii.

The Real Estate Leasing segment owns, operates, and manages commercial properties. The Real Estate Leasing segment focuses on acquiring high-quality retail, office, and industrial properties in good locations, primarily with tax-deferred 1031 proceeds, and on effectively managing those properties to increase margins through higher occupancies and cost management. The Real Estate Leasing segment’s assets are well-diversified by geography and product-type. Real Estate Leasing income also includes revenue from a variety of land leases, licenses, and other agreements related to real estate in Hawaii.

The Real Estate Industry accounted for 13 percent, 46 percent, and 41 percent of the revenue, operating profit, and identifiable assets, respectively, in 2007 on a consolidated basis before discontinued operations.

Agribusiness: Agribusiness, which contains one segment, is the largest grower of sugar cane and coffee in the State of Hawaii. The segment produces bulk raw sugar, specialty food-grade sugars, molasses and green coffee; markets and distributes roasted coffee and green coffee; provides sugar, petroleum and molasses hauling, general trucking services, mobile equipment maintenance and repair services, and self-service storage in Hawaii; and generates and sells, to the extent not used in the Company’s operations, electricity.

The Agribusiness Industry accounted for 7 percent of the revenue and 7 percent of the identifiable assets in 2007 on a consolidated basis before discontinued operations.

CRITICAL ACCOUNTING ESTIMATES

The Company’s significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, upon which the Management’s Discussion and Analysis is based, requires that management exercise judgment when making estimates and assumptions about future events that may affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty and actual results will, inevitably, differ from those critical accounting estimates. These differences could be material.

The Company considers an accounting estimate to be critical if: (i) the accounting estimate requires the Company to make assumptions that are difficult or subjective about matters that were highly uncertain at the time that the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur in periods subsequent to the period in which the estimate was made, or use of different estimates that the Company could have used in the current period, would have a material impact on the financial condition or results of operations. The most significant accounting estimates inherent in the preparation of the Company's financial statements are described below.

Asset Impairments: The Company's long-lived assets and investments are reviewed for impairment if events or circumstances indicate that the carrying amount of the long-lived asset may not be recoverable or an other-than-temporary loss in investment value has occurred. These asset impairment loss calculations contain uncertainties because they require management to make assumptions and apply judgments to, among others, estimates of future cash flows, asset fair values, useful lives of the assets, and discount rates that reflects the risk inherent in future cash flows. These factors depend on a number of conditions, including uncertainty about future events, and thus the accounting estimates may change from period to period. If management uses different assumptions or if different conditions occur in future periods, the Company's financial condition or its future operating results could be materially impacted.

Revenue Recognition for Certain Long-term Real Estate Developments: As discussed in Note 1 to the Consolidated Financial Statements, revenues from real estate sales are generally recognized when sales are closed and title passes to the buyer. For certain real estate sales, the Company and its joint venture partners account for long-term real estate development projects that have material continuing post-closing involvement, such as Kukui`ula, using the percentage-of-completion method. Following this method, the amount of revenue recognized is based on the percentage of development costs that have been incurred through the reporting period in relation to total expected development cost associated with the subject property. Accordingly, if material changes to total expected development costs or revenue occur, the Company's financial condition and/or its future operating results could be materially impacted.

Equity Method Investments: All of the unconsolidated entities held by the Company are accounted for by the equity method of accounting because the criteria for consolidation set forth in FASB Interpretation No. 46 (revised December 2003), "*Consolidation of Variable Interest Entities"* (FIN 46R) or AICPA Accounting Research Bulletin No. 51, Consolidated Financial Statements ("ARB 51"), and its related interpretations, have not been met. In determining whether an unconsolidated entity is a variable interest entity, and if the entity is determined to be a variable interest entity, whether the Company is the primary beneficiary, the Company is required to use various assumptions, including cash flow estimates and related probabilities for different cash flow scenarios. To the extent that these assumptions change as a result of new or additional information or changes in market conditions, the conclusion to apply the equity method of accounting may change and the Company's financial condition and/or its future operating results could be materially impacted.

Self-Insured Liabilities: The Company is self-insured for certain losses related to, including, but not limited to, employee health, workers' compensation, general liability, real and personal property, and real estate construction defect claims. When feasible, the Company obtains third-party insurance coverage to limit its exposure to these claims. When estimating its self-insured liabilities, the Company considers a number of factors, including historical claims experience, demographic factors, current trends, and analyses provided by independent third-parties. Periodically, management reviews its assumptions and the analyses provided by independent third-parties to determine the adequacy of the Company's self-insured liabilities. The Company's self-insured liabilities contain uncertainties because management is required to apply judgment and make long-term assumptions to estimate the ultimate cost to settle reported claims and claims incurred, but not reported, as of the balance sheet date. If management uses different assumptions or if different conditions occur in future periods, the Company's financial condition and/or its future operating results could be materially impacted.

Pension and Post-retirement Estimates: The estimation of the Company's pension and postretirement obligations, costs and liabilities requires that the Company make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- Discount rates
- Expected return on pension plan assets
- Salary growth
- Inflation
- Retirement rates
- Mortality rates
- Expected contributions

The effects of actual results differing from the above assumptions by the Company could materially affect the Company's financial condition and/or its future operating results. The effects of changing assumptions are included in unamortized net gains and losses, which directly affect accumulated other comprehensive income. These unamortized gains and losses are amortized and reclassified to income (loss) over future periods.

The 2007 net periodic cost for qualified pension and post-retirement obligations was determined using a discount rate of 6.00 percent and the qualified pension and post-retirement obligations as of December 31, 2007 were determined using a discount rate of 6.25 percent. For the Company's non-qualified benefit plans, the 2007 net periodic cost and the December 31, 2007 obligation was determined using a discount rate of 5.75 percent. The discount rate used for determining the year-end benefit plan obligation was generally calculated using a weighting of expected benefit payments and rates associated with high-quality U.S. corporate bonds for each year of expected payment to derive a single estimated rate at which the benefits could be effectively settled at December 31, 2007, rounded to the nearest quarter percent.

The estimated return on plan assets of 8.5 percent was based on historical trends combined with long-term expectations, the mix of plan assets, asset class returns, and long-term inflation assumptions. One-, three-, and five-year pension returns were 13.8 percent, 13.9 percent, and 15.3 percent, respectively.

Historically, the health care cost trend rate experienced by the Company has been approximately 9 percent. For 2007, the Company's post-retirement obligations were measured using an initial 9 percent health care cost trend rate, decreasing by 1 percent annually until the ultimate rate of 5 percent is reached in 2012.

Lowering the expected long-term rate of return on the Company's qualified plan assets from 8.5 percent to 8.0 percent would have increased pre-tax pension expense for 2007 by approximately $1.7 million. Lowering the discount rate assumption by one-half of one percentage point would have increased pre-tax pension expense by $0.6 million. Additional information about the Company's benefit plans is included in Note 9 of the Consolidated Financial Statements.

Income Taxes: The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes, in accordance with Statement of Financial Accounting Standards No. 109 and FASB Interpretation No. 48. These estimates and judgments are applied in the calculation of tax credits, tax benefits and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to the Company's tax provision in a subsequent period.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertain tax positions taken or expected to be taken with respect to the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management’s expectations could materially affect the Company’s financial condition and/or its future operating results.

Recent Accounting Pronouncements: See Note 1 to the Consolidated Financial Statements for a full description of the impact of recently issued accounting standards, which is incorporated herein by reference, including the expected dates of adoption and estimated effects on the Company’s results of operations and financial condition.

CONSOLIDATED RESULTS OF OPERATIONS

The following analysis of the consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and related notes thereto. Amounts in this narrative are rounded to millions, but per-share calculations and percentages were calculated based on thousands. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different than the more accurate amounts included herein.

(dollars in millions, except per-share amounts)	**2007**	Chg.	2006	Chg.	2005
Operating Revenue	**$ 1,681**	5 %	$ 1,600	--	$ 1,597
Operating Costs and Expenses	**1,515**	4 %	1,456	3 %	1,418
Operating Income	**166**	15 %	144	-20 %	179
Other Income and (Expense)	**8**	60 %	5	NM	--
Income Taxes	**(66)**	17 %	(56)	-16 %	(67)
Discontinued Operations (net of taxes)	**34**	17 %	29	107 %	14
Net Income	**$ 142**	16 %	$ 122	-3 %	$ 126
Basic Earnings Per Share	**$ 3.34**	18 %	$ 2.84	-2 %	$ 2.89
Diluted Earnings Per Share	**$ 3.30**	17 %	$ 2.81	-2 %	$ 2.86

Operating Revenue for 2007 increased more than 5 percent, or $81 million, to $1,681 million. Ocean transportation revenue increased 7 percent in 2007, principally due to higher China service container volumes, improved yields and cargo mix, and higher fuel surcharge revenues, partially offset by lower Hawaii service container volumes. Logistics services revenue decreased 2 percent in 2007, primarily due to lower volumes. Real estate leasing revenue increased 16 percent in 2007 (after subtracting leasing revenue from assets classified as discontinued operations), primarily due to additions to the leased portfolio and higher lease rates. Real estate sales revenue almost tripled in 2007 (after subtracting revenue from discontinued operations) due principally to residential sales at the Company's Port Allen development and a commercial parcel on Maui. Because of the episodic nature of property sales, the Company views changes in real estate sales revenues on a year-over-year basis before the reclassification of revenue to discontinued operations to be more meaningful in assessing segment performance. Additionally, due to the timing of sales for development properties and the mix of properties sold, management believes performance is more appropriately assessed over a multi-year period. Furthermore, year-over-year comparisons of revenue are not complete without the consideration of results from the Company's investment in its real estate joint ventures, which are not included in operating revenues, but are included in operating profit. The Analysis of Operating Revenue and Profit by Segment that follows, provides additional information on changes in real estate sales revenue and operating profit.

Operating Revenue for 2006 increased by less than 1 percent, or $3 million, to $1,600 million. Real estate leasing revenue increased 21 percent in 2006 (after subtracting leasing revenue from assets classified as discontinued operations), primarily due to higher occupancies, higher lease rates, and additions to the leased portfolio. Ocean transportation revenue increased 7 percent in 2006, principally due to higher fuel surcharge revenues as a result of higher direct and indirect energy costs, initiation of the new China service, and improved yields and cargo mix. Logistics services revenue increased 3 percent in 2006, primarily due to higher yields and mix, partially offset by a decline in volumes for freight transported by rail. Real estate sales revenue decreased by 92 percent in 2006 (after subtracting revenue from discontinued operations) due to the timing and mix of properties sold.

The reasons for business- and segment-specific year-to-year fluctuations in revenue growth are further described below in the Analysis of Operating Revenue and Profit by Segment.

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Operating Costs and Expenses for 2007 increased by 4 percent, or $59 million, to $1,515 million. Ocean transportation costs increased 5 percent in 2007, primarily due to higher vessel costs, terminal handling, and equipment repositioning costs. Real estate sales and leasing costs increased 40 percent, primarily due to the timing and mix of development sales. Selling, General and Administrative costs (“SG&A”) increased by 13 percent in 2007 due to higher personnel and benefit costs, including performance-based compensation. Agribusiness costs increased 2 percent in 2007, principally due to higher crop production costs.

Operating Costs and Expenses for 2006 increased by 3 percent, or $38 million, to $1,456 million. Ocean transportation costs increased 12 percent in 2006, primarily due to higher fuel costs, terminal handling, and equipment costs. Agribusiness costs increased 7 percent in 2006, principally due to higher crop production costs and repairs to irrigation reservoirs. Real estate sales and leasing costs decreased 58 percent in 2006, primarily due to the timing and mix of development sales. Selling, General and Administrative costs (“SG&A”) increased by 3 percent, or $4 million, to $146 million in 2006 due to higher personnel and benefit costs that included $2.8 million in non-cash stock option expense as a result of the adoption of SFAS No. 123R.

The reasons for changes in business- and segment-specific year-to-year fluctuations in operating costs, which affect segment operating profit, are more fully described below in the Analysis of Operating Revenue and Profit by Segment.

Other Income and Expense in 2007 is comprised of equity in earnings of real estate joint ventures, interest revenue and interest expense. Equity in income of real estate affiliates was $9 million higher in 2007 due principally to earnings from the Company’s Kai Malu joint venture project. Interest expense of $19 million in 2007 was $4 million higher than 2006 due to higher average debt balances.

Other Income and Expense in 2006 is comprised of equity in earnings of real estate joint ventures, interest revenue and interest expense. Equity in income of real estate affiliates was $11 million higher in 2006 compared to 2005 due principally to the Company’s share of earnings from its Hokua joint venture, which completed sales of all 247 luxury residential units in the first quarter of 2006. Interest expense of $15 million in 2006 was $2 million higher than 2005 due to higher average debt balances.

Income Taxes were higher in 2007 compared with 2006 on an absolute and percentage basis due to higher income and a change in the effective income tax rate. The higher effective income tax rate in 2007 was principally due to higher state income taxes, higher tax-deductible appreciated land donations in 2006, an increase in certain non-deductible expenses, and lower non-taxable Medicare-D benefits in 2007. Income Taxes were lower in 2006 compared with 2005 due primarily to lower pre-tax income. The effective tax rates in 2006 and 2005 were comparable.

ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

Additional detailed information related to the operations and financial performance of the Company's Industry Segments is included in Part II Item 6 and Note 13 to the Consolidated Financial Statements. The following information should be read in relation to the information contained in those sections.

Transportation Industry

***Ocean Transportation**; 2007 compared with 2006*

(dollars in millions)	**2007**	2006	Change
Revenue	**$ 1,006.9**	$ 945.8	6 %
Operating profit	**$ 126.5**	$ 105.6	20 %
Operating profit margin	**12.6 %**	11.2 %	
Volume (units):			
Hawaii containers	**167,500**	173,200	-3 %
Hawaii automobiles	**110,100**	118,700	-7 %
China containers	**51,200**	32,700	57 %
Guam containers*	**14,600**	13,500	8 %

* Container volumes related to the Federated States of Micronesia (FSM) have been excluded for comparative purposes due to the Company's new deployment in the Guam and Micronesia trades.

Ocean Transportation revenue increased $61.1 million, or 6 percent, in 2007 compared to 2006. The increase reflected a number of factors, including $36.2 million related to improved yields and cargo mix, $44.3 million due principally to higher China, Guam and Micronesia service volumes, partially offset by $16.3 in lower Hawaii volumes, and $18.1 million related to an increase in fuel surcharge revenues. These increases were partially offset by $6.4 million of lower vessel charter revenue resulting from the expiration of the APL Alliance in the first quarter of 2006 and $2.1 million in lower government charter service revenue.

Total Hawaii container volume was down 3 percent from 2006, due to the reduction of volumes in certain segments, including construction materials, despite continued moderate growth in the Hawaii economy. Matson's Hawaii automobile volume for 2007 was 7 percent lower than the same period of last year, due primarily to lower rental fleet turnover and slower retail auto sales. China volume increased 57 percent in 2007 as a result of the ramp-up of the China service during 2006 as compared to relatively full ships throughout 2007. Guam container volume increased 8 percent from year-earlier levels due to general market growth.

Operating profit increased $20.9 million, or 20 percent, in 2007 compared to 2006. This increase was primarily the result of revenue increases described above, partially offset by the following operating expense changes. Vessel costs increased by $15.8 million due principally to higher direct and indirect fuel costs, higher vessel wages, higher insurance and claims costs, and higher dry-dock expenses, partially offset by fleet optimization initiatives, resulting in fewer operating vessel days in line with the lower volumes in the Hawaii service, as well as lower charter costs as a result of the off-hire of the M.V. Greatland late in the first quarter of 2007. Terminal handling costs increased by $9.2 million, principally the result of higher terminal handling fees. Depreciation expenses increased $5.5 million due primarily to the acquisition of a new vessel late in the third quarter of 2006. Operations overhead increased $4.0 million, primarily due to higher container repositioning costs arising as a result of increased China volumes destined for inland U.S. locations. General and administrative costs increased $3.8 million due to higher payroll, professional fees, and legal expenses. The year-over-year variance was also negatively impacted by a $3.3 million gain in 2006 on the sale of two surplus and obsolete vessels, a $2.6 million decrease in Matson’s share of SSAT joint venture earnings, principally the result of lower terminal volumes, and a $2.3 million decrease in interest income primarily due to lower cash balances.

***Ocean Transportation**; 2006 compared with 2005*

(dollars in millions)	**2006**	2005	Change
Revenue	**$ 945.8**	$ 878.3	8 %
Operating profit	**$ 105.6**	$ 128.0	-18 %
Operating profit margin	**11.2 %**	14.6 %	
Volume (units):			
Hawaii containers	**173,200**	175,800	-1 %
Hawaii automobiles	**118,700**	148,100	-20 %
China containers	**32,700**	--	NM
Guam containers*	**13,500**	15,500	-13 %

* Container volumes related to the Federated States of Micronesia (FSM) have been excluded for comparative purposes due to the Company's new deployment in the Guam and Micronesia trades.

Ocean Transportation revenue increased $67.5 million, or 8 percent, in 2006 compared to 2005. The increase reflected a number of factors, including a $43.4 million increase in fuel surcharge revenues to help offset increases in direct and indirect fuel costs, $22.5 million increase due to aggregate volume increases in Matson's service lines due to the new China service, $19.3 million increase due to improved yields and cargo mix, and $14.8 million due to higher purchased transportation costs that are billed to customers. These increases were partially offset by $40.5 million in lower vessel charter revenue, resulting from the expiration of the APL Alliance in the first quarter of 2006. Matson's Hawaii automobile volume for 2006 was 20 percent lower than 2005, due to lower auto retail sales, lower demand from rental car agencies as a result of reduced auto manufacturer incentives and longer holding periods for autos, and competitive pressures. Total Hawaii container volume was down 1 percent from 2005, reflecting reduced shipments in the lower-margin building materials segment, reduced military freight due to non-recurring military deployments that occurred in 2005, and reduced household goods shipments reflecting the moderation in the growth of Hawaii's economy. Guam container volume was down 13 percent from 2005, primarily due to competitive pressures resulting from the transition in vessel schedules, as well as a decline in the Saipan garment trade and tourism industries.

Operating profit decreased $22.4 million, or 18 percent, in 2006 compared to 2005. This decrease was primarily the result of the following operating expense changes, which offset revenue increases. Direct and indirect fuel costs increased $53.1 million, primarily as a result of higher energy costs, terminal handling costs increased $21.7 million due primarily to increased rates related principally to wage- and wharfage-related cost increases, equipment control, leasing, and repair costs increased $14.9 million, primarily due to the new China service, and other costs increased due to the reimbursement of government vessel construction subsidies of $4.8 million. Additionally, selling, general, and administrative expenses increased $5.1 million primarily due to employee related costs. These increases were partially offset by lower vessel operating expenses of $2.4 million, driven primarily by lower claims expenses and lower vessel wages, resulting from fewer vessel operating days. Other expense changes included a $3.3 million gain on the sale of two surplus and obsolete vessels in 2006, and Matson's SSAT joint venture contributed $3.8 million less in 2006. Earnings from this venture are not included in revenue, but are included in operating profit.

***Logistics Services**; 2007 compared with 2006*

(dollars in millions)	**2007**	2006	Change
Intermodal revenue	**$ 280.2**	$ 287.4	-3 %
Highway revenue	**153.3**	156.8	-2 %
Total Revenue	**$ 433.5**	$ 444.2	-2 %
Operating profit	**$ 21.8**	$ 20.8	5 %

Operating profit margin	**5.0 %**	4.7 %

Logistics revenue decreased $10.7 million, or 2 percent, in 2007 compared with 2006. This change was principally due to decreases in Intermodal and Highway revenue of 3 percent and 2 percent, respectively. Intermodal revenue declined as volumes declined 7 percent principally as a result of lower inland China volume and competitive pressures resulting from direct agreements between steamship lines and rail providers, but were partially offset by an increase in domestic intermodal volume and improved rates. Highway revenue decreased primarily due to a decline in volumes arising principally from the 2006 loss of a truck brokerage agent in Minnesota through an acquisition by a competitor.

Logistics operating profit increased $1.0 million, or 5 percent, in 2007 compared with 2006. The increased operating profit was primarily the result of lower provision for bad debts as a result of improved collection experience and higher Intermodal and Highway yields resulting from yield management activities, partially offset by higher personnel expenses.

Logistics Services*; 2006 compared with 2005*

(dollars in millions)	**2006**	2005	Change
Intermodal revenue	**$ 287.4**	$ 287.5	--
Highway revenue	**156.8**	144.1	9 %
Total Revenue	**$ 444.2**	$ 431.6	3 %
Operating profit	**$ 20.8**	$ 14.4	44 %
Operating profit margin	**4.7 %**	3.3 %	

Logistics revenue increased $12.6 million, or 3 percent, in 2006 compared to 2005. This growth was principally the result of higher volumes and rates for Highway. Intermodal revenue declined slightly due to a 14 percent decrease in volumes that was largely offset by higher rates. Volume decreases for Intermodal were due to rail service performance issues, which caused a diversion of business from rail to truck, and market conditions that drove business direct to suppliers.

Logistics operating profit increased $6.4 million, or 44 percent, in 2006 compared to 2005. The increased operating profit was primarily the result of higher yields relative to purchased transportation costs, offset in part by higher personnel costs. Higher yields related to Highway resulted from stronger demand relative to available truck supply. Higher yields related to Intermodal benefited from general rate increases, but were offset by volume decreases described previously.

Real Estate Industry

Real estate leasing and sales revenue and operating profit are analyzed before subtracting amounts related to discontinued operations. This is consistent with how the Company’s management evaluates and makes decisions regarding capital allocation for the Company’s real estate businesses. A discussion of discontinued operations for the real estate business is included separately.

Effect of Property Sales Mix on Operating Results: Direct year-over-year comparison of the real estate sales results may not provide a consistent, measurable barometer of future performance because results from period to period are significantly affected by joint venture income and the mix of property sales. Operating results, by virtue of each project’s asset class, geography, and timing, are inherently episodic. Earnings from joint venture investments are not included in segment revenue, but are included in operating profit. The mix of real estate sales in any year or quarter can be diverse and can include developed residential real estate, commercial properties, developable subdivision lots, undeveloped land, and property sold under threat of condemnation. The sale of undeveloped land and vacant parcels in Hawaii generally provides a greater contribution to earnings than does the sale of developed and commercial property, due to the low historical-cost basis of the Company's Hawaii land.

Consequently, real estate sales revenue trends, cash flows from the sales of real estate, and the amount of real estate held for sale on the balance sheets do not necessarily indicate future profitability trends for this segment. Additionally, the operating profit reported in each period does not necessarily follow a percentage of sales trends because the cost basis of property sold can differ significantly between transactions. The reporting of real estate sales is also affected by the classification of certain real estate sales as discontinued operations.

***Leasing**; 2007 compared with 2006*

(dollars in millions)	**2007**		2006		Change	
Revenue	**$ 108.5**		$ 100.6		8	%
Operating profit	**$ 51.6**		$ 50.3		3	%
Operating profit margin	**47.6**	**%**	50.0	%		
Occupancy Rates:						
Mainland	**97**	**%**	98	%		
Hawaii	**98**	**%**	98	%		
Leasable Space (million sq. ft.) - Improved						
Mainland	**5.2**		3.8		37	%
Hawaii	**1.4**		1.5		-7	%

Real estate leasing revenue and operating profit for 2007 were 8 percent and 3 percent higher, respectively, than the amounts reported for 2006. The increase in real estate leasing revenue was principally due to net additions to the portfolio during or subsequent to 2006. Additionally, 2007 benefited from improved performance at existing properties and the completion and occupancy of a commercial building on Maui in October 2006.

Operating profit increased in 2007, compared with 2006, for the same reasons cited for the real estate leasing revenue increases, but the increases were partially offset by higher operating costs, including real property taxes, utilities, and insurance, higher depreciation, principally from acquisitions, business interruption and construction claim settlements received by the Company in 2006, and higher general and administrative expenses.

Leasable space increased by 1.4 million square feet in 2007 due principally to the acquisition of Heritage Business Park (“Heritage”), a seven-building industrial property in Dallas, Texas, on November 1, 2007. Heritage contains a total of 1.3 million square feet of leasable warehouse/flex space, and 28 acres of fully entitled, developable land that could accommodate approximately 430,000 square feet of additional leasable space.

***Leasing**; 2006 compared with 2005*

(dollars in millions)	**2006**		2005		Change	
Revenue	**$ 100.6**		$ 89.7		12	%
Operating profit	**$ 50.3**		$ 43.7		15	%
Operating profit margin	**50.0**	**%**	48.7	%		
Occupancy Rates:						
Mainland						