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

To Our Shareholders,

2012 marked a momentous turning point for Matson. In mid-year, we began trading as a standalone public company following the separation from our former parent Alexander & Baldwin. We are excited to be on our own, and to be directly accountable to our shareholders for the decisions we make and the actions we take.

## "Often, the cargo we carry is vital – foodstuffs, medical supplies – the goods that fuel economies and grow communities."

In 2012, we earned $45.9 million, or $1.08 per diluted share. The return on average shareholder equity was 6.5 percent. On ending shareholder equity (that is, post-separation), the return was 16.4 percent. EBITDA was $168.8 million for the year, and I mention this because we operate in asset intensive businesses, where the non-cash depreciation is substantial. Another primary benchmark by which we operate our businesses is Return on Invested Capital. In fact, much of our senior management compensation is tied to this metric. In 2012, our ROIC was 9.9 percent on a capital base of approximately $600 million. All of these results were a marked improvement from 2011, but I know we can do better.

I want to now share with you how we think about our businesses, not only because this is our inaugural report and many might be reading about Matson for the first time, but also because this discussion is instructive to our investment thesis. Understand our business model, our way of conducting ourselves, our views of customers and markets and you will understand the distinct opportunity we present.

### THREE MARKETS, TWO MODELS:

Within Ocean Transportation, we operate in three primary markets with two distinct models. In our domestic trades, that is, carriage to and from Hawaii and Guam, we are the established market leader. In these markets, we have set rates annually by filing tariffs governed by the Surface Transportation Board. This market structure has helped ensure continuous and highly reliable service with relative price stability to the benefit of our Hawaii and Guam customers for decades. Growth in our domestic trades is driven by macro cycles and expansion of GDP. In the China to Long Beach trade, what we call our CLX service, we compete against the world's largest carriers in the open market. Rates are set by others, and we choose to compete on service. Yet despite the disparity of the models, our success is found within the common core of relentless reliability, time-definite delivery, and superior customer service.

### DELIVERY MATTERS:

We are entrusted with our customers' freight, whether it is carrying electronics to the West Coast or perishable goods to the many Pacific island economies we serve. We don't take this responsibility lightly. We understand that our customers' goods represent significant enterprise and investment – sometimes even livelihoods are carried with the cargo. Because of that, we are disciplined in our approach, have a flat organizational structure and are keenly aware that we are graded by retained or lost volume with every shipment every day.

### TIME-DEFINITE, CUSTOMER-FIRST FREIGHT:

Freight is more than the simple movement of goods to the island communities we serve. Often, the cargo we carry is vital – foodstuffs, medical supplies – the goods that fuel economies and grow communities. We fill an important niche in these supply chains and many of the goods we carry are perishable. They've got their own time stamp, which means we better run our operations like clockwork. And, because many of these islands are served by our Hawaii and Guam hubs, delays ripple through and impact consumers at the end of the chain. We have been serving Hawaii for 130 years – first under sail and now under considerable diesel power. We are consistently among the most

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reliable carriers in the world and measure on-time performance by the minute, not by the hour. Time-definite, customer-first delivery of goods is in our DNA.

## DISCIPLINE DRIVES MARGIN:

We derive almost the entirety of our operating income from Ocean Transportation and the 2012 result was below what we target, which is between 10 and 12 percent. The past few years have been challenging for us to reach our marks. That is because we operate in a high fixed-cost industry, where volume swings impact margins and earnings inordinately compared to other industries. Even in the depth of the Great Recession, however, we earned 6.5 percent (2009). Not bad, showing the resiliency of our model and customer bases in the Hawaii and Guam trades, where the remote geography of island communities necessitates continued shipment of staples, foodstuffs and common goods even in the most pressing economic times. For us to consistently achieve the double digit operating income margin target, we have to be strident in continuing to root cost out of our operations. We have a rigorous program in place. We call it "gap" initiatives, and we monitor our progress in this arena with the same rigor we watch our ships' on-time arrivals. We also need to be disciplined in how we expand the top line. We are not interested in chasing revenue, but rather pursuing profitable customer relationships where there are high service requirements and where we are an integral piece of the customer value chain. If you have cargo that is of low value that does not matter when it arrives, then we are probably not the right carrier for you.

## LOGISTICS MATTERS:

In 2012, our Logistics segment operated at a break-even level, which was a large disappointment that we intend not to repeat. Despite the poor result the logistics business is a good one. It is asset light, has very good ROIC potential and is highly complementary to our asset based Ocean Transportation segment. It has been hit hard by the recession for various reasons including an ill-timed acquisition of a warehouse company in Northern California at the top of the market in 2008. We have worked hard to respond to the challenges in the Logistics segment and believe that we are pointed in the right direction.

## LONG-LIVED ASSETS NEED LONG-LIVED THINKING:

We own irreplaceable, high-value assets, including a string of modern, Jones Act-qualified ships. To fully utilize our asset base, we think in 5 and 10-year periods of time, while also focusing on current network needs. We know the decisions we make today regarding new builds, ship configuration and investments in shoreside assets affect our operations for 30 years or more. Not only do we need to account for today's market vitality, but also toward how economies will evolve. That is why we prudently manage our balance sheet and debt and have set as a clear and distinct strategic goal the maintenance of an investment grade quality balance sheet. Periodically we will be required to increase debt on our

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balance sheet to finance new ship builds, but we won’t ever use financial leverage to supplant our operational leverage.

WE WILL EXPAND IN “LIFELINE” OPPORTUNITIES:
Earlier this year, we purchased the assets of New Zealand-based Reef Shipping, a small carrier that serves South Pacific island nations. This acquisition, while opportunistic in nature, met our criteria for operating in geographies and markets where delivery matters to “lifeline” communities. Much like Hawaii and Guam, these markets have high service and customer requirements, including time-definite delivery and understanding of the intricacies of short-vessel hauls. While this acquisition won’t define our future profitability, it provides a great platform for expanding service offerings throughout a new market, while leveraging and improving efficiencies at our hubs in Hawaii, Shanghai and Guam.

CASH FLOW FOCUS:
Our businesses generate significant cash, and we use this cash generation to pay a strong dividend, pay down debt between vessel investment cycles and invest in our future through common sense acquisitions. Dividends remain an effective vehicle for returning cash to shareholders, and our ample liquidity allows us to continue these payments without limiting our investment opportunities elsewhere. Since we started trading as a public company in July 2012, we have paid down our debt by nearly $54 million, funded the Reef Acquisition for $10 million, and paid out $13 million to our shareholders in the form of dividends.

In closing, we understand that we are managers of capital and long-lived assets. Our focus is on generating cash returns on that capital while accounting for the risks contained within each operation and asset. We are prepared to move into new markets and adjacent service lines, but we won’t be undisciplined to buy earnings or revenue. As a shareholder, you deserve more.

I would like to thank all my employee colleagues and the Board of Directors for their continuing contributions. And I especially thank our Chairman of the Board, Walter Dods, for his wisdom and genuine support for our entire team’s efforts. Without these collective and individual efforts, our current and future success is not possible.

Matson delivers.

Sincerely,

MATTHEW J. COX
PRESIDENT AND CHIEF EXECUTIVE OFFICER