CHANGING TIDES

MATTHEW J. COX | PRESIDENT AND CHIEF EXECUTIVE OFFICER, MATSON, INC.

TO OUR SHAREHOLDERS,

I started 2013 with guarded confidence in our prospects for earnings and revenue growth, marked by an expectation of higher volume and widening margins throughout our ocean transportation and logistics service chain. Some of the volume growth did materialize, mostly in the first half of the year, while margins expanded modestly in line with the higher volume.

Management and the Board continue to focus on growing shareholder value by generating superior returns on the capital we invest and mitigating inherent operational risks.

In 2013, Matson earned $53.7 million, or $1.25 per diluted share. Our Return on Invested Capital was 10.3 percent off a capital base of approximately $612 million. EBITDA was $169.3 million for the year and book value per share grew by 21 percent. Cash flow from operations was over $195 million. These are the primary metrics by which we judge performance at the Company. Each of these results was higher than in 2012, and in some cases, substantially higher.

Equally important, our businesses continued to generate significant cash flow that we used to pay down debt, increase our dividend by nearly seven percent per share, and make initial payments toward two new ships that will be put into our Hawaii service in 2018. Since we began trading as a standalone public company in July 2012, we paid down our debt by over $90 million and returned nearly $40 million of capital to our shareholders in the form of dividends. At this writing, we have over $200 million in cash, positioning Matson to pursue opportunities as they arise while maintaining our leadership role in the niche markets we serve.

Management and the Board continue to focus on growing shareholder value by generating superior returns on the capital we invest and mitigating inherent operational risks. We are first and foremost managers of your capital and long-lived assets. And while the equity markets may not always appreciate the sustainable value we are creating, as in 2013, we are confident that our unique business model and approach will bear fruit.

- Our ocean transportation network and route configuration produces industry leading asset utilization levels and operating efficiencies, yielding strong margins. In short, when volume grows, our profits rise. When volume contracts, we still run profitably.
- We have a leading market position in four ocean transportation niches: our Hawaii, Guam and expedited China trades, and our West Coast terminal operations joint venture. In every one of these niches, we are the absolute best in class — from on-time performance in ocean transit to fast cargo off-load times. Time definite delivery of goods is in our DNA.
- We have built extraordinary customer relationships earned over decades of service; first in Hawaii, then in Guam, and most recently in our CLX service out of China. Our customers rely on us to speed their goods to market – whether perishable items to island economies or time sensitive technology and fashion goods to retail shelves.
- We have a strong balance sheet and ample borrowing capacity that allow us to invest for the future while also weathering macro-economic shocks. Late in the past year, we committed to build two new Jones Act container ships for $418 million — a very significant capital commitment. These Aloha-Class ships symbolize our confidence both in the Hawaii trade and in our ability to earn strong returns on a large investment. We will pay for the ships largely through operating cash flows.
- Fundamental to ongoing value creation at Matson, our goal is to make periodic long-term investments in businesses we understand. In 1999, we merged shore-side assets with SSA Marine to create what is now arguably the premier terminal handling operator on the United States West Coast: our joint venture SSAT. In the early 2000s, in anticipation of a changing marketplace in Guam and burgeoning U.S. appetite for consumer products, we built four new ships to service that island economy and added Shanghai and Ningbo to our network configuration. Today, we are the recognized leader in expedited service out of China and the sole dedicated provider from the U.S. to Guam.
- Company values are the foundation of our success. One of our core values is to fulfill our commitments 100 percent of the time. When we fall short, we acknowledge, we recover and we learn from our mistakes. We regret the September 2013 incident involving a leak of molasses into Honolulu Harbor. But we also cannot turn back time – we assisted in the response to the incident, agreed to reimburse the state for its response costs, and promptly paid claims from local business owners. We have pledged our cooperation with Federal and State agencies. We have suspended our molasses operations and will not resume them unless and until we are assured that it can be done safely. And we have learned that the values we hold true are most important in difficult situations.

So let me now offer a view of each of our core business drivers and where we are headed in 2014.

Our ocean transportation business, from which we derive the vast majority of our operating income and cash flow, is driven by freight super-cycles, dynamic changes in customer supply chains, and regional and macroeconomic trends. And while these changing tides may shape our business, they do not define it. Our logistics business is driven largely by the same dynamics, but its light asset intensity allows us to throttle our cost stack more readily.

HAWAII VOLUME DRIVES HAWAII RETURNS

Our Hawaii volume has historically grown at a multiple of one or two times the state GDP. From the 1970s up through 2006, you could closely track our growth to a multiple of GDP. But since then, we have seen contraction and growth in our volume in unequal measure. In the first half of 2013, Hawaii container volume surged higher by five percent. In the second half of the year, volume declined by three percent. Tourism continues to drive the economy for most of the state, but less so our businesses, which thrive on construction and infrastructure spending.

Given the uneven recovery, I do not expect a significant tailwind in 2014. Rather, I expect our volume in Hawaii to improve slightly, impacted by the expected launch of additional capacity by one of our competitors in the second half of the year. How the additional capacity ultimately impacts our volume level and pricing remains to be seen. But I know that we will compete for every box of cargo in and out of Hawaii.

CHINA RATES AND OUR EXPEDITED SERVICE

Since our entry into the China trade in 2006, we have carved out an enviable position as the premier shipping service for time sensitive goods. We are the fastest in transit (we top out our cargo load in Shanghai and full steam directly to the West Coast), fastest in port (our dedicated terminal operation leads to next-day cargo availability), and the most reliable (our five ships operate a weekly service on a 35-day cycle).

So what does that mean? We command a price premium in what is an otherwise commoditized trade lane. In 2013, this premium was significant and allowed us to weather the downturn in overall rates. Recently, three large global carriers formed a "super-alliance" to better manage capacity. The alliance announced planned rate increases, which might create a support level for freight rates, although I expect more price volatility and a downward bias. But given our niche position in this trade, I fully expect that our smaller ships will continue to run at nearly 100 percent utilization for the full year.

LOGISTICS TURNAROUND

2013 was a good year for our Logistics group, a significant turnaround from a break-even performance the year before. The result was achieved through a lot of heavy operational lifting and considerable cost cutting. The industry is going through a period of margin compression, with buyers and sellers of transportation services squeezing both sides of the earnings equation. In addition to our cost discipline, we restructured some of our warehousing operations and exited unfavorable customer contracts, improving operating profit by nearly $6 million.

Last year, I told you we would earn one to two percent on revenue in this business. We came in the middle of that range in 2013. I expect this margin to improve modestly this year, while volume and top-line revenue remains essentially flat.

TRANSFORMATION AT THE TERMINAL

SSAT, our joint venture terminal operation, had a challenging year in 2013, driven by carriers exiting traditional contracts to create their own terminal-specific joint ventures. That meant a more difficult environment for SSAT, which overcame some of these customer losses early in the year. In mid-year, SSAT invested in a consolidation of operations in Oakland, creating the largest terminal in Northern California, a significant competitive advantage.

In my opinion SSAT is the best operator on the West Coast and I am optimistic that we will see the return to historic profitability in our joint venture over the next few years. As a benchmark, SSAT contributed over $12.5 million to operating income in past cycle highs.

WHY GUAM MATTERS

Our service to Guam is the linchpin of what is the only profitable head haul from the US to China. Our ships run essentially full from the West Coast to Hawaii, half full to Guam and essentially full from China to the West Coast. So while the market is not large (only about 10% of all the cargo we carry), Guam remains vital to our network configuration. Our volume in Guam remains stable, and I suspect we will continue to be the only major carrier serving Guam for the time being, given the limited market potential and slow-growth environment we see ahead.

IN CLOSING

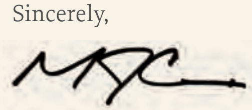
I would like to thank all my employee colleagues and the Board of Directors for their outstanding contributions throughout this past year. Without their continued collective and individual effort, reaching our potential is not possible. In particular, I would like to thank our Chairman, Walter Dods, for his wisdom and leadership.

At Matson, we talk internally about our goal to move freight better than anyone else. It is our driving aim and our purpose. And with every successful on-time cargo delivery, we extend our mission to more customers and more communities.

In the past 20 months we have become a standalone public company. We moved our headquarters to Honolulu. We expanded our philanthropic efforts. We made investments and commitments. We made Hawaii our home.

It is with this renewed sense of pride and profound privilege that we will continue to serve our shareholders, our customers and our communities.

Sincerely,



Matthew J. Cox
Chief Executive Officer