To Our SHAREHOLDERS

Our last five years have been characterized by exceptional growth, in both large strategic leaps and smaller incremental bounds. We entered the Alaska trade via acquisition, bolted on a South Pacific operator and acquired a freight forwarder.

MATTHEW J. COX | President and Chief Executive Officer, Matson, Inc.

In 2016, Matson was named the #1 Ocean Carrier in the world by *Logistics Management* magazine for an unprecedented third year in a row — a testament to the incredible commitment of our employees and our singular focus on moving freight better than anyone. Throughout the year, we made important strides in the renewal of our Hawaii fleet, completed the integration of our acquired Alaska Operations, expanded our Logistics platform to Alaska with the acquisition of Span Alaska, and extended our network in the Pacific.

In 2016, we earned net income of $80.5 million, or $1.85 per share, generated EBITDA of $288.6 million, and provided a return on invested capital of 9.1 percent on a capital base of $1,045.5 million. With these earnings and continued confidence in the markets and customers we serve, our Board of Directors authorized the fourth consecutive annual increase in our dividend.

Our last five years have been characterized by exceptional growth, in both large strategic leaps and smaller incremental bounds. We entered the Alaska trade via acquisition, bolted on a South Pacific operator and acquired a freight forwarder. We ordered the construction of four new ships to renew our Hawaii fleet, invested in our vessels and shore-side assets to bolster operational efficiencies, and made improvements to our industry leading China service.

Throughout this period of growth and investment, the return of capital to shareholders has remained paramount to our capital allocation strategy. Since becoming an independent public company in July 2012, we have returned over $170 million via dividends and share repurchases while growing the revenue and asset bases of the Company by 28.1 percent and 69.4 percent, respectively. Book value has grown at a 15.4 percent compounded rate.

In 2017, I expect our growth will be more measured, as much about positioning us for the future as continuing to meet the financial performance goals our shareholders expect.

WAYFINDING

The principles of wayfinding, of orienting and traveling from place to place, are engagingly simple. Design a course strategy, hold as close as possible to that course throughout your travels, and find your target destination as you near its proximities. Polynesians perfected the art through centuries of application by using their natural resources, wits and abilities, and today there are few practitioners left. Whether through a reading of the character of waves, the memorization of star and weather patterns alike, or the intuition of knowing when to move forward, these ancient mariners charted courses through known and unknown seas.

The analogies for Matson are manifold as we enter our 135th year as a Pacific Ocean navigator and transportation pioneer.

We are once again setting course.

GROWING BIGGER BY GROWING BETTER

While market demand for our services can ebb and flow with larger economic cycles, we remain steadfast in our approach to grow bigger by growing better. The discipline we maintain, whether in our capital allocation, capital structure, route configuration, or market expansion, is designed to yield consistent, sustainable results over long periods. In 2016 we made several positive steps in this direction, and we will continue apace in the coming years.

Our Hawaii, Alaska, Guam and South Pacific trades have several common and defining features. They are all "lifeline" economies, where the goods carried into and out of these geographies provide the bulk of consumer and business staples. Growth in these markets is generally marked by stable, long-term gains that mirror population and GDP trends, occasionally punctuated by cyclical turns such as the recent construction boom in Hawaii. This held true in 2016.

In 2016, container volume in our home market of Hawaii grew only incrementally, as modest market growth was largely offset by the expected normalization of competitive share gains attributable to Pasha's service changes and the start-up issues they experienced in the second half of 2015. Our prospects for 2017 remain good, as the visitor industry continues to add air and lodging capacity, which will continue to spur growth. Construction activity is easing from its historical highs, but no falloff of building activity is imminent.

In Alaska, we finalized the integration of our 2015 acquisition, and completed the installation of exhaust gas scrubbers on our fleet, a critical step to extend the lives of our vessels. We also acquired Span Alaska, a freight forwarding company, to solidify Matson's position as a leading transportation provider to Alaska. In 2016, freight volume was challenged by energy sector related macroeconomic headwinds and an unexpectedly lower seafood harvest. In 2017, we expect to consolidate the benefits of a more efficient fleet, albeit with modestly lower volume based on continued energy sector declines.

In 2016, our expedited transpacific service from China continued to deliver industry leading transit times and customer service excellence. Customers view our expedited service as an alternative to airfreight, as there are compelling economic advantages with marginal transit time loss. However, we were not immune to a severe and bitter rate war that drove international freight rates in this trade lane to historic lows. Amid the tumult, the premium we earned over the spot market expanded to record levels, albeit at substantially lower average freight rates than in 2015. This validates our belief that there continues to be room in this marketplace for our niche service offering despite the deluge of new vessel capacity that continues to overhang the market. In 2017, regardless of the vagaries of market supply and demand imbalance, we expect to run near capacity, primarily with cargo from Central China, while continuing to earn a sizable premium to spot rates.

Guam represents less than 10 percent of our total container volume, but is integral to our CLX service, allowing us to carry valuable head haul cargo on our way to China. In 2016, we faced headwinds with the launch of APL's rival service, but suffered only modest volume losses largely because our value proposition in Guam was superior in terms of frequency and transit time. That said, in late 2016 APL competitively improved their offering to weekly service with the addition of a second vessel. While we are still fastest in transit, we expect the change to precipitate some volume losses as the market adjusts.

There were other noteworthy developments in 2016 and early this year in changes and additions to our service network. As a niche carrier, we must continually differentiate our service and look for expansion opportunities in locations where we can leverage our core network capabilities and delivery schedules to offer faster, more reliable service. In the second quarter of this year, we expect to make a course adjustment in our CLX service, replacing our prior port call to Xiamen with one to Okinawa, shortening the route to China and adding a new head haul market on the way. This more direct westbound route to China is expected to provide the fastest service from the West Coast to Okinawa, an important U.S. government destination, and create additional slack in our westbound schedule – saving some fuel costs along the way while protecting our industry leading service reliability. We also launched a new South Pacific Express (SPX) service in mid-2016, realizing one of the strategic goals behind our entry into that market three years ago, which was to connect South Pacific ports with our U.S. network.

The Company's SSAT terminal joint venture investment had another strong year in 2016, as lift volume improved throughout the year with some key customer wins. In 2017, we expect a lower contribution from SSAT, as continued industry consolidation and the launch of new global shipping alliances may create some short term uncertainty as container flows and supply chains are adjusted between West Coast terminals.

In September 2016, we christened the newest addition to our Guam/Micronesia service, *Papa Mau*, in tribute to Micronesian Master Navigator and wayfinder Pius "Mau" Piailug. Papa Mau, as he was known, handed down this art form to a generation of new voyagers before he passed in 2010.

SPANNING ALASKA

We grew our Logistics business meaningfully in 2016 with the acquisition of Span Alaska in mid–year. Span's culture of commitment to reliability and long–term customer relationships is a natural fit with Matson – and

In 2016, we finalized plans for our fleet renewal program which will see Matson commit over $925 million in capital by 2020 to build four new ships for the Hawaii trade. The addition of two combination container and roll-on/roll-off (“Con-Ro”) vessels will complete the renewal of our Hawaii fleet and provide operational and financial advantages for decades to come.

we have made significant strides to integrate the two companies. The freight forwarding platform works well for us in Alaska, filling the service slate and offering end-to-end logistics solutions for our customers in line with our principal Alaska ocean competitors. In 2017, we expect Logistics to nearly double its earnings on a larger revenue base. Operating margin improvement is expected due to the nature of Span’s business model, where value-added services earn commensurately higher margins.

THE BALANCE OF INVESTMENT AND RETURN

In 2016, we finalized plans for our Hawaii fleet renewal program. The addition of the Kanaloa Class and Aloha Class vessels will complete the transition. When complete in 2020, Matson’s new vessels are expected to have among the lowest operating cost per TEU of any ship in the U.S. domestic trades. The cost efficiencies are expected to be driven by our ability to return to an optimal nine-ship Hawaii fleet deployment and by significantly lower operating costs in areas such as fuel consumption, maintenance and repair, and dry-docking costs.

In Alaska, along with the Span acquisition, we made improvements in the operating fleet and improved our stevedoring capabilities. These investments totaled nearly $250 million and position us well to improve operating margins and expand revenue opportunities.

These are sizable investments, made with deliberate consideration while the cost of capital is at historic lows and market fundamentals are solid. The expanded earnings base we now possess, a base that has increased by 60 percent in just the past four years, permits us to take on more debt with greater confidence. We expect to maintain our approach to the quarterly dividend throughout the new vessel construction period, while reducing share repurchases until we achieve more moderate leverage.

We will continue to be opportunistic, flexible and ever mindful that we are stewards of the Company’s assets, cash flow and customer prospects.

OUR GREATEST STRENGTHS

The strength of Matson is found in the tremendous support we receive from our customers, our shareholders and the communities we serve. We are also fortunate to have the tireless service, dedication and commitment from each of our 1,925 employees. Without their passion and pride, our mission to move freight better than anyone would fall short.

Our Board is another bedrock of our strength. Each member is accomplished, collaborative and engaged. I am deeply grateful for their ongoing advice and counsel. Last June, we welcomed Stan Kuriyama to the Board. Stan is the Chairman of Alexander & Baldwin, Inc., a top-tier Hawaii company, and he is recognized for his business acumen and keen understanding of the Hawaii markets. I look forward to his contributions. In April, Walter Dods will step down from his post as our Chairman. Walter possesses an unparalleled combination of experience and skills, fearless tenacity and unfailing judgment. Inarguably Hawaii’s most prominent business leader, he is always extremely generous with his time and it is impossible to overstate the value of Walter’s impact on Matson. Of all the roles he has played, none was more important to me than as a friend and mentor. Thanks Walt.

Sincerely,

Matthew J. Cox
President and Chief Executive Officer